

# PRIVATE SECTOR NATIONALISATION LABOUR SUPPLY & DEMAND

MARCH 2016

*Presentation given at the workshop “The political economy of labor markets and migration in the Gulf”, held by the Kuwait Programme of the LSE’s Middle East Centre on 7 March*

Kuwait City

## About TICG

TICG, a joint company between KIA, OW and the Kuwait Fund, is a world class consulting firm with a strong focus on the Kuwaiti market



(60%)

### Kuwait Investment Authority

- Exceptional **understanding of Kuwaiti market** dynamics and culture
- Profound **understanding of Kuwaiti industries** and key trends
- Carefully knitted web of **strategic relationships** both locally and internationally



**Market knowledge, strategic relationships, commitment to Kuwaiti market**



(30%)

### Oliver Wyman

- Leading consulting firm with a **track record of delivering results/solutions** for clients
- Extensive experience in a **wide set of capabilities**
- Deep **understanding of global industries** and key trends
- **Strong talent pool** and proprietary toolkits



**Exceptional talent pool, deep industry expertise, leading intellectual capital**



(10%)

### Kuwait Fund

- Vast **experience in project implementation** /delivery and **knowledge transfer**
- **Strong international relationships** through 52 years of deploying Kuwaiti capital across 102 countries
- Extensive experience in a **wide range of industries**



**Strategic relationships, extensive knowledge of Kuwaiti market, substantial track-record**

What do they bring?

