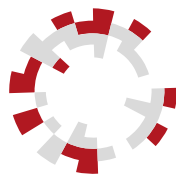




# **KPPC Research Agenda for the Economic Pillar**



مركز الكويت للسياسات العامة  
Kuwait Public Policy Center







*Empowered lives.  
Resilient nations.*

Authored by Arif Mahmood for KPPC.

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# Executive Summary



A research agenda for the economy of Kuwait - with an emphasis on economic growth, private sector development and economic diversification - is presented in this report. This report was produced in response to the challenges and gaps identified in an earlier report entitled Kuwait National Development Plan and Economic Policies by the author<sup>1</sup>.

This report outlines areas of research that are either an immediate priority or are needed to fill evidence gaps in the long-term policy development and delivery needs of the New Kuwait. There are a number of cross-cutting research topics described in this document that require attention. As an example, some of the research topics outlined for Kuwaiti planning documents here can be aligned with those of other interdisciplinary research within other national priorities. Specifically, certain of the U.N. Sustainable Development Goals can be aligned with the economy pillar in Kuwait's national development plan - Kuwait Vision 2035.

The research agenda discussed in this report is not exhaustive. Areas not considered here are some areas that are not considered in detail in the report and these can be covered in a separate analysis, or they can be integrated within some of the proposed projects. The green economy, for example, can have its own focus within a larger research agenda. Research can be directed toward a number of targeted, specific projects with the potential to significantly impact the economy of Kuwait. These projects include: the development of a housing market model; more extensive research on the labor market and human capital; and the development of a rationale for providing public subsidies to the food sector in areas linked to the national plan's health pillar. These potential projects are briefly discussed in this report and can be broadly considered overlapping with the research agenda in other pillars.

<sup>1</sup> See Al-Mahmood (2017). This report also presents a brief historical overview of Kuwait's national development plans.

This report has three sections:

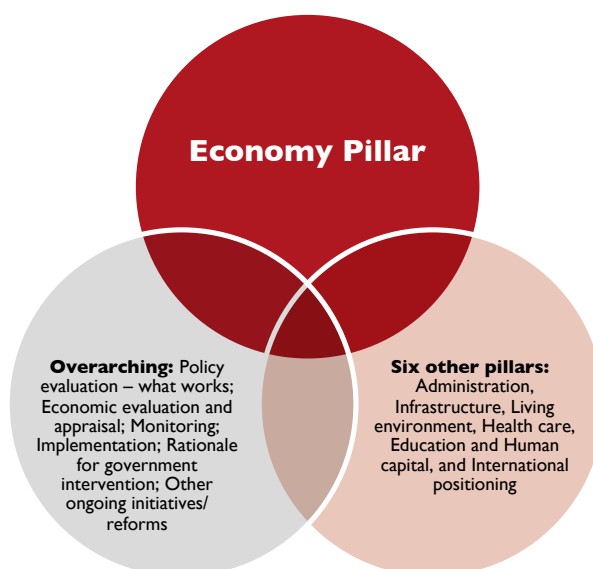
**Section 1:** Priorities and strategic directions for the research agenda, achieving the targets related to the economy pillar

**Section 2:** Research agenda with a focus on the Kuwait National Development Plan and its strategic priorities

**Section 3:** Plan to close the main gaps in research that were identified in the first report

FIGURE I

### Setting the research agenda in perspective



A list of research titles, objectives and possible research questions are presented alongside the research agenda. The research titles are not meant to be prescriptive for each of the areas identified, but should be considered as topics within a broad research agenda in the context of the Kuwait national plan. A best practices methodology should be used to prepare all reports and other outputs. All of the outputs should include an economic framework and analysis of the rationale behind state intervention in the policy development of a specific area of research.

The proposed research in this report would further strengthen the evidence base that underlies the development of effective economic policy for Kuwait and would contribute to achieving *New Kuwait* objectives and targets. A simple model has been proposed to deliver short-term and long-term strategic research. The objectives of the proposed delivery model include: filling in current research gaps and developing capabilities in Kuwait, with specific emphasis on Kuwaitis; addressing research needs as they arise; and filling in the gaps that occur as a result of emerging challenges.

# I. Priorities and strategic directions for the research agenda, achieving the targets related to the economy pillar



## Introduction

This report presents a research agenda that would allow Kuwait to pursue evidence-based policies to stimulate economic growth and private sector development. Particular emphasis is given here to economic diversification, which has been identified as a goal in the ongoing, five-year midrange plan. Research topics identified in this report will fill in gaps and provide more detail on the challenges that were identified in an earlier report entitled *Kuwait National Development Plan and Economic Policies*<sup>1</sup>.

The economy of Kuwait – whose growth is highly dependent on oil revenue - is recovering from the recent global oil price fall. The Kuwait Central Bureau of Statistics estimates GDP growth to be 3.5% for 2016 and the International Monetary Fund (2017a) estimates the rate to be 2.2% for the same year. One of the recent forecasts for the economy (IMF 2017) suggests GDP growth will be down by 2.5% in 2017 and non-oil growth will in-

<sup>1</sup> Al-Mahmood (2017)



crease at 2.5% for the year. The average annual growth is expected to be around 3% over the following few years.

Kuwait wishes to attract more investors and reclaim its pioneering role in finance and commerce in the Gulf region. To that end, the government has pursued a number of economic reform initiatives and has drafted both annual and mid-range plans that track progress toward its economic objectives. Specifically, in 2015, Kuwait approved the Kuwait National Development Plan (KNDP) 2015-2020. That plan was followed in early 2016 by a comprehensive, six-point economic reform strategy. These governmental policies and reforms are expected to drive economic growth and increase Kuwait's GDP over the medium term.

