INCREASING PRIVATE SECTOR EMPLOYMENT OF NATIONALS IN THE GCC
LABOUR POLICY OPTIONS TO THE RESCUE

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This paper provides the viewpoint of the Tri International Consulting Group (TICG) on prevalent and pressing labour market issues affecting the Gulf Co-operation Council (GCC) economies in the context of their fiscal deficits. After analysing the context and underlying causes of these issues, potential remedies are suggested, with an emphasis on short-term initiatives that can be implemented, along with common pitfalls to avoid. Specific focus is directed to Kuwait and Saudi Arabia, the governments of which are currently making sustained efforts to reform their respective labour markets.
1. CONTEXT: AN UNDER-REPRESENTED NATIONAL POPULATION IN THE PRIVATE SECTOR

Oil has constituted the lifeblood of GCC economies since the beginning of its large-scale exploitation in the 1950s. The ensuing wealth has been historically redistributed to citizens in the form of various subsidies and benefits, but also in the form of an open-door policy to citizens seeking public sector employment opportunities. This social contract between the state’s leadership and its citizens (added to the traditional political institution rooted in allegiance to a leader of consensus) has also maintained social cohesion.

The availability of an affordable foreign workforce willing to occupy blue-collar jobs, combined with attractive public sector jobs enabled GCC nationals to limit their employment within the private sector, or only consider the more suitable opportunities within it. As a result, nationals have become under-represented not only in the private sector workforce but also in the population. (Figure 1) shows the ratio of nationals in the private sector workforce in the six GCC countries: while there is proportionality between the ratio of nationals in the population and their employment in the private sector, the latter is significantly under-represented in relation to the former. Conversely (Figure 2), the share of the national labour force working in the public sector is notably high.

The majority of countries display a wide imbalance in terms of the national workforce employed in the public sector vs. the private sector.

In the context of the on-going oil price shock, which has depleted government revenues, reduced GDP, and led to fiscal deficits, such a high public sector workforce represents a significant fiscal burden to GCC economies. The World Bank estimates that between 40% and 60% of some GCC public budgets are being spent on wages and compensation, including social security. Achieving a more balanced labour market in terms of nationals’ employment in the public and private sectors stands to bring substantial fiscal benefits, while also preparing countries and their citizens for an increasingly competitive global market. For governments, it reduces the burden of the wage bill, providing them more leeway to reform their economies towards further sector diversification (see Boxes 1 and 2 for examples of the anticipated impact of labour market reforms in Kuwait and Saudi Arabia). Yet addressing the labour-market-driven fiscal burden also stands to affect the social contract, requiring a careful and gradual policy setting maximising consensus as well as impact.

**FIGURE 1: SHARE OF NATIONALS IN PRIVATE SECTOR WORKFORCE VS. THEIR SHARE IN POPULATION IN THE GCC**

<table>
<thead>
<tr>
<th>NATIONALS IN WORKFORCE</th>
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<tbody>
<tr>
<td>Qatar</td>
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<tr>
<td>UAE</td>
</tr>
<tr>
<td>Kuwait</td>
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<tr>
<td>Bahrain</td>
</tr>
<tr>
<td>Oman</td>
</tr>
<tr>
<td>Saudi Arabia</td>
</tr>
</tbody>
</table>

R² = 0.9

* Number of nationals employed in the private sector, divided by the total number of employees in the private sector.
Saudi Arabia also suffers from an overstaffed public sector, which is more appealing to recent graduates on the basis of better working conditions and a significant difference in pay with the private sector. Labour market reform is being approached through a focus on economic transformation developing the private sector, as well as educational reform to improve the skills of nationals to what is demanded by the private sector.

The National Transformation Plan (NTP) targets:

- An increase in enrolment in technical and vocational training colleges to 950,000 students a year from 104,000 in 2016;
- The creation of 450,000 jobs for Saudis in the private sector by 2020; and
- A 20% decrease in payroll on civil service employee benefits between 2016 and 2020

The resulting initiatives aim at enabling the government to reduce its wage bill from 45% to 40% of GDP between 2016 and 2020.