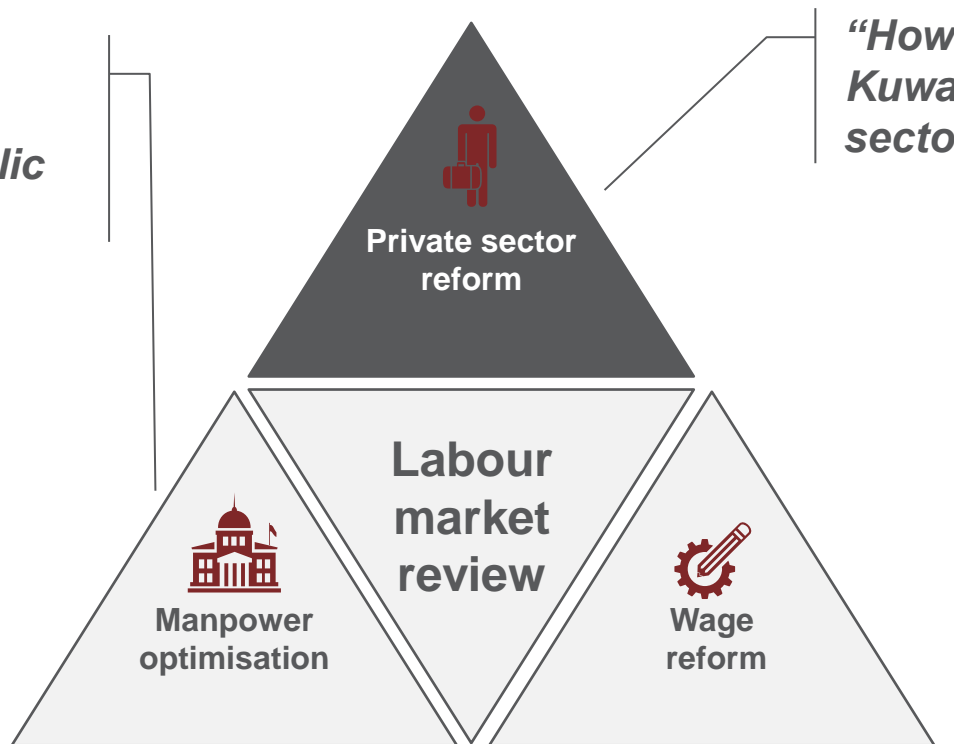


**A world class Kuwaiti consulting firm**

# Remit of TICG

## Three work-streams

*“How to reduce the number of Kuwaitis employed in the public sector?”*



*“How to drive more Kuwaitis to private sector jobs?”*

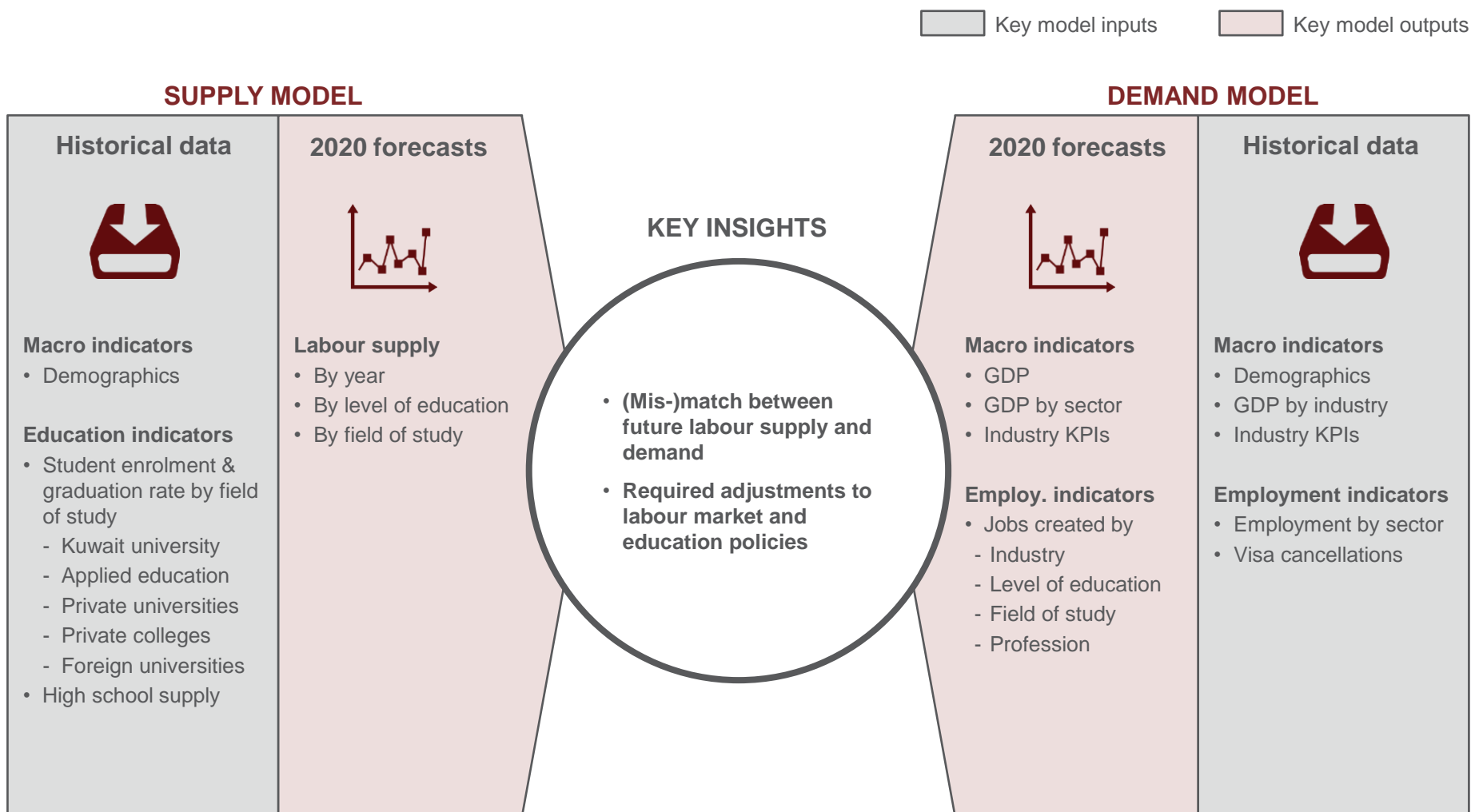
*“How to align and standardise public sector wages?”*

# Key labour market issues

		Observations
1	<b>High reliance on foreign worker</b>	The private sector employs 20X more foreigners than Kuwaitis
2	<b>Many Kuwaitis prefer public sector</b>	44% of the Kuwaiti unemployed have stated that they would only work in the public sector
3	<b>Companies prefer foreigners</b>	Private sector companies are highly incentivised to hire expats due to large supply, lower cost and higher control
4	<b>Da'am al Amalaa is sometimes abused</b>	Nationalisation quotas and Da'am al Amalaa resulted in “phantom employment” of Kuwaitis in the private sector
5	<b>Youth unemployment is high and often long-term</b>	While unemployment rate is ~5%, it is over 20% for youth segments and young graduates
6	<b>Growth potential in the private sector is sub-par</b>	Long-term enablers for growth in private sector employment opportunities (SMEs, FDI...) are sub-par
7	<b>No central agency with a full view on labour market</b>	There are more than six entities involved in different aspects of labour market regulation

Source: TICG analysis

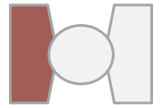
# We have developed a bottom-up econometric model to quantify labour supply and demand



Source: TIGC private sector model; TIGC analysis

# Supply – Model output

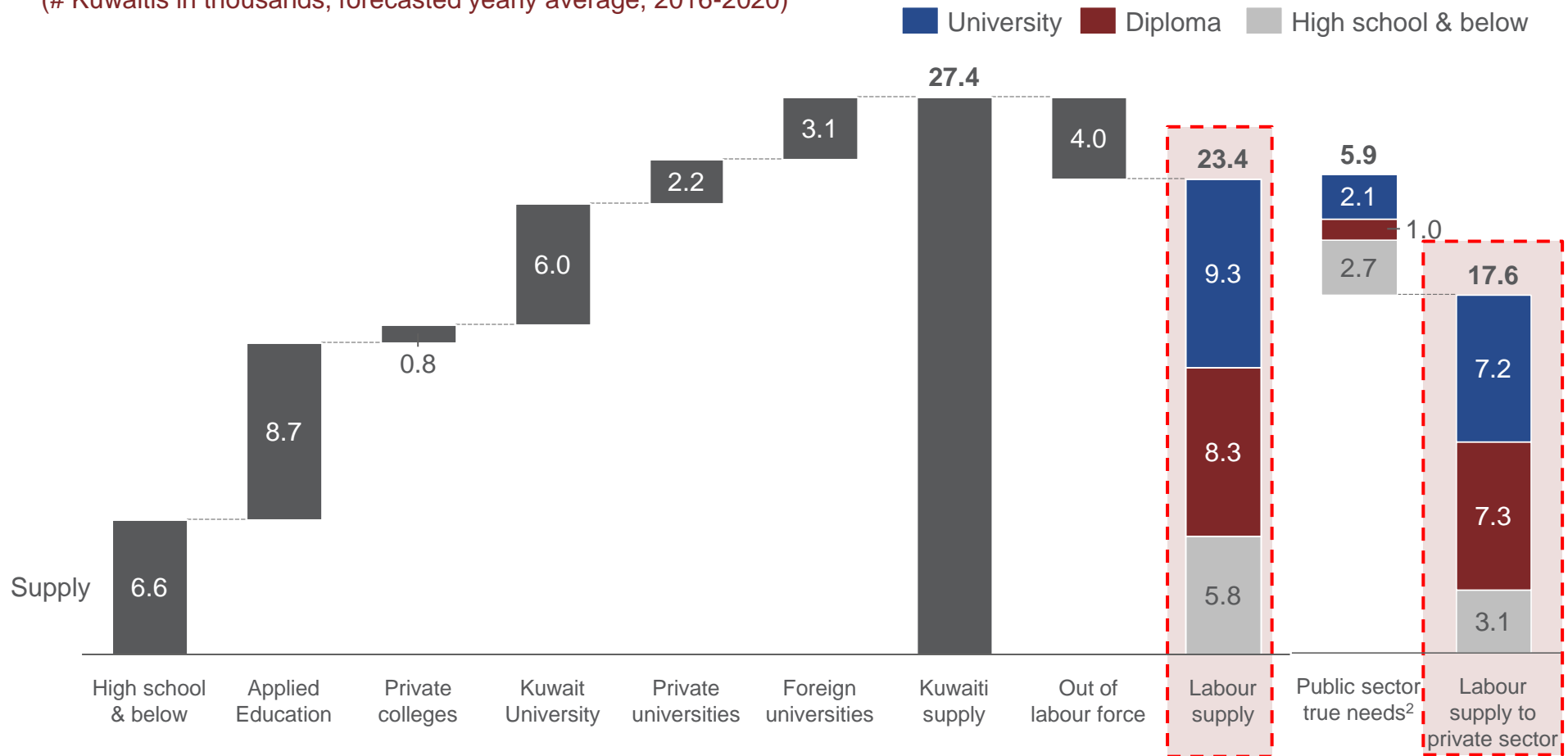
17,600 Kuwaitis will look for jobs in the private sector each year by 2020