The country is marshalling resources behind economic development research that is intended to support national policies and national plans; understanding how best to maximize those resources is critical.

Priority is given to research that will nurture the cross-fertilization between current work and issues highlighted in the economy pillar the Kuwait National Development Plan, Vision 2035.

The priorities and strategic directions for delivering national planning research proposed in this report will be balanced between immediate and long-term needs and perspectives. In both cases, the focus will be on the policies, objectives and targets that are part of the economy pillar in the Kuwait National Development Plan.

### **Priorities and strategic directions for achieving the targets related to the economy pillar**

The research agenda in this report is designed to further the evidence base that underlies the national plan, and delivering the agenda will enrich the plan where the plan will spur growth in the GDP. The agenda has grown out of the policy change analysis and research gaps described in Al-Mahmood (2017).

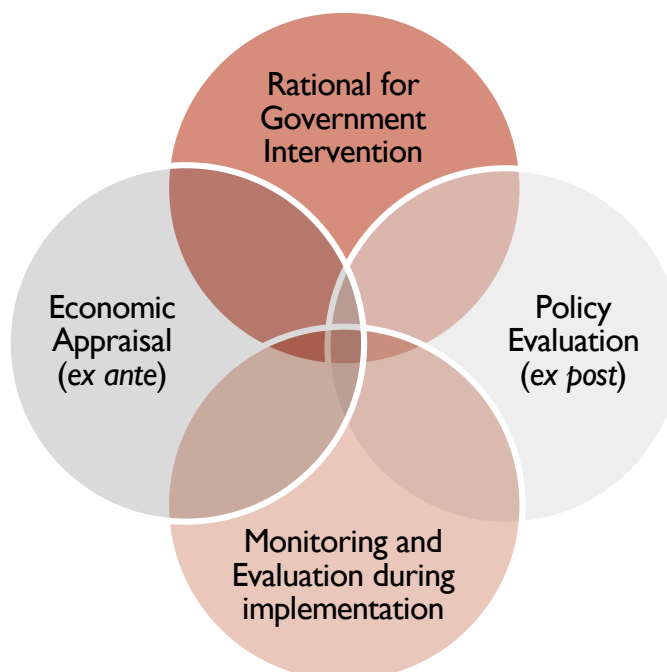
The research proposed in this report covers immediate action areas, or short-term needs **(Subsection a: under Section 2 below)**, and longer-term strategic requirements **(Subsection b: under Section 2)**. Taken together, this research will support attainment of goals outlined in the economy pillar, and the benefits will spill over to the other pillars. Achievement of the objectives in all of the pillars is necessary for the development and successful implementation of Kuwait's national development goals and economic diversification. An evidence-based policy should encompass the following four broad themes within a research plan for Kuwait national planning for both annual and midterm plans. Broadly defined research areas include:

- *Economic rationale for government intervention:* Any intervention in a specific area in the economy should be based on a sound rationale. This will support policies to deliver expected results. For example, when there is an issue of market failure or there is a coordination problem within an industry, intervention by the government would be the most beneficial.

- **Economic appraisal (ex-ante) prior to policy implementation:** Prior to implementation, every policy should be evaluated for the expected costs of its implementation and its projected benefits to the economy.
- **Monitoring and implementation plan:** Alongside the two themes above, rationale for government intervention and appraisal, monitoring should sit in between policy appraisal and evaluation to check progress against planned targets – the implementation plan against KPIs, for example. There should be reports on public spending and outputs as they are successfully delivered and milestones are achieved as planned. This will reinforce policy evaluation in the final stage, which will demonstrate whether there has been a policy impact. Monitoring will also align to the overall plan where the resultant benefits or costs have been materialized. Ongoing monitoring will report on the progress against targets and KPIs when a five-year plan starts.
- **Policies should be evaluated (ex-post) after implementation:** It will be important for policy evaluation to check how policies are meeting targets. Research will underline the evaluation of the policies and how interventions chosen within the national plan are helping to diversify and grow Kuwait's economy. Research findings also will point to potential lessons learned and what interventions within policy implementations are working, which will further develop and refine policies to achieve new paths of growth and foster accountability. Lessons learned can be applied to reshape existing policies and improve the implementation of future ones.

FIGURE 2

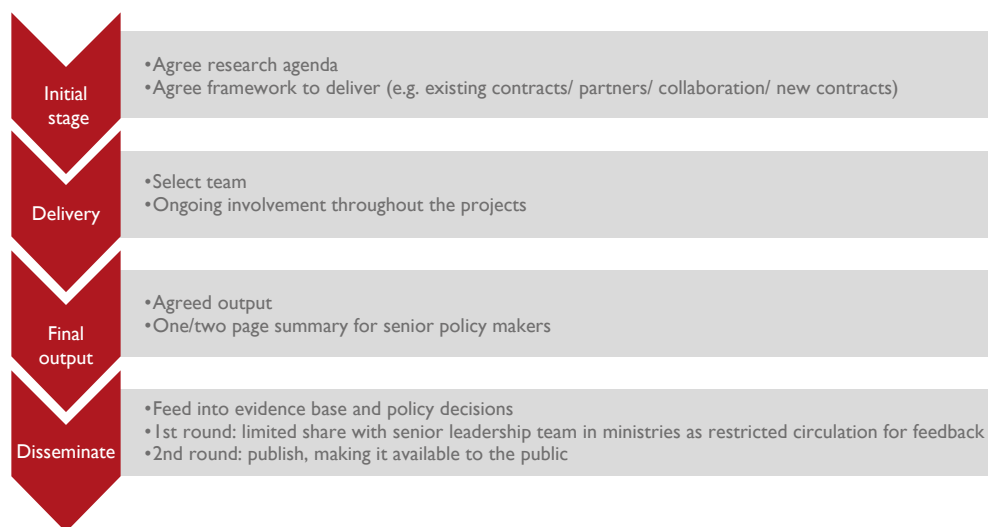
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**Research themes for an evidence-based policy making**