Sources: Saudi National Transformation Plan; U.S. Institute of International Finance

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Box 1: Kuwait — Labour Reform in Full Steam

Around 23,000 Kuwaiti nationals enter the labour force every year. Historically, close to 80% of those have entered the public sector, favouring the job security it provides, lower working hours and higher entry-level compensation. This has exacerbated the strain on government expenditures, with the wage and compensations bill representing more than 50% of the total budget in the 2016/17 fiscal year.

Labour market reform is now a key pillar in Kuwait’s Economic and Financial Sustainability Plan. By 2021/2022, the objective is to:

- Adjust the flow into the public sector to more sustainable levels, with supply of hired candidates matching true demand; and
- Increase the number of Kuwaitis working in the private sector by 50%, reaching 100,000

Combined savings from the labour reform plan are expected to reach KWD 1 Billion over the 2018/19 to 2020/21 fiscal years.

Sources: Kuwait Civil Service Commission; Kuwait Ministry of Finance

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Box 2: Saudi Arabia — Focus on Economic Transformation

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2. THE ROOT CAUSES OF NATIONAL CITIZENS’ UNDER-EMPLOYMENT IN THE PRIVATE SECTOR

The tacit social contract between the government and its citizens continues to play a major role in the channeling of nationals towards public sector employment. While this was not a particularly pressing problem when oil-revenue was high, the rout in oil prices since mid-2014 has created an urgent need for budgets to be balanced, primarily through cost controls. With bulging wage bills stemming from an overstaffed public sector, GCC governments are now rapidly seeking ways to reduce the cost of the civil service, while striving to avoid any risks of social discontent. A natural objective is to redirect existing and prospective civil servants (the bulk of which are nationals) towards the private sector.

This is no mean feat, in the face of three key factors, which limit nationals’ employment in the private sector:

I. For GCC nationals, the public sector represents the preferred option for employment. This stems largely from the nature of public sector employment, which is less demanding (in terms of working hours and accountability), safer, and better paying than the private sector, especially in the early years. As a result, there is little motivation in applying to the private sector. Presently, approximately 65% of the national workforce in the GCC is employed in the public sector².

II. For private sector employers, expats represent a more economical option. The abundance of an affordable and controllable labour force, which is open to all kinds of jobs presents an undeniable advantage for profit-driven employers. GCC nationals not only command higher wages than expats, but are also not subject to limitations on their abilities to change employers. As a result, employers cannot foster the same level of loyalty among nationals as they do for expats, and employee flight represents a cost they would rather avoid. In Kuwait for instance, nationals in entry-level positions in the private sector command a compensation premium of around 30%³.

III. The skills of GCC nationals are not always adapted to private sector needs. Nationals often miss key skills necessary for the private sector. While this is partly driven by pursuing degrees, which are not in high demand by employers, it also reflects curricula in relevant fields that do not prepare students with the sufficient knowledge and skills. The issue is observed not only in fields of study where the supply of job-seekers exceeds the demand of employers (e.g. social sciences and religious studies), but also in the types of degrees that are being pursued with vocational education not always as well-regarded as a university education. Fundamentally, there is limited to no strategy to align the job-type needs in the private sector with the promotion of degrees to be pursued. As a result, a recent study of employers in the GCC showed only 29% of them agreed that the education system in their country was well adapted to prepare students for jobs in demand⁴. The World Economic Forum’s Human Capital Index, capturing a broader set of criteria on education and skills availability, ranks GCC countries at an average of 65, out of a total of 130 countries assessed. Varied performance across categories and countries, literacy, numeracy and education attainment rates contributed to bring the average down for Kuwait, Qatar and the UAE, while the low labour force participation rate penalised Saudi Arabia⁵.