Estimates

## Expected labour supply to the private sector

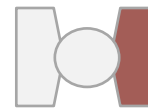
(# Kuwaitis in thousands, forecasted yearly average, 2016-2020)



1. Includes master's and PhD graduates from Kuwaiti University; Source: Central statistical Bureau; Public Authority for Civil Information; Ministry of Higher Education; Private Universities Council; TIGC private sector model (2015); 2. Based on educational profile of public sector outflows; TIGC private sector model (2015); TIGC analysis

# Private sector demand – Model output

## Only 9,400 private sector jobs each year are seen as suitable for Kuwaitis

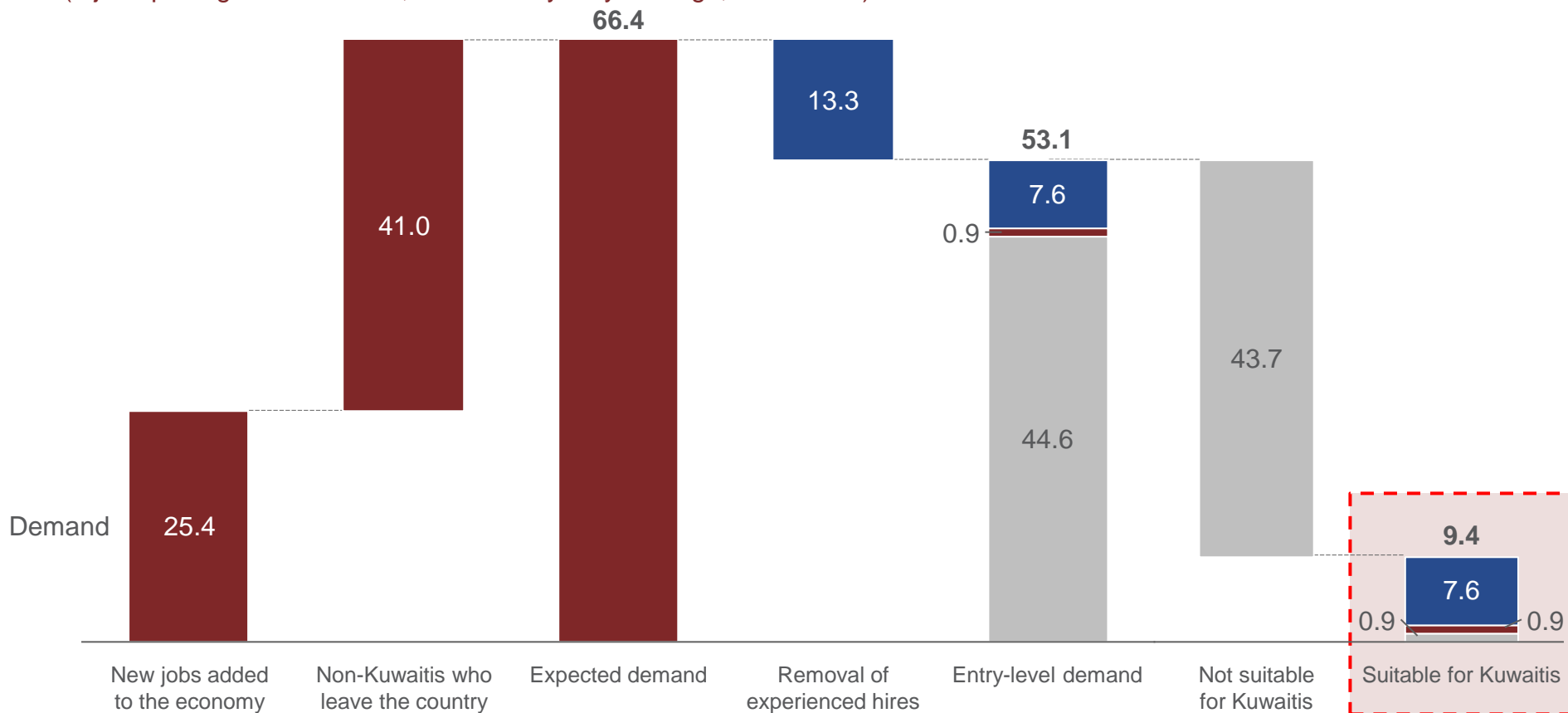


Estimates

### Expected private-sector labour demand<sup>1</sup>

(# job openings in thousands, forecasted yearly average, 2016-2020)