The process for research priorities and strategic directions can be viewed as follows:

FIGURE 3

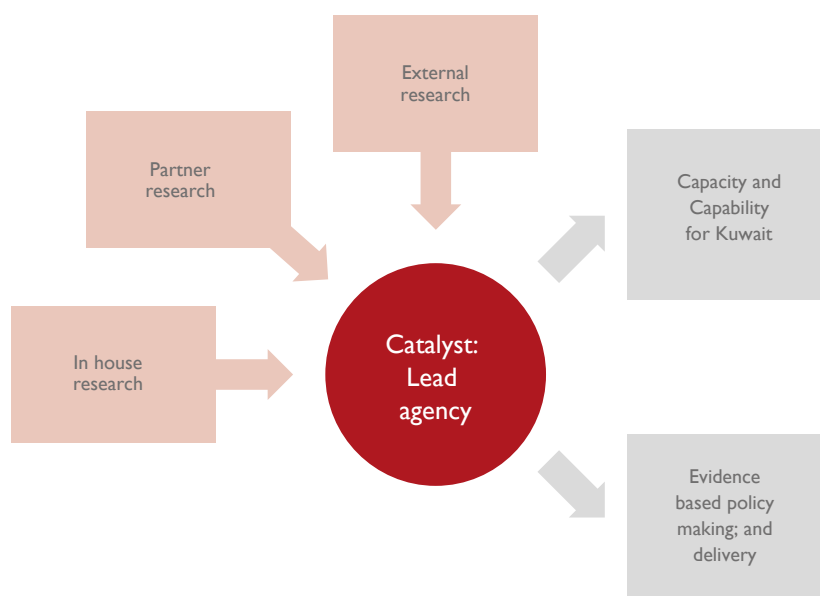
### Setting priorities and strategic directions



The lead agency can work as a broker or a catalyst contributing to evidence- based policy development in Kuwait.

FIGURE 4

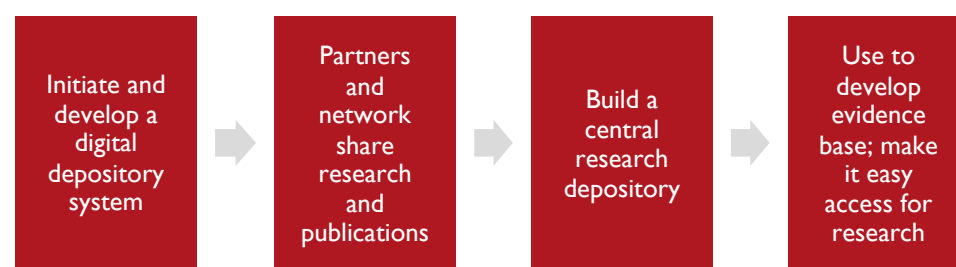
### Achieving economy pillar targets by developing research for policy



Within this framework, there is a need to build a research depository to collect evidence that could be used to address policy needs.

FIGURE 5

### Developing research base for the economy pillar



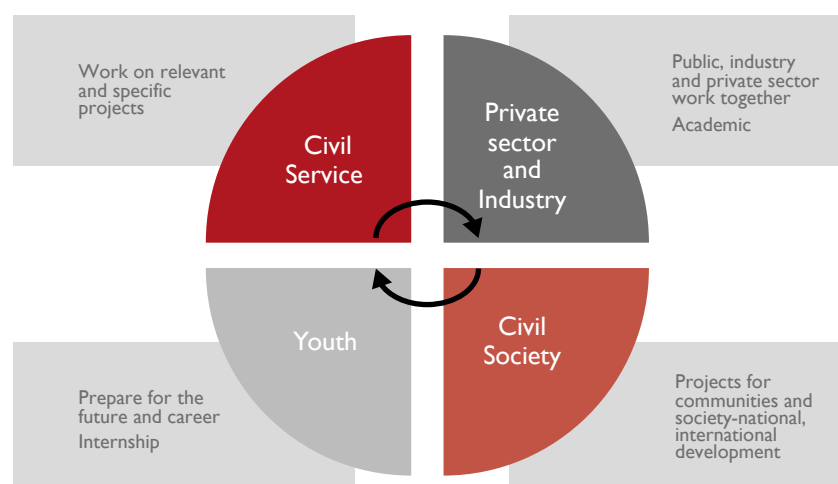
### Key players and ways to deliver capacity and capability to achieve Kuwait's Vision 2035 objectives

The model below outlines the research agenda presented in this report. Strategically managing and developing Kuwait's research capability and capacity<sup>2</sup> can impact the evidence base available to support the development of both short- and long-term policies to grow the economy.

*Developing the capacity and capability in Kuwait will occur by delivering needed projects and working with key players.*

FIGURE 6

### Developing delivery capacity and capability for the key players



<sup>2</sup> "Capability is a feature, faculty or process that can be developed or improved;" "Capacity is the power to hold, receive or accommodate."