². Average of GCC nations except UAE. Sources: Kuwait Central Statistics Bureau; Kuwait Public Authority for Civil Information; Qatar Ministry of Development Planning and Statistics; Qatar Bureau of Statistics; Saudi Ministry of Social Affairs and Labour Development; Oman National Centre for Statistics and Information; Bahrain Information and eGovernment Authority; Bahrain Labour Market Regulatory Authority
³. Kuwait Public Authority for Manpower
⁴. “How will the GCC close the skills gap”, EY survey of 100 private sector employers across GCC states, 2015
⁵. Average of GCC nations except Oman, with a best ranking of 45 for the UAE, and a worst ranking of 96 for Kuwait. “The Human Capital Development Index 2017”, World Economic Forum
To reduce the pressure exerted on government finances by a large civil servant workforce, there needs to be a concerted effort to transition GCC nationals to higher private sector employability levels. This requires an extensive and far-reaching reform plan, across the labour market, the economy, and the education system. In particular, this requires answering the following inter-related questions:

- How can the attractiveness of the private sector be increased for GCC nationals?
- How can the economic desirability of nationals be improved for private sector employers?
- What are the key skills that nationals should focus on to become more competitive?

In the next section, we describe suitable labour market policy measures to answer the above questions, combining short-term palliative measures within the necessary long-term and broader economic reform. We also describe the effectiveness of these measures, and how they stand to contribute to the broader benefits of the labour market reform.
3. DEVELOPING LABOUR MARKET POLICY: A BALANCING ACT

3.1. BALANCING STAKEHOLDER INTERESTS

Labour market policy affects nationals, businesses and government, where each party has different and often opposing interests (Figure 3).

Government’s interests lie in maximising labour market efficiency. Sustaining high levels of human capital productivity and a flexible and dynamic labour market, which can adapt to technological change, is fundamental for global economic integration. Government intervention goes a long way in ensuring the right talent is attracted to the right businesses, and as importantly, in ensuring that talent is retained by employers. In a context of fiscal deficit, the government also strives to minimise the cost of intervention. This is all the more pertinent considering some GCC economies have distorted the labour market through excessively high civil service recruitment of nationals, and now want to reverse this through a re-channeling of employees to the private sector. Policy to achieve this objective should be net beneficial from a cost point of view.

On a purely financial side, the interests of nationals and businesses are usually opposed. Yet in competitive labour markets, compensation equilibrium is reached, and interests can also converge when employees achieve a sense of purpose that increases motivation and employer satisfaction. But as will be seen in the next section, the distortion brought into GCC labour markets by an imported expat workforce, compounded with government subsidies to nationals for private sector employment, has introduced arbitrage opportunities, which enable a convergence of financial interests between employers and nationals that are detrimental to government interests.

Setting policy that disproportionally benefits or negatively affects one stakeholder over another is unlikely to be effective, and can cause significant backlash. In Section 3.3, we will describe how policy tools can take the form of incentives or constraints, and the importance of combining these tools to maximise benefits for the labour market as a whole while minimising negative impact on one stakeholder over the other.

6. In some GCC countries, a practice known as “kafala” makes all foreign employees fully dependent on their sponsors. In the most extreme cases, the latter’s permission is required to exit the country even temporarily, or to change jobs. Employers may hold the power to revoke residency permits of employees they no longer want, leading to their deportation.
3.2. BALANCING SHORT-TERM VS. LONG-TERM INITIATIVES

There is no straightforward and simple panacea for success in addressing the GCC’s labour market challenges. Rather, a complementary approach including both long-term and short-term initiatives is required, enabling rapid benefits while laying the foundations for more permanent structural changes.

Long-term labour market structural changes are tied to economic and educational development. The capability for economic diversification away from oil is largely driven by the ability to attract private sector capital and a competent workforce with the skills to develop new sectors of activity. As such, private sector employment opportunities for nationals can only materialise if the education system has similarly evolved, in sync with the economy, by ensuring that theory and practice taught in higher education and vocational institutes is adapted to future job opportunities. This can be achieved with appropriate and constantly re-adjusted labour policies, which account for supply and demand considerations between job-seekers and employers. The importance of long-term reform is reflected by the strategic transformation plans launched in the GCC, which generally have time horizons of 15 years or more (e.g. Saudi Vision 2030, New Kuwait 2035) to account for the deep economic and social changes required.