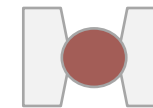
University Diploma High school & below



1. Entry-level demand assumes 80% jobs are entry-level; 100% university/diploma jobs and 2% high school jobs are suitable for Kuwaitis; 2% represents current penetration of Kuwaitis with high school degrees and below (excl. phantom employees); Other labour outflows, i.e. Kuwaiti retirees (~0.4K) and Kuwaiti transfers from private to public sector (~0.2K) are excluded from the analysis due to incomplete data; Education split is based on profiles of current private sector jobs; Source: Central statistical Bureau; Public Authority for Civil Information; PIFSS; Manpower Authority; MGRP; TIGC private sector model (2015); TIGC private sector model (2015); TIGC analysis

# Labour market issues

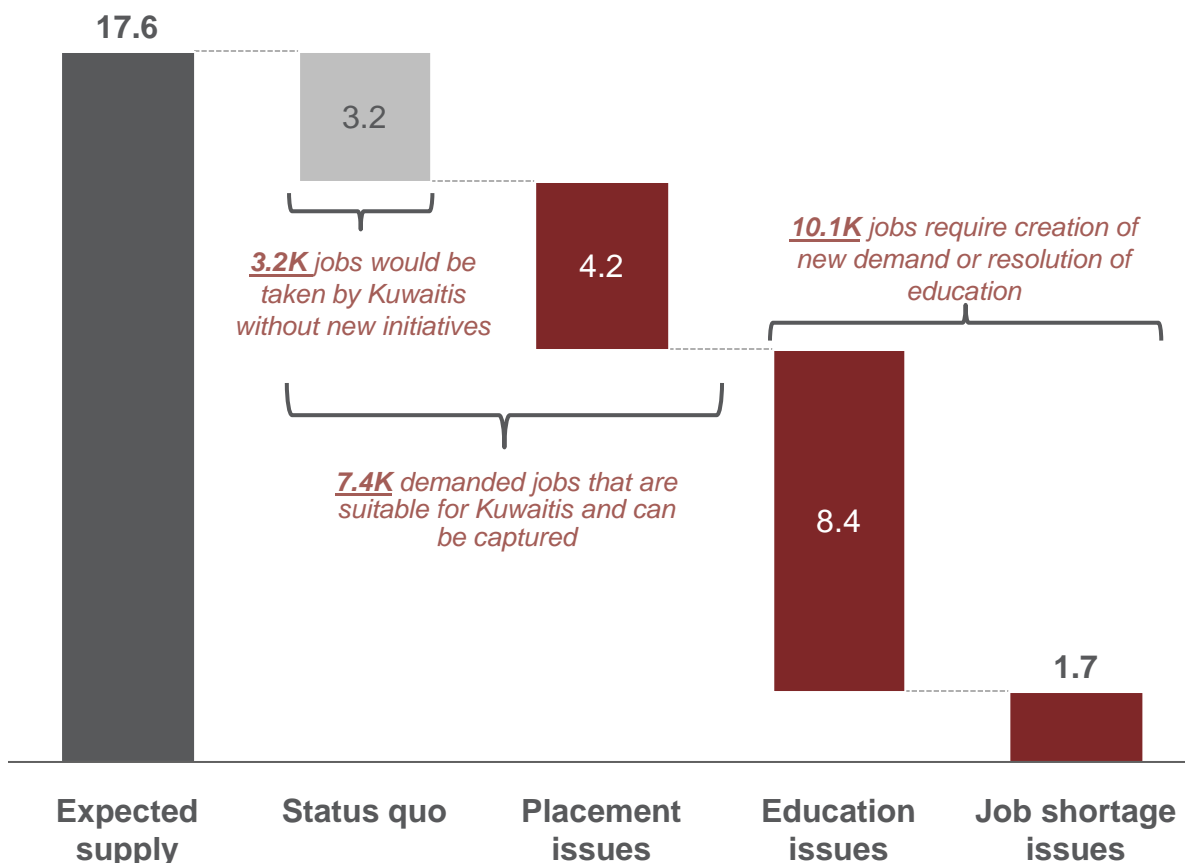
Our analysis suggests that three labour market issues need to be resolved



Estimates

## Current labour market issues

(# jobs in thousands, yearly average, 2016-2020)



## Areas of focus

### Placement issues

- The private sector does not want Kuwaitis
- Kuwaitis do not want private sector jobs

### Education issues

- Kuwaitis are graduating from the wrong fields of study
- Kuwaitis are graduating from the wrong level of education (university vs. diploma)

### Job shortage issues

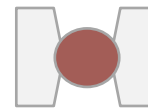
- There are not enough job openings suitable for Kuwaitis