## II. Research agenda with a focus on the Kuwait National Development Plan (KNDP) and its strategic priorities



### Introduction

The Kuwait National Development Plan outlines the growth and transformation of the country by 2035. The plan identifies seven priority areas, or pillars. The sustainable diversified economy pillar must be supported by research attuned to the many complexities required to propel the Kuwaiti economy toward its GDP growth targets. Sound plans – environmentally, socially and financially - must move the country's economy away from its dependence on oil revenue.

Research must be prioritized and will be used to support the economy pillar as well as help in the development of policies that support the other six pillars.

The research to help set the priorities and strategic direction of the economy pillar must address both short- and long-term perspectives. Research proposed for the pillar's short-term needs are outlined in "Subsection a," while the longer-term requirements are reviewed in "Subsection b," both below.

## Subsection A : Immediate action areas

### I. Research title: An initial white paper on the economy of Kuwait

#### *Introduction*

The most important drivers of economic growth are: an accumulation of capital; the growth and quality of the labor force; and the growth of total factor productivity (TFPA). A framework for analyzing economic growth and how it disaggregates into short- and long-term growth will guide the development of economic growth policies.

#### *Problem Statement*

More research is needed on how to create an effective long-term framework to guide economic growth. The growth and development of the non-oil sector is a major priority for Kuwait.

Aggregate demand drives short- and medium-term GDP growth. Government expenditure plays an important role by creating new demand in the economy, leading to further spending and creating income, which can be captured by the multiplier effect. Because the Kuwaiti government's economic expenditure is so significant, fiscal expenditure plays a more important role in Kuwait in comparison to many other countries. Economic growth from the supply side relies on capital, labor and productivity which, in turn, depends on the quantity and quality of the inputs and the efficiency with which these inputs are put to use, i.e. total or multi-factor productivity (TFP).

Both oil and non-oil sector growth will remain important to Kuwait's economic growth. However, non-oil sector growth is one of the most important objectives in the current plan, and the main stumbling block to economic growth is the lack of a dynamic, non-oil tradable sector.

#### *Possible Research Questions*

- Which policy areas are key to sustainable economic growth in Kuwait?
- What are the key challenges to accelerating the growth of the non-oil sector?
- Which directions are most critical to enhancing economic productivity?
- Which segments of the manufacturing sector need the most attention?
- What are the main issues and areas for diversifications?
- What private sector improvements will best promote economic growth?
- What portions of existing reports by international agencies, such as the Global Competitiveness Report by the World Economic Forum, can be incorporated into Kuwait's growth plan?

#### *Objective*

Develop an initial white paper that would guide Kuwait's economic growth and support policies that would spur the country's short-, medium- and long-term economic performance.

#### *Specific Objectives*

- Develop an *initial white paper* and update as further research is delivered
- Develop an evidence base for economic growth policy in Kuwait, covering priority areas

so that policy in general and private sector focused growth policy can be developed effectively

- Develop an evidence base that can underpin sustainable economic prosperity in Kuwait

## **2. Research title: A macroeconomic model to guide Kuwait's economic policy analysis and forecasting**

### *Introduction*

A model that would forecast trends in Kuwait's most important macroeconomic variables would greatly assist in national planning. The model itself would have two broad applications: forecasting the trends in key economic variables; and examining the impacts of various economic policies. Accurate economic forecasting would help to efficiently allocate resources and highlight the impact of policies and public investments.

### *Problem Statement*

Currently, only a few agencies publish economic forecasts. The assumptions that underlie the existing forecasts may not be the same assumptions that are needed to develop specific policies and posit scenario outcomes. The IMF publishes forecasts for selected macroeconomic variables; a recent one for Kuwait, from November 2017, is entitled: *Kuwait: Selected Economic Indicators*. The World Bank (2017) also makes similar forecasts (see Table for Kuwait, p31). There are country examples available where national-level forecasts are published by national-level agencies. For example, forecasts for the UK economy are available in HMT (2017) and OBR (2017) where forecasts for a number of economic variables are presented for the country. The UK example is a best practice example for Kuwait and can be customized to develop its national economy forecasting so that government departments can use information from one source, making consistent use of evidence across policy-making.

A macroeconomic model designed specifically to account for Kuwait's unique needs would allow policy makers to develop a range of forecasts using differing scenarios and assumptions. The resulting information could be a solid base on which to develop national plans and policies. A macro model could provide two types of output:

- A forecast of key macroeconomic variables for Kuwait.
- An analysis of the impact of policy and planning changes on such things as: the national budget; short- and long-term investment and economic growth scenarios; and improvements to public services.

### *Possible Research Questions*

- How do global changes in the demand and price of oil impact macroeconomic variables in Kuwait?
- How do changes in the national budget (e.g. deficits, surpluses, changes in spending on education and other subsectors) impact macroeconomic variables?
- What are the medium- and long-term growth scenarios, based on the questions outlined above?
- What are the multipliers for short- and medium-term growth scenarios? (e.g. fiscal multipliers and different aggregate demand multipliers including private investment.)
- How does Total-Factor Productivity (TFP) impact growth, and how do the factors of

production, such as disaggregated contributions, impact long-term growth?

- What is the impact of targeted government spending/ investment on different sectors and subsectors? (Sectors include oil and non-oil categories such as agriculture, service, manufacturing. Subsectors include such categories as manufacturing components.)
- How do labor market policy changes impact the economy? What is the impact on a specific sector of the economy? For example, manufacturing, education, agriculture, tourism, finance and banking labor market sectors?
- What are the impacts of changes to fiscal and/or monetary policy?
- How do changes in trade policy affect international trade? Particular attention should be paid to the impact on specific subsectors, for example import and export sectors.

### *Objective*

Develop a macroeconomic model specifically for Kuwait and use its results to support the development of sound policies and regulations.