Short-term labour market initiatives are more opportunistic, and give faster benefits. Yet on a stand-alone basis, they are unlikely to be sufficient to permanently alter labour market dynamics. They can nevertheless provide rapid relief while long-term measures are being put in place. The following section focuses on these short-term measures, referred to as “policy tools”.
3.3. COMBINING SHORT-TERM POLICY TOOLS TO ACHIEVE RESULTS

Setting short-term policy can seldom benefit all stakeholders. Measures incentivising both employers and employees usually imply the government is the sole cost-bearer, and often introduces opportunities for abuse. Constraining measures therefore need to be introduced, placing an onus on either prospective employees or current employers.

Typically, the initiatives with the biggest impact in pushing GCC nationals to the private sector are constraining in nature, as they limit opportunities or the appeal of the public sector. These are however not always socially acceptable. Measures to constrain employees represent a risk unless they can be channelled towards private sector opportunities. Until they obtain the right skills and the right mindset to be in demand by the private sector, companies need to be pushed to hire more nationals, while at the same time preventing them from becoming unprofitable. Such measures are generally a zero-sum game, whereby constraint on one of the parties is an incentive for the other, and vice versa. But they remain non-mutually exclusive, in the sense that both categories achieve different purposes and as such, measures are typically implemented from both ends simultaneously. Examples of such policy tools and their position along different axes of constraint/incentive for employers and employees are shown in (Figure 4), and detailed in the following sections.

**FIGURE 4: EXAMPLES OF SHORT-TERM LABOUR MARKET POLICY TOOLS TO STIMULATE PRIVATE SECTOR EMPLOYMENT OF NATIONALS (NON-EXHAUSTIVE)**

<table>
<thead>
<tr>
<th>NATIONAL IMPACT</th>
<th>CORPORATE IMPACT</th>
<th>GOVERNMENT IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SUBSIDY FOR PRIVATE SECTOR NATIONAL EMPLOYEES</strong></td>
<td><strong>NATIONAL IMPACT</strong></td>
<td><strong>CORPORATE IMPACT</strong></td>
</tr>
<tr>
<td>Increased compensation</td>
<td></td>
<td>Improved profitability (reduced staff costs)</td>
</tr>
<tr>
<td>Increased private sector opportunities</td>
<td>Reduced flexibility to match skills with job</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Penalties</td>
<td></td>
</tr>
<tr>
<td><strong>NATIONALISATION QUOTAS</strong></td>
<td></td>
<td>Less public sector demand</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Subsidy cost</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indirectly incentivises phantoms</td>
</tr>
<tr>
<td><strong>MINIMUM WAGE FOR NATIONALS</strong></td>
<td></td>
<td>Potential subsidy reduction</td>
</tr>
<tr>
<td>Increased compensation</td>
<td></td>
<td>Potential phantom reduction</td>
</tr>
<tr>
<td></td>
<td></td>
<td>May disrupt market equilibrium</td>
</tr>
<tr>
<td><strong>EXPAT WORK PERMITS FEES</strong></td>
<td></td>
<td>Higher employment costs</td>
</tr>
<tr>
<td>Relatively more affordable to prospective employer</td>
<td></td>
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<tr>
<td></td>
<td>Higher expat staff costs</td>
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<tr>
<td><strong>JOB-MATCHING &amp; TRAINING SERVICES</strong></td>
<td></td>
<td>Increased revenues</td>
</tr>
<tr>
<td>Increased private sector opportunities</td>
<td></td>
<td>Less public sector demand (indirectly)</td>
</tr>
<tr>
<td></td>
<td>Easier to meet quotas</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>May disrupt market equilibrium</td>
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<tr>
<td><strong>HIRING CAPS/ADMISSION EXAM</strong></td>
<td></td>
<td>Less public sector demand (indirectly)</td>
</tr>
<tr>
<td>Reduced public sector opportunities</td>
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<td></td>
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<tr>
<td></td>
<td>More supply for private sector jobs</td>
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<tr>
<td><strong>PERFORMANCE-BASED COMPENSATION</strong></td>
<td></td>
<td>Less public sector demand (indirectly)</td>
</tr>
<tr>
<td>Reduced compensation growth</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>More interest in private sector jobs</td>
<td></td>
</tr>
</tbody>
</table>