Source: TICG analysis



## Placement issues #1

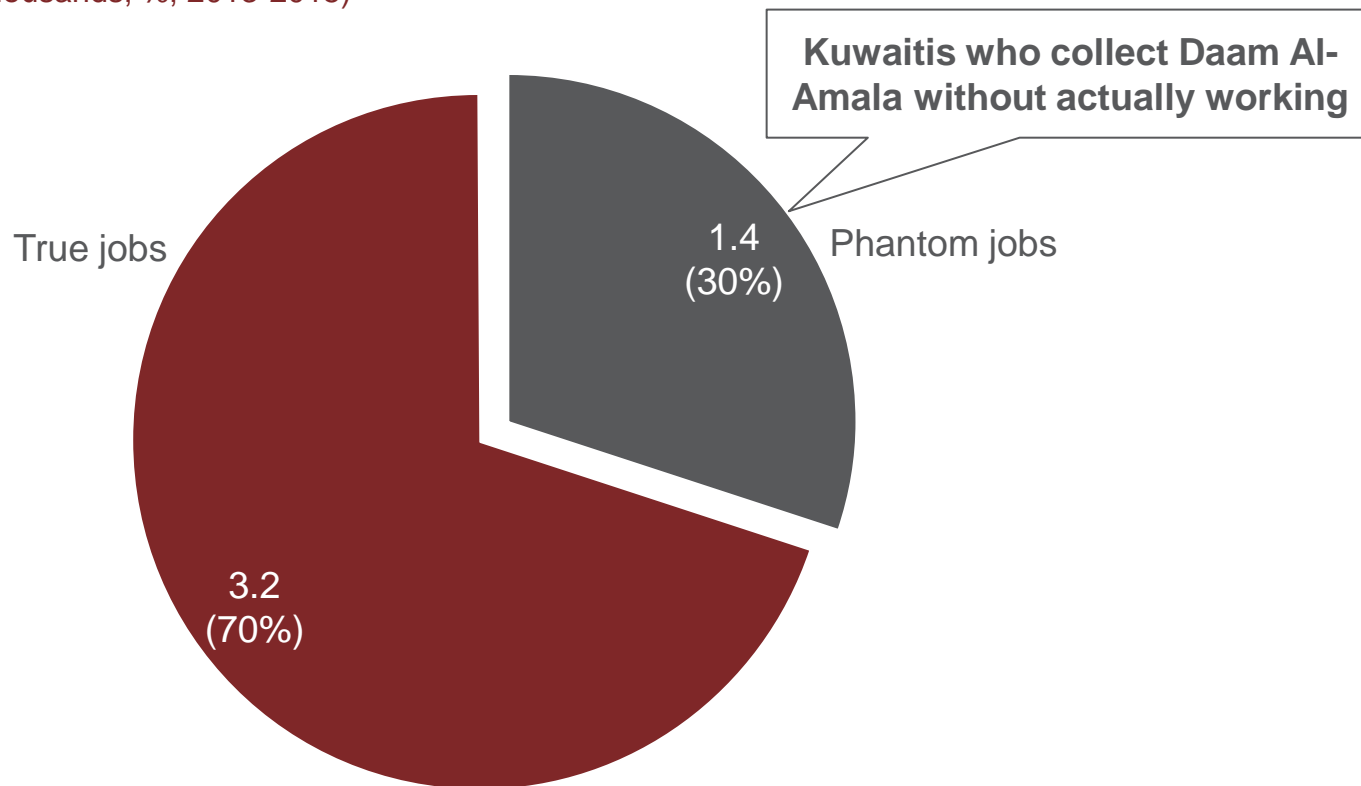
Although 4,600 entry-level jobs per year are taken by Kuwaitis in recent years, only 3,200 were “true jobs”



Estimates

### Phantom versus true jobs for Kuwaitis<sup>1</sup>

(Average # job openings in thousands, %, 2013-2015)



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30% of the jobs taken are “phantom” jobs, 70% are true jobs

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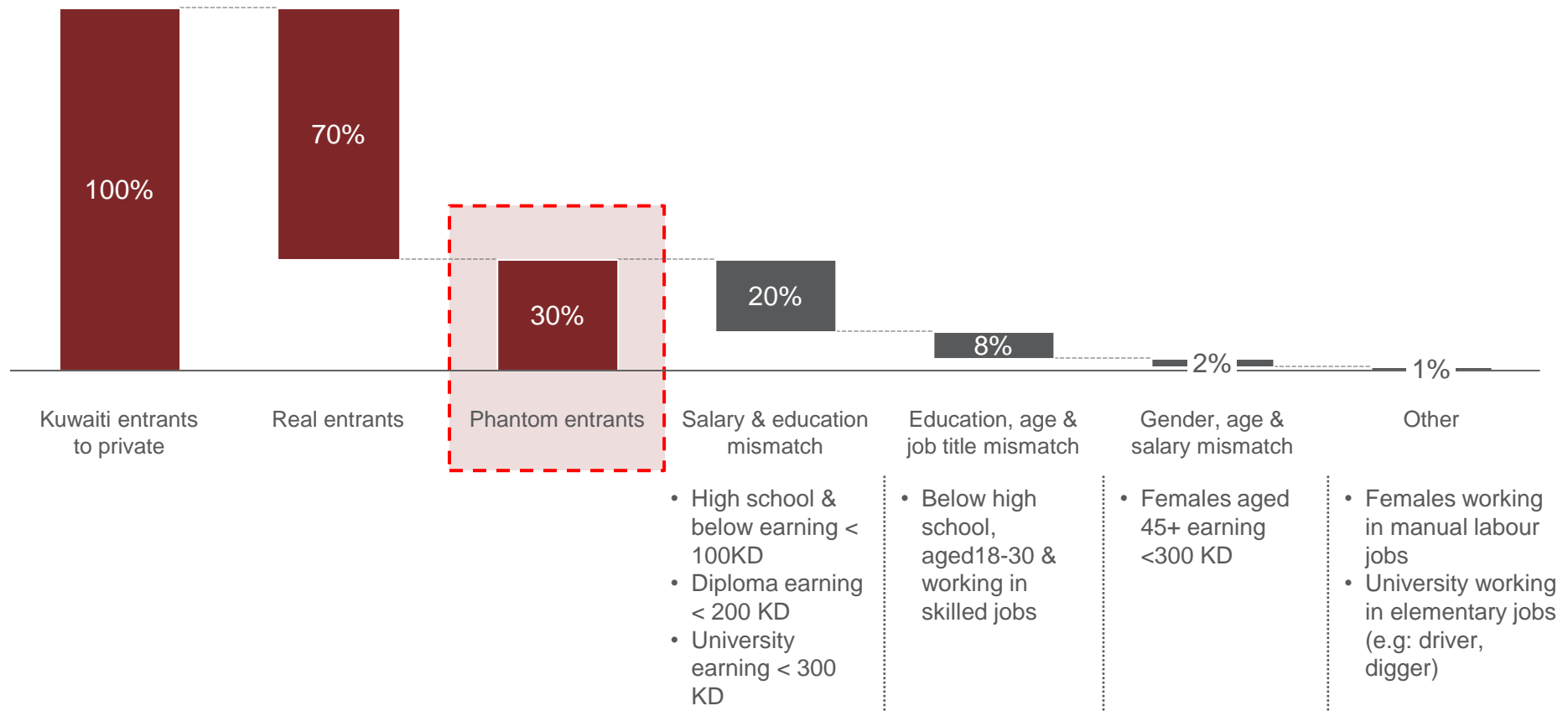
1. See back-up for analysis and assumptions. Source: MGRP, TIGC analysis