### *Specific Objectives*

- Analyze and forecast key macroeconomic trends in Kuwait.
- Develop an evidence base for use in examining the impact on the economy of different policy scenarios

## **3. Research title: Economic growth and productivity**

### *Introduction*

The identification of factors that will accelerate the productivity and consequent economic growth of Kuwait's non-oil sector is vital. Research on boosting productivity will form a base on which to build policies that sustain the country's economic prosperity.

### *Problem Statement*

Capital and labor, not total factor productivity (TFP), have been the two most important drivers of Kuwait's economic growth during the last 25 years (IMF 2017). The Global Competitiveness report and Doing Business indicators for Kuwait highlight challenges to increasing Kuwait's competitiveness. Directions gleaned from those reports will be analyzed in the economy white paper (see research focus 1). More evidence is needed to learn the best route for enhancing the productivity gains needed to power Kuwait's economic growth

### *Possible Research Questions*

- What are the best ways to enhance the productivity of Kuwait's non-oil sector?
- How can productivity be improved to support medium- and long-term economic growth in Kuwait?
- How can the productivity of factors of production, such as labor and similar factors, be improved?
- Can multifactor productivity be improved? If so, how?
- What are the sectors and subsectors where there is an economic rationale to support a specific sector? For example, are there areas in manufacturing that require support from the government, and can that support be provided based on a rationale for government intervention?



- How can Kuwait benefit from the Fourth Industrial Revolution, using it to drive productivity gains, economic growth, and business success<sup>1</sup>?

### *Objective*

Develop an evidence base, beyond that currently available from international agencies, by more broadly examining the options for improving the contribution of productivity to economic growth in Kuwait.

### *Specific Objective*

- Develop an evidence base for understanding how to achieve productivity gains (either from total factor productivity or improvements from productivity from factors of production) and increase their contribution to economic growth (oil and non-oil)

## **4. Research title: Technology, innovation and the economy of Kuwait**

### *Introduction*

Technology and innovation are important drivers of economic growth in every country. Currently, Kuwait financially supports many technology and innovation initiatives. High-performing technology and innovation firms in high-growth sectors will need additional support over the long-term as they will have a higher impact on the economy.

### *Problem Statement*

The experiences of other small countries suggest that Kuwait's economy can benefit from additional developments in technology and innovation.

Asheim (2015) proposes an innovation-driven diversification strategy where innovation is the key factor promoting economic diversity and competitiveness. The world competitiveness report also supports the role of technology and innovation in accelerating the development of an economy. Based on the experience of other small countries whose economies are thriving, Kuwait will benefit by expanding the high-tech sector's role in the economy. Those other countries laid a foundation for innovation and technological development by investing in education and human capital and instituting governmental efficiencies.

The Fourth Industrial Revolution poses new challenges as the workforce transforms and requires new skills. Governments, technology companies and emerging digital industries should work together both to meet the challenges and reap the benefits of the revolution's massive potential<sup>4</sup>.

The private sector may not fully account for the societal effects resulting from massive change. Thus, the public sector should support some potentially high-risk investments in technology and innovation. As an example, suppose a private sector firm is considering whether to invest in technology and innovation-intensive manufacturing. Such an investment likely would lead to economic growth. Further, any new technology that results from the investment could have a ripple effect on innovation and productivity throughout the country. But the firm may ultimately decide to invest in something that is less dependent on technological breakthroughs, and offers a lower risk and a similar level of profit.

<sup>4</sup> The Fourth Industrial Revolution will bring a massive productivity boom, World Economic Forum.

The policy objective should be to correct the market failure through a change in the incentive structure to foster investment in the high-tech manufacturing sector.

### *Possible Research Questions*

- What are the most effective means of supporting investments in innovation and technology and also funding diverse yet high-risk, commercially-oriented sectors that have the potential to benefit the economy?
- In which emerging technologies should Kuwait specialize or further develop (e.g. can Kuwait develop sector growth in geospatial<sup>5</sup>, digital energy, digital transport, digital health, digital communication<sup>6</sup>)?
- Which approaches to product and innovation development work best? What is the most effective way to incorporate private investors, including small- to medium enterprises (SMEs), in identifying and supporting market-driven innovation, technology and R&D initiatives?
- What lessons gleaned from ongoing projects can be used to refine initiatives supporting technology and innovation?
- How can Kuwait benefit from the Fourth Industrial Revolution?
- Which specific sectors offer Kuwait a high risk but also a high reward in strengthening its economy?
- What are the specific, high-tech export products and services from which Kuwait can potentially gain the most benefit from pursuing? How can the country best reap those benefits?
- Which key subsectors merit support and what specific supports do they need?
- Which subsectors and priority areas have initiatives that are based on a sound economic rationale? (e.g. is there a market failure argument for a specific sector of the economy)
- How effectively can KPIs be linked to innovation and technological change within a sector or subsector of the economy? (e.g. can we link knowledge-based economic indicators and a specific subsector in the economy to show progress?)

### *Objectives*

Develop evidence showing the most effective way to support businesses and industries that offer the potential for high growth. Approve investments and projects based on the highest returns to the investment fund, prioritizing those that have the greatest potential to generate high employment in the economy. Support projects that contain innovative and cutting-edge technologies suitable for Kuwait, including high-risk but high-gain economic projects.

### *Specific Objectives*

- Identify areas and products that will benefit the economy (domestic and international markets).
- Identify areas where state funding will have a high impact and ensure value for money based on a clear rationale for government intervention.

<sup>4</sup> The Fourth Industrial Revolution will bring a massive productivity boom, World Economic Forum.