* To the extent nationals accept minimum paying jobs

** Affecting both nationals and expats, unless in combination with other measures to protect nationals’ employment, e.g. quotas
SUBSIDY FOR PRIVATE SECTOR NATIONAL EMPLOYEES

Monthly employment subsidies paid out to nationals working in the private sector are an encouragement and reward for both employers and job-seekers not to look for employment with the civil service. This offers them a complement to their salary, which can make up for the opportunity cost of not working in the civil service (public sector salaries are often higher than private sector wages, in particular in the early career phase). These subsidies also benefit the private sector, as it allows companies to minimise salaries paid out to nationals, in a context where the latter demand higher pay than expats. But employment subsidies can be equally value destructive. The policy can have the adverse effect of encouraging ghost employment, whereby prospective employees strike deals with employers to be on their payroll without actually doing work, thus securing the subsidy. While labour authorities have tried to limit the practice through penalties and the requirement to have access to salary transfers, employers and employees have been very creative in finding loopholes, which can only be closed with stringent inspection and monitoring mechanisms.

PRIVATE SECTOR SUBSIDIES IN KUWAIT

Since 2001, Kuwait has offered employment support subsidies to nationals working in the private sector. This has increased the appeal of private sector compensation, bringing it in par with the one in public sector for new starters, and resulted in an upturn in Kuwaitis applying to private sector opportunities. However, it has also led to ghost employment, estimated to reach 15% of the national workforce. Kuwait is presently addressing the issue through the introduction of more stringent conditions to be eligible for employment subsidies, including mandatory training requirements for graduates of secondary education and below.

Sources: Manpower Government Restructuring Programme - Kuwait

NATIONALISATION QUOTAS

Setting targets mandating private sector companies to reach a minimum percentage of nationals in their workforce is practiced in some of the GCC countries. The target is dependent on the industry of the company and capped by the available supply of nationals. It typically combines a carrot-and-stick approach, balancing steep fines for non-compliance with accelerated or VIP administrative service benefits for those exceeding targets.

However, when mandated in conjunction with employment subsidies described previously, nationalisation quotas compound the risks of abuse by employees seeking “free money” with even keener employers who, unable to meet their nationalisation targets, are eager to create ghost employees. As a result, in countries like Kuwait or Saudi Arabia, ghost employment is rampant.

Provided nationalisation quotas are paired with skill-building policies for nationals, they have the potential to improve productivity levels by making companies more efficiently run and competitive. Conversely, in the absence of an adequate supply of nationals, quotas risk affecting the competitiveness of the economy.

QUOTA SYSTEM IN SAUDI ARABIA

Saudi Arabia’s Nitaqat quota-based labour market policy has been subject to multiple reviews since its introduction in 2011. In its present format, depending on a company’s performance, it is categorised into a colour-band, which comes with matching benefits and penalties. Worse-off firms are prevented from having new work permits issued for foreign employees, while best-performing companies benefit from accelerated services from the Ministry of Labour. Quotas have, however, been controversial. While the policy helped increase Saudisation in the first two years of its launch, it also led to an accelerated rate of business foreclosures due to the higher costs incurred by a more expensive workforce.

Sources: Saudi Ministry of Labour; Jennifer Peck 2014 (Massachusetts Institute of Technology)
MINIMUM WAGE FOR NATIONALS

Minimum wage is a widely used tool globally to ensure a basic income for the workforce. Due to the significantly different nature of professions between expats and nationals, and the need to protect low-income workers in line with international regulations, a blanket minimum wage is usually relevant only for the former rather than the latter. Some GCC countries have nevertheless implemented a differentiated minimum wage, with nationals’ wages at significantly higher levels than expats.