# Calculation of true jobs (Back-up)

## 70% of Kuwaiti entrants to the private sector are real

### Kuwaiti entrants to the private sector

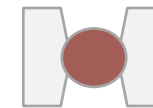
(% of total entrants, sample based on 9,000 employees<sup>1</sup>, 2013 – 2015)



1. Sample consists of current recipients of Daam Al Amala who entered the private sector in 2013-2015; Source: MGRP, TIGC analysis

## Placement issues #2

The private sector 'premium' is not enough to encourage Kuwaitis to seek entry-level jobs in the private sector



### Public – Private sector wages by profession<sup>1</sup> (Entry-level, university, KD, 2015)

Non-Exhaustive

### Comments

Sample profession		Public Hourly Wage <sup>2</sup>	Private Hourly Wage (incl. subsidy) <sup>3</sup>	Gap (KD)	Private sector Premium
Bookkeeper	كاتب حسابات	7.1	8.3	1.2	16%
IT Programmer	مبرمج كمبيوتر	7.4	8.2	0.9	12%
Coordinator	منسق عمليات	7.5	8.3	0.8	11%
Legal Researcher	باحث قانوني	8.1	8.7	0.6	8%
Public Relations	موظف علاقات عامة	7.2	7.7	0.4	6%
Accountant	محاسب	8.4	8.7	0.3	4%
Teacher	مدرس	9.0	9.7	0.7	5%
Secretary	سكرتير	7.7	7.6	-0.1	-1%

- Private-sector wage premium is not enough to offset comfortable conditions in the public sector
  - High job security
  - Low workload
  - No performance management



### Implications

- Make certain private sector jobs more attractive for Kuwaitis

1. For Kuwaitis aged 20-25, minimum wage 250KD, university degree holders; jobs suitable for Kuwaitis; 2. Public hourly wage assumes 20 days of public holiday, 35 days of vacations and 7 hours/workday; 3. Private hourly wage assumes 15 days of public holiday, 25 days of vacation and 8 hours/workday; Includes Daam Al-Amala; Source: Manpower database, CSC database, TIGC analysis

## Placement issues #3

# Kuwaiti average wages cost companies 27% more than non-Kuwaitis



### Private sector wages by profession

(Entry-level<sup>1</sup>, university, KD, 2015)

Non-Exhaustive

### Comments

- Non-Kuwaitis are cheaper to hire, easily controllable and more productive than Kuwaitis

### Implications

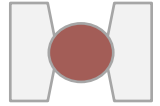
- Make non-Kuwaitis more expensive
- Make Kuwaitis less expensive
- Additional benefits if Kafala rules are relaxed

Profession		Kuwaiti average wage	Non-Kuwaiti average wage	Gap (KD)	Gap (%)
Administrative writer	كاتب ادارى	553	225	328	146%
Book keeper	كاتب حسابات	428	213	215	101%
PR officer	موظف علاقات عامة	378	189	189	100%
Operations officer	منسق عمليات	473	273	200	73%
Data entry officer	مدخل بيانات	355	227	128	56%
Legal researcher	باحث قانوني	490	328	162	49%
Accountant	محاسب	487	339	149	44%
Secretary	سكرتير	375	288	88	30%
Teacher	مدرس	642	493	149	30%
Computer technician	فنى كمبيوتر	410	328	82	25%
<b>Total weighted wage</b>		<b>482</b>	<b>379</b>	<b>103</b>	<b>27%</b>

1. Refers to private sector employees aged 20-25; 2. Excludes wages below 250KD; 3. Included university degree holders; Source: Manpower Authority Database, TICG analysis