<sup>6</sup> See footnote 4 for a discussion

<sup>5</sup> Wellenstein, Anna and Wael Zakout (2017) 'Reversing the geospatial digital divide—one step, or leap, at a time', World Bank

## **5. Research title: Improving the private sector contribution to GDP by identifying and supporting potential high-growth sectors**

### *Introduction*

High-growth sectors and businesses are potentially sustainable both within the domestic market and outside of it. These growth areas may play an important role in accelerating private sector development and economic diversification.

### *Problem Statement*

Evidence from other countries suggests that high-growth businesses can drive domestic growth. In Kuwait, demand is growing in the service sector, especially in the areas of education, healthcare and information and communications technology, according to one report<sup>7</sup>. But a shortage of skilled workers and a low level of entrepreneurship have combined to hamper continued service-sector growth. Small- and medium-sized businesses find it difficult to capitalize on service-sector opportunities, as they face challenges and competition from larger firms. A recent report by Marmore (2017) discusses priority areas.

The research suggested here will need to go beyond what is currently available and include a systematic analysis within an economic framework that accounts for expected national and global economic scenarios. High-performing firms and sectors - including large firms and SMEs - should be identified and pointed to paths where they can thrive. Rapidly-expanding SMEs should be offered additional support.

### *Possible Research Questions*

- What is the best methodological way to identify the potential sectors (and use in this study)?
- What are the most promising high-growth, high-potential manufacturing and service subsectors in Kuwait?
- How can FDIs and PPPs be successfully developed to work in the private sector?
- Which of Kuwait's commercial sectors has a high risk but potentially long term of viability? What are the commercial sectors that require government intervention?
- Which SME sectors have the potential to thrive in competitive markets, both domestic and global?
- How can Kuwait's private sector best contribute to accelerating the country's economic growth and diversification, akin to the way Finland's telecommunications giant Nokia has helped power that Nordic country's economy? How can industry, the private sector and academia<sup>8</sup> work in different ways?
- What support can the government provide? What specific policy and financial support for a specific sector can be offered?

### *Objective*

Identify high-performing, private businesses and ensure that these firms receive favorable treatment in order to thrive. High-performing firms can make a higher contribution to the national economy. The State of Kuwait can provide different types of support, ranging from

<sup>7</sup> Stern et al. (2017)

<sup>8</sup> See 1st report for details

financial support to helping to identify potential regional or global markets. This research aims to find the best means to support the sectors and ensure these high-growth businesses receive support to effectively contribute to growth and employment generation.

## **6. Research title: Identifying opportunities and challenges for policy interactions and economic reforms between the economic pillar and the other six pillars**

### *Introduction*

Emerging issues at the national and local levels require evidence-based policy development. As new policies are implemented, their impacts spread to adjacent areas.

### *Problem Statement*

This proposal covers three areas. The first is the policy landscape, which is undergoing significant changes in the way initiatives are developed and implemented. Under the current national development plan, called Future Vision 2035, there is little interaction between the policy initiatives under the economic pillar and those of the other six pillars. In addition, as policy implementation has begun, areas requiring additional support are emerging. For example, as the subsidy from the energy sector is being removed, the renewable energy sector moves in to benefit from the action. Thus, there are potential opportunities. Second, low global oil prices, more common in recent years, may become an enduring issue. Third, newly-implemented policies would impact other areas of the economy. In this context, this research title would identify opportunities and challenges for policy interactions and economic reforms between the economic pillar and the other six pillars, alongside how government can provide policy support.

Kuwait should make it a priority to increase policy interactions across the seven pillars, a move that would maximize benefits to the country's economy.

Kuwait should position itself as a market leader in alternative or renewable energy sources and seek to become competitive not just in supplying energy from alternative sources but also by supplying the products that support the renewable energy industry. A growing renewable energy sector would benefit Kuwait domestically and offer opportunities to be a leader in the international renewables market. The renewable energy industry is currently booming, with high demand globally<sup>9</sup>. Growth in that sector could offset the negative economic effects that are being felt as other energy subsidies are withdrawn.

### *Possible Research Questions*

- What will be the economic impact of new policies - such as the energy subsidy removal, a plan to introduce a Value Added Tax, and labor market reform?
- What are the emerging areas due to ongoing economic reform initiative? Will the recent six-point economic reform initiative by the government have a positive or a negative impact on different sectors of the economy and how to manage a challenge or benefit from an opportunity arising from the reform)?
- Can a more effective funding model be introduced to manage public finances during times of low oil prices? (e.g. if a private sector takes over a public-sector industry, then how can a negative impact be minimized on the workers? Can there be higher cost reduction measures within an existing public sector delivery model?)

<sup>9</sup> See a study by Lahn, G. (June 2016). Fuel, Food and Utilities Price Reforms in the GCC: A Wake-up Call for Business. London: Chatham House, The Royal Institute of International Affairs.

### Objective

To develop research that will aid in the efficient design and implementation of new policies created in response to changing national and global economies.

## 7. Research title: Public finance and management of the economy to support economic growth

### Introduction

The economy of Kuwait is highly dependent on oil revenue and moves hand-in-hand with global oil prices. The low oil prices of late have been challenging for Kuwait, and there are indications that such low levels may occur more often in the coming years.