Minimum wage for nationals can have multiple benefits:

- Mitigate ghost employment by making it harder for employers and employees to connive, in the case where private sector employment subsidies are offered;
- Increase nationals’ employment by increasing the incentive for private sector work (although it does not address the other drawbacks of the private sector when compared to public sector work); and
- When applied in conjunction with nationalisation quotas, force companies to operate more efficiently, by rationalising and increasing productivity of expat workforce in the face of higher costs.

On a stand-alone basis, minimum wage risks distorting the supply and demand dynamics of a free market by setting a wage, which is different from the competitive wage: a minimum wage set above the competitive wage can disincentive employment. When applied to usually higher-paid nationals in the GCC, in combination with other policy measures, the likely policy outcome becomes more complex to assess. Paired with sufficient private sector employment subsidies from the government, the minimum wage can be set at less than what a national would accept in the absence of such subsidies, mitigating the negative impact. However, paired with nationalisation quotas, minimum wage can have a double whammy impact on businesses if not properly calibrated: forced to employ underqualified nationals at a higher cost than qualified expats, businesses can rapidly find their operational expenses difficult to manage, while experiencing productivity losses. To mitigate the losses driven from the higher operational costs, an increased reliance on capital and technology is likely, usually at the expense of low-skilled workers.

MINIMUM WAGE IN THE GCC

The GCC has experimented at various levels with private sector minimum wages. In Oman, the labour law mandates a minimum wage specifically for its nationals, which is currently set at OMR 400/month (USD ~1,000). In Saudi Arabia, a minimum wage is not directly mandated for nationals, but national employees earning below a stipulated wage of SAR 3,000/month (USD ~800) are discounted in the calculation of Saudisation ratios. Kuwait has a blanket minimum wage which is de-facto applying to low-skilled expats only, set at KWD 75/month (USD ~250). Kuwait is considering the implementation of a minimum wage for its nationals, with the objective of reducing private sector subsidies in the future, by transferring costs to the private sector.

Sources: Oman labour law; Saudi Ministry of Labour; Kuwait Public Authority for Manpower
EXPAT WORK PERMITS

Companies can have their hiring options artificially reduced by limiting the supply of expats in the country, or making it more costly to hire them through higher work permit fees. Typically requiring the intervention of the ministry of interior, caps can be applied to the number of visa issued annually to expats, or levies can be imposed when companies seek to obtain work permits for foreigners. Work permit fees can be further differentiated by industry, job titles or skill level, depending on the government’s objectives.

The level at which these levies are set should account for other indirect taxes already imposed on the private sector (e.g. penalties for failing to meet quota targets): whereas coercive measures on employees present social risks, coercive measures on employers can present direct economic risks. Direct penalties such as fines, or indirect fiscal penalties in the form of higher costs increase operating expenditures. In a context where fiscal discipline has historically been lax among businesses, the latter are unlikely to be able to adjust, potentially affecting their survival at a time when the development of the private sector is essential to diversify the economy and reduce the onus on the public sector. As such, these measures need to be parametrised with care, on the basis of what can be achieved with the minimum damage to the economy, but the biggest impact in terms of labour market improvement.

EXPAT LEVIES IN SINGAPORE

In Singapore, foreign workers are regulated through work permit levies, which depend on the employee’s qualifications, and a quota target which depends on the industry the worker is employed in. Levies are further tiered, with companies paying more when they are close to miss their quota target, and less when they are well within the mandated range. Levies are lower for higher-skilled workers, reflecting Singapore’s objective to attract them, while limiting the influx of unskilled labour.

Sources: Singapore Ministry of Manpower

JOB-MATCHING AND TRAINING SERVICES

Policy tools incentivising employers and employees also include job placement facilitation services. Government-sponsored employment agencies can facilitate employment by matching job-seekers with employers, through on-line and/or in-person job-matching services, including counselling and training. Skill-building and on-the-job training for GCC nationals are very much needed until a full-fledged education reform materialises, to the extent that some governments are currently in the process of rolling out country-wide traineeship programmes in partnership with large private employers. Governments can decide to partly subsidise these traineeships to encourage employee take-up.