# Education issue #1

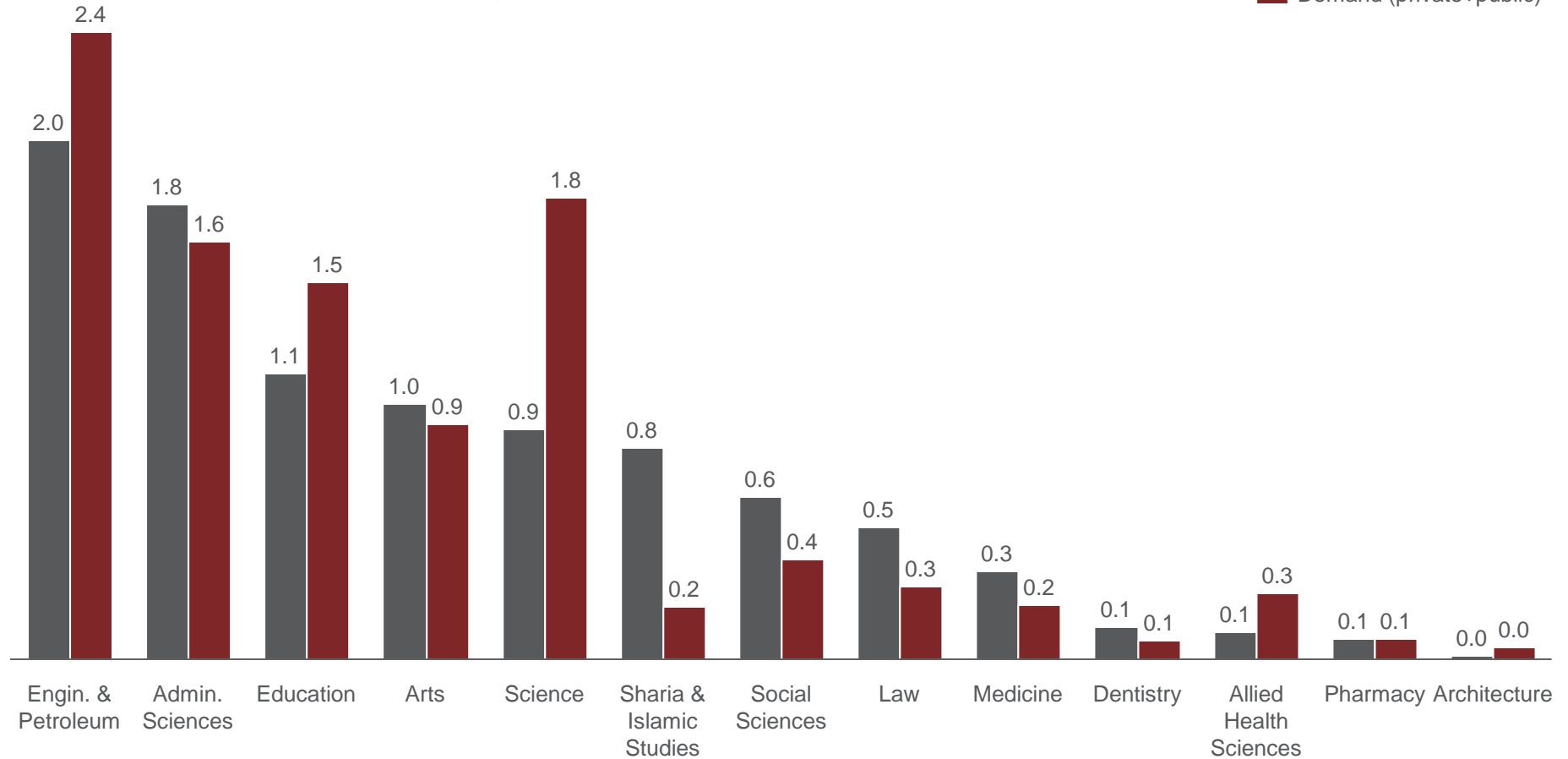
## Students are not studying the right subjects



Estimates

### Expected Supply-Demand: university

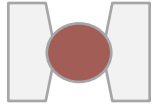
(# in thousands, forecasted yearly average, 2016-2020)



1. Includes Electricity & Water, Establishment & Vocational training; 2. Covers nursing in College and Institute; Source: TICG analysis

## Education issue #2

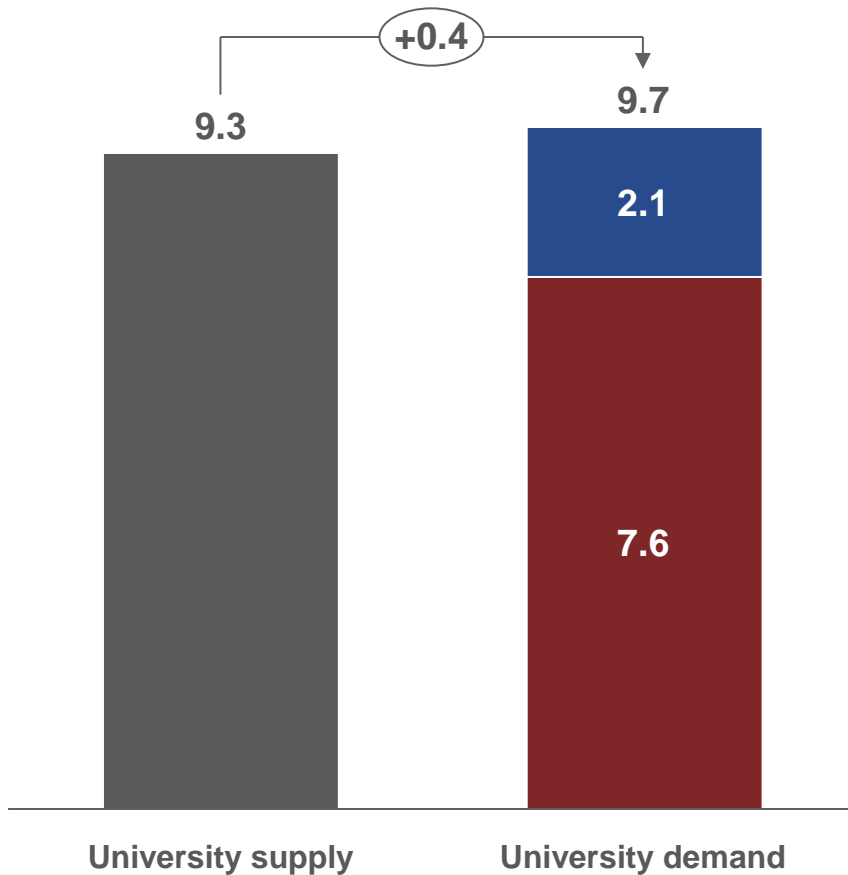
### Private sector demand for diploma students is expected to be low