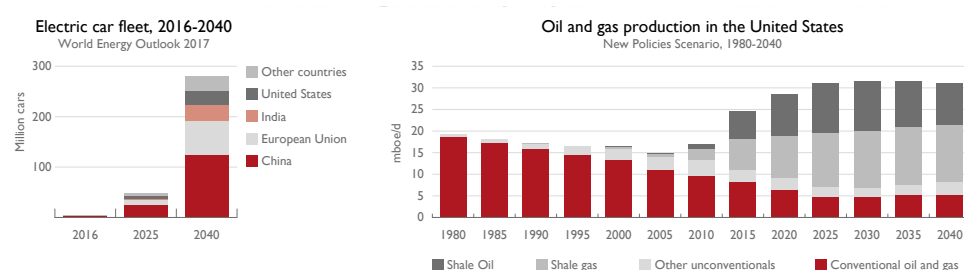
### Problem Statement

The most recent World Energy Outlook, published on 14 November 2017, suggests the following scenario for the market:

- US to become the global leader and major exporter for oil & gas
- US “set to become the undisputed global oil and gas leader,” accounting for 80% of the increase in global oil supply to 2025 and maintaining “near-term downward pressure on prices”
- Solar PV will become the cheapest source of new electricity in many countries
- China to embrace cleaner and more diversified energy with emphasis in energy policy now firmly on electricity, natural gas and cleaner, high-efficiency and digital technologies
- India to have the largest contribution to demand growth (almost 30%)
- Electricity usage to pick up due to demand from cooling, electric vehicles & digitalization
- The Middle East is fast becoming a major energy consumer

FIGURE 7

### World energy outlook



Source: World Energy Outlook (2017), published on 14 November 2017.

In an effort to increase the effectiveness of market forces on the private sector, some existing subsidies can be eliminated. The easiest option would be to eliminate subsidies in areas lacking an economic rationale; the resulting savings would reduce pressure on government budgets and improve the effectiveness of market forces. Individual public agencies can identify unnecessary subsidies by examining policy areas under their particular purview.

#### *Possible Research Questions*

- Will low global oil prices become a “new normal”? If so, what are the specific consequences for Kuwait?
- What is the evidence base underlying Kuwait’s long-term scenario for energy from oil and renewable sources, and how can this be integrated into a longer-term energy policy and strategy scenario?
- How can public finances be better managed, apart from using the debt option to finance deficit?
- What cost-cutting options for public financing exist in a possible win-win situation for the government and its citizens? (e.g. if a private sector takes over a public sector industry, how can a negative impact be minimized on the workers? Can there be higher cost-reduction measures within an existing public sector delivery model?)
- How can the capital budget be strategically deployed to support projects, such as infrastructure development, that have the potential to deliver high economic and social returns in priority areas? (For example, which capital expenditure priorities are likely to have the highest impact on growth?)

#### *Objectives*

- Produce research to help guide long-term policy decisions in the event of sustained low oil prices.
- Develop research that can contribute to sound management of the Kuwait economy.

## **8. Research title: Agriculture, fisheries and agribusiness to foster private sector economic growth**

### *Introduction*

Within the agribusiness sector, food processing is an example of one of the most important industries in Kuwait<sup>10</sup>. Future Vision 2035 recognizes this and incorporates policy statements in support of the nation's agricultural sector. The private sector, especially SMEs, can help the nation's growing agro processing sector find ways to diversify.

### *Problem Statement*

The agriculture and fisheries sector in Kuwait contributes less than 0.5% to the country's Gross Domestic Product (GDP) and represents 3% of total employment in the country. The Kuwait Institute for Scientific Research (KISR) studies ways to increase agricultural productivity, quality and efficiency. Alongside that, the manufacturing of food products and beverages contributes about 1% of the total gross value addition in the industry sector and employs over 17% of the total employed persons in the industry. Gross value addition is 12% for the private sector when compared to total private sector value addition<sup>11</sup>.

The Gulf region, where Kuwait is a member country, is the world's largest importer of food items and the demand is expected to grow over future years (Woertz and Keulertz, 2015). Opportunities exist for the food processing sector to contribute more to the economy of Kuwait. A recent report by the Economist Intelligence Unit shows that Kuwait ranks 26th out of 113 countries in 2017 for food security. Main strengths identified for Kuwait are: percentage of people under the global poverty line; food safety nets; and farmers' access to financing. However, public expenditure on agricultural sector R&D has been presented in the report as a challenge for Kuwait<sup>12</sup>.

Kuwait's desert environment and limited amounts of natural freshwater limit the country's ability to expand its agricultural opportunities. Research should target policies that support the agro processing sector and expand that sector's ties to the agricultural sector.

### *Possible Research Questions*

- What is the current demand supply gap within the agro processing sector in Kuwait; and what are the ways to better develop the sector, adding value to the economy both in terms of GDP contribution and employment?
- Which agricultural and fisheries products have the potential to add value to the agro-processing sector and contribute to the GDP?
- Which raw or semi-processed products can be imported into Kuwait for further processing, thereby adding value?
- How much of certain selected products remain available for export after domestic demand is fulfilled?
- How can agro-processing SMEs be supported in ways that will benefit the economy?
- What new technologies are available to support the agro-processing sector and how can they be acquired? (e.g. R&D)

<sup>10</sup> IMF (2016a), Table 1.

<sup>11</sup> Calculations are based on statistical Tables from Central Statistical Bureau of Kuwait.

<sup>12</sup> Economist Intelligence Unit.

- How can partnerships with foreign investors be forged to develop the agro-processing sector?
- How can renewable energy sources provide power for agro-processing, agricultural storage and importation needs?

### *Objective*

Develop an evidence base to support the development of policies that would allow agro-based industries to innovatively generate value in the supply chain for the private sector.