APPRENTICESHIPS IN SWITZERLAND

In Switzerland, traineeships have become the standard way to acquire the right skills and secure employment in the private sector. 70% of teenagers in the country are enrolled in apprenticeship programmes, seeing them engage three to four days a week with work experience and one to two days a week in the classroom. Apprenticeships are run akin to entry-level jobs for which apprentices receive a salary. 30% of companies in Switzerland participate in the programme.

Sources: Forbes Magazine, Swiss federal administration website
PUBLIC SECTOR HIRING CAP/ADMISSION EXAM

The social contract between GCC governments and their nationals has generally included a tacit understanding that the public sector will always be there to provide employment for the nation’s subjects. As finances dry up, however, civil service authorities can consider setting hard limits to their annual intake, or more indirectly, introduce admission exams, which can be tweaked to have the same result, while being able to demonstrate a transparent and fair approach. This should naturally increase the competition for private sector jobs among nationals, benefiting the private sector, and even more so when companies are coerced to hire nationals through quotas.

ADMISSION EXAMS INTO THE CIVIL SERVICE

In the GCC, Oman has already implemented general or job specific exams, while the UAE is considering a standardised national examination for aspiring (and existing) teachers. Looking beyond the GCC, the United Kingdom provides an interesting example of how admission conditions can be combined with incentives such as the ones seen previously: applicants without a high school degree can benefit from an apprenticeship provided they have a middle school degree with the minimum specified grades in English and mathematics. Graduate applicants, on the other hand, can apply to a different track (“FastStream”) which requires a bachelor’s degree in any subject for most positions, but post-graduate education for specific entry-level posts. In addition, a three-step selection process is required, involving an online questionnaire, a video interview, and, if successful, additional leadership and teamwork exercises.

Sources: Oman Ministry of Civil Service; UAE Nationals Qualification Authority, UK Government portal

PERFORMANCE-BASED COMPENSATION IN PUBLIC SERVICE

With entry-level public sector salaries in the GCC being higher than in the private sector, reducing the appeal of the former also passes through reducing salary growth, and if possible, salaries themselves. With salary growth being linked to promotions and therefore performance evaluation, it is a matter of setting stringent evaluation processes, which are not subject to influence or tampering. In an ideal setting, such processes ensure fairness through a forced relative calibration of employees, and account for hard indicators such as absenteeism and meeting predefined targets. Including measures, which are beyond the control of the reviewer, has the advantage of reducing the latter’s likelihood of rating all their employees as outstanding, a practice that is prevalent, rooted in cultural habit, and ultimately runs counter to a productive workforce. As unpopular as these measures may be, public sector hiring caps and more meritocratic evaluations have the benefit of not only significantly reducing the wage bill, but of also sending a signal to citizens of the impending change in the social contract they have been accustomed to.

PERFORMANCE-BASED COMPENSATION IN KUWAIT

In Kuwait, the overwhelming majority of public sector employees obtain the highest score in their annual evaluation, which prevents any performance differentiation and leads to a high rate of promotions. To reverse this trend, the civil service commission is in the process of reviewing the evaluation form to better capture key performance criteria, and has included an attendance component in the evaluation to forcibly reduce scores. A sustained and long-term effort is now under way to foster a culture of meritocracy to lead to more balanced performance reviews.

Sources: Civil Service Commission - Kuwait
4. PUTTING IT ALL TOGETHER: DELIVERING A LABOUR MARKET STRATEGY THAT WORKS

When setting policy to address the GCC labour-market-related challenges, four key guidelines can be prescribed:

I. **Systematic approach:** Setting a sustainable labour market policy requires an in-depth situation review and a solid understanding of where the labour supply and demand is headed. This includes assessing the present capabilities of the labour force, as well as the workforce needs of the private sector in terms of headcount and skills required. It also requires planning ahead to account for potential structural changes driven by macro-economic, political, regional and technological trends. Once the objectives of the policy are defined, the development of the policy itself can follow through a process, which maximises consensus of all involved stakeholders. After the policy is set, monitoring and feedback loops can ensure appropriate and timely adjustments are made, with interactive dashboards serving as primary means to convey the evolution of the labour-market to the country’s decision makers.