Estimates

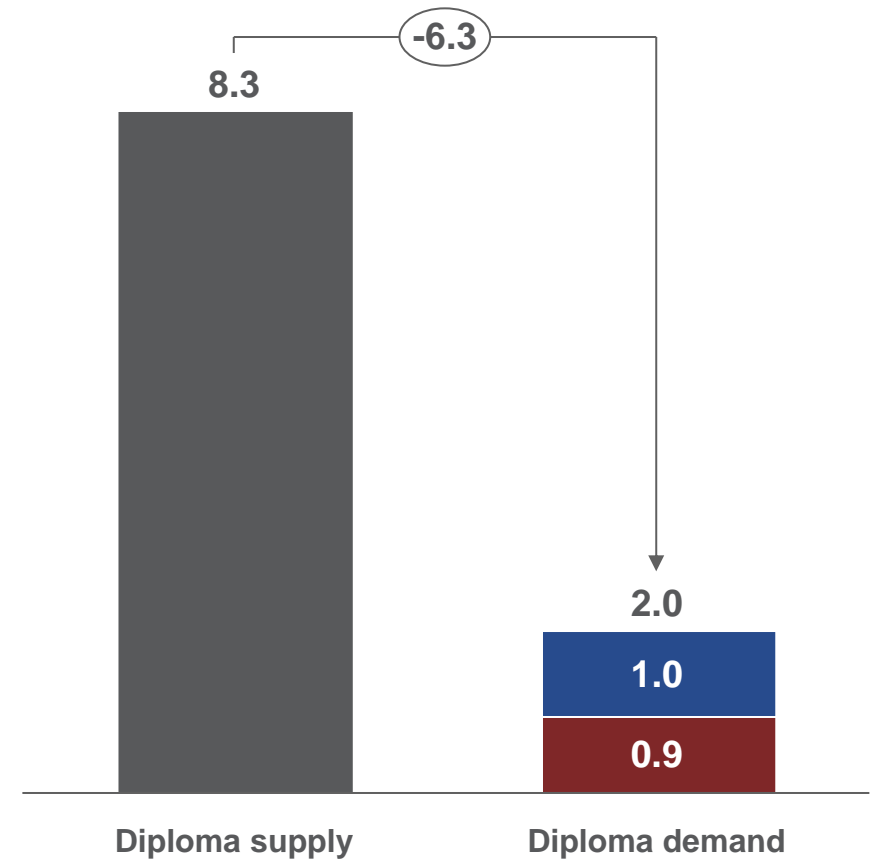
#### Expected Supply-Demand: university

(# in thousands, forecasted yearly average, 2016-2020)



#### Expected Supply-Demand: diploma

(# in thousands, forecasted yearly average, 2016-2020)


















■ Public sector ■ Private sector

Source: TICG private sector model; TICG analysis

# Recommendations

We recommend five initiatives to solve these issues

	Initiative	Description	Job opportunities	Key benchmarked countries
Education/ job shortage issues	<b>1</b> <b>Align higher education with private sector needs</b>	<ul style="list-style-type: none"> <li>Impose caps on public education admissions and better target private scholarships towards in-demand disciplines</li> </ul>		 
	<b>2</b> <b>Launch a one-year apprenticeship program for diploma students</b>	<ul style="list-style-type: none"> <li>Integrate one-year apprenticeship program in applied education curricula</li> <li>Subsidize salaries for Kuwaiti apprentices over one year</li> </ul>		 
Placement issues	<b>3</b> <b>Initiate a list of 'Kuwaiti-priority' professions</b>	<ul style="list-style-type: none"> <li>Initiate preferential recruitment for Kuwaitis in white collar professions, with enough Kuwaiti supply</li> </ul>		 
	<b>4</b> <b>Increase Daam Al-Amala for 'high volume jobs' with low Kuwaiti interest</b>	<ul style="list-style-type: none"> <li>Raise Daam Al-Amala for professions with high number of job openings with negative Kuwaiti perception</li> </ul>		  
Funding	<b>5</b> <b>Align work permit fees with GCC standards &amp; establish Labour Fund</b>	<ul style="list-style-type: none"> <li>Increase work visa fees via labour fee to align with GCC standards</li> <li>Establish Labour Fund to channel labour fee revenues towards training of nationals</li> </ul>		 









Highest



Lowest

# Recommended enablers

## Six enablers need to be in place to ensure successful implementation

	Enabler	Description
	<b>1</b> <b>Appoint an entity to coordinate labour policies</b>	<ul style="list-style-type: none"><li>Centralize formulation and implementation of labour market policies for Kuwaitis and non-Kuwaitis</li></ul>
	<b>2</b> <b>Implement a labour market information system</b>	<ul style="list-style-type: none"><li>Implement a central repository for labour market data</li><li>Collect, analyze, and disseminate information relating to demand &amp; supply, skills, and education to decision makers</li></ul>
	<b>3</b> <b>Improve monitoring of labour policies</b>	<ul style="list-style-type: none"><li>Increase unscheduled on-the-ground inspections to monitor violations</li><li>Implement a hotline to monitor expat labour status</li><li>Create an online portal to track inaccurate/untimely wage payments</li></ul>
	<b>4</b> <b>Implement stricter penalties for non-compliance</b>	<ul style="list-style-type: none"><li>Increase penalties for non-compliance with quotas</li><li>Enforce additional penalties for manipulation of Daam Al-Amala</li></ul>
	<b>5</b> <b>Improve the national employment service</b>	<ul style="list-style-type: none"><li>Provide an end-to-end support for jobseekers based on labour market intelligence</li><li>Re-skill or up-skill Kuwaitis in line with private sector needs</li></ul>
	<b>6</b> <b>Set up labour market councils to determine private sector needs</b>	<ul style="list-style-type: none"><li>Establish collaboration mechanisms between labour stakeholders</li><li>Define workforce skills qualification frameworks for each industry</li></ul>

Source: TICG analysis



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