### *Specific Objectives*

- Connect domestically-processed agricultural and fisheries products to global export markets for processed products.
- Use incentives to foster the development of joint ventures and PPP industries in the agro-processing sector.
- Pursue, both nationally and internationally, innovative technologies, that will foster the sector's development.
- Develop linkages between agro-producers and the perishable items market in the region and Kuwait.
- Help agro-based industries add value in the production chain; train and introduce farmers and SMEs in how to use the new technology and market information, and provide technical support to businesses that have the potential to develop the agribusiness sector.

## **9. Research title: An economic analysis of the manufacturing sector in Kuwait: opportunities for growth**

### *Introduction*

Manufacturing in Kuwait's non-oil sector contributes just over 5% of the GDP. Manufacturing in both the oil and non-oil sectors would benefit from diversifying.

### *Problem Statement*

The manufacturing value chain has evolved; now an item can be separated into parts, and those parts can be produced in different geographical areas. This new manufacturing model has been facilitated by recent favorable improvements in global transport infrastructure, advancements in information and communication technologies, and progress in international trade policies. To develop effective policies that address the new reality, a robust evidence base is required to understand the backward and forward linkages in the manufacturing chain. In this context, not just large firms but also small firms can benefit.

There is a potential market failure argument in favor of state intervention, in the absence of which maximum economic benefit would not be achieved for the economy, the private sector and the society. In case of manufacturing, the failure can be related to institutions, skills within the labor market, innovation, or investment and coordination issues within the supply chain.



A private-sector firm investing in technology and innovation-intensive manufacturing will help the economy grow, and that firm's use of new technology will yield innovations and productivity gains that lift the economy of Kuwait as a whole. There is a positive externality here. However, uncertainty over the rate of investment returns and fear of high-risk pursuits might lead the firm to opt out of investing in this area. The firm may, instead, invest in a venture that offers a similar profit level due to subsidies and oil revenue lead incentives, but a lower risk. As a result, the firm would not benefit from advanced technology and the resulting increases in manufacturing productivity. Policies here should be changed to foster an incentive structure to correct a market failure, inducing firms to invest in the high-tech manufacturing sector.

To maximize impact, public sector support should be focused on the export sectors with the highest potential. There should also be a strong integration of the trade sector into international value-added chains, alongside developing innovation and backward linkages, technology spill overs and diversification of exports (IMF 2016a).

#### *Possible Research Questions*

- What specific subsectors in manufacturing can contribute to growth of the GDP?
- In which manufacturing subsectors should the state intervene following a market failure?
- How can manufacturing exports be diversified?
- What linkages between manufacturing and trade could benefit the country?
- Where can technological improvements be made?
- How can productivity be improved?
- Which subsectors, with some government support, could have the greatest impact on economic growth?

#### *Objectives*

- Identify barriers that should be removed to allow the market to work more efficiently. Set clear standards for when to permit market interventions
- Identify export promotion industries that do not require government support for long-term sustainability.
- Identify a clear rationale for government intervention in specific policy areas. Develop an evidence base to support sector-specific manufacturing activities based on an economic argument. For example, new technology within the petrochemical sector and innovative ideas for the renewable energy sector require support at an early stage of development of a new product.

## **10. Research title: Preparing Kuwait for the future by positioning the financial sector for growth and diversification**

### *Introduction*

The financial sector can play an important role in Kuwait's economy. That role will grow if the sector can diversify the products and services it offers. Although there is existing research about this sector, additional studies are needed to guide the successful development of everything from new financial products to policy options, and to better understand how to manage risks, including regional conflicts and an extended period of low oil prices.

### *Problem Statement*

Kuwait faces continuing economic challenges due to an extended period of low global oil prices. But the country's financial sector is strong and highly rated. Initiatives should be put in place to maintain this status in the future. The growth of the private sector is tightly linked to easy and affordable access to financing. The use and creation of additional financial services products will further foster the sector's growth and diversification.

Options for new financial services products, at both the wholesale and retail levels within the banking and non-banking financial sectors, should be explored systematically and regularly.

Kuwait also may be able to capitalize on its links to the global Islamic financial market. Products for the international market can be developed in collaboration with the international financial sector, e.g. Islamic finance. There may be a high demand for these products in many European countries. For example, former U.K. Prime Minister David Cameron wanted to issue "a bond-like Sukuk worth around £200m" when he was in power<sup>13</sup>. Within the region, Dubai is portraying itself as "the Capital of Islamic Economy"<sup>14</sup>.

### *Possible Research Questions*

- How can the financial sector contribute more toward Kuwait's economic growth?
- What role can the financial sector play in minimizing the economic impact of low global oil prices? Put another way, how can the financial sector be made more resilient?
- How can the financial sector support the economy during a low-oil price or budget-deficit scenario? Would debt/borrowing offer the best option?
- What technical and digital capabilities does Kuwait stand to gain through the further development of its financial sector?
- What are the emerging global threats to the Kuwaiti financial sector, such as technological and digital regulation, and how can they best be managed?
- How can Kuwait derive greater benefits from the international financial markets?
- What new financial sector products, both foreign and domestic, can Kuwait further develop or adapt?
- What is the future for non-traditional financial products likely to hold? How can Kuwait capture the international Islamic finance market?

<sup>13</sup> see <https://www.theguardian.com/money/2013/oct/29/islamic-bond-david-cameron-treasury-plans> and <https://www.gov.uk/government/speeches/world-islamic-economic-forum-prime-ministers-speech>

<sup>14</sup> <http://www.iedcdubai.ae/>

- What is the best way to manage the major economic risks facing the global economy, and how might they affect the Kuwaiti financial sector?
- What are the major financial sector risks facing Kuwait, and how can these risks be mitigated?
- What is