II. **Customised policy:** Maximising impact can only be achieved through an array of policy tools, each carefully dosed. No single policy tool can address a country’s labour market challenges; for instance, a nationalisation target in the form of quota policy will only be impactful if there is a supply of nationals willing and able to take the relevant jobs; an employment subsidy will only be efficient if it is followed by stringent control mechanisms to prevent abuse; a limit to the inflow of civil service employees will only be successful if the excess labour force can find appealing opportunities in the private sector; and so on. Furthermore, no standard prescription can be applied. Each market has its own specificities, defined by political, economic, fiscal, demographic and social factors.

III. **Comprehensive reform:** A review of labour policy is a necessary but insufficient course of action without a broader economic and education reform. To become a viable alternative to public sector employment, the private sector needs to grow and expand towards high value-added industries, more suitable for the national labour force. Such a high dependence on private sector growth forces policymakers to focus on improving the business environment, and hold back from imposing abusive measures, which might jeopardise private sector businesses. This needs to be paired with supporting education and skill-building initiatives targeted to the future domestic workforce. The final point is critical, as expatriate labour must be replaced by a dynamic, productive domestic labour force that can maintain, and ideally enhance, the competitiveness of the private sector.

IV. **Empowerment and political support:** For effective and independent policymaking, manpower authorities should be enabled and empowered to act independently and effectively, outside any political influence or control. Absolute transparency in labour market affairs and labour market reporting should be ensured, while remaining open to inquiries and clarification requests by citizens and government alike. This will mitigate the impact of the discontent that is likely to emerge from the citizen labour force as a result of their reduced benefits.
GCC governments are facing unprecedented fiscal deficits, some driven to a large extent by the cost of their public sector workforce. For these economies, reform can bring significant benefits in the form of savings and, more importantly, the development of a labour force that is adapted to the needs of the 21st century job market. In Kuwait, the labour market reform underway is set to contain the growth of the wage bill, through a multi-pronged effort to reduce public sector employee and compensation growth, while redirecting national graduates to the private sector. Results are already visible, with a notable decrease in public sector hiring, in particular through a reduced intake of foreign expats. In Saudi Arabia, the long-term approach favouring education reform and economic transformation has resulted in less tangible impact on the labour market, with Saudisation ratios in the private sector remaining stagnant, but expectations of a marked upside in the longer term.

Labour market government stakeholders responsible for national and expat employment in both the public and private sectors need to rapidly establish new levels of co-operation, enabling them to achieve an accurate and comprehensive view of the labour market. This should take the form of a multi-entity task force or the establishment of a unified entity with the specific remit of being a labour market observatory and policy-setting institution. This should be followed by consensus building with the broader labour market actors (e.g. chamber of commerce, unions, investment authorities …), through direct consultations as well as transparent communication outlining the rationale for the proposed policies. The latter is particularly important to be communicated to all stakeholders, as their buy-in will play a significant role in the success of the subsequent policy implementation.

Fundamentally, the difference in focus in the approaches of Kuwait and Saudi Arabia highlights the importance of following a comprehensive reform that addresses structural issues over the long-term (e.g. education reform or economic transformation), while also implementing short-term and less disruptive measures, which can display a more rapid but small-scale benefit (e.g. expat labour force fees or reasonable nationalisation quotas).
ABOUT TICG

Tri International Consulting Group (TICG) is a world-class management consultancy that combines extensive industry knowledge and deep Kuwaiti market understanding with specialised expertise in strategy, operations, risk management, and organisation transformation. Our professionals help clients optimise their businesses, improve their operations and risk profile, and accelerate their organisational performance to seize the most attractive opportunities.

TICG was founded as a joint venture between the Kuwait Investment Authority (KIA), the first sovereign wealth fund in the world, the Kuwait Fund for Arab Economic Development (KFAED), the first Arab international development institution, and Oliver Wyman, a leading global management consulting firm.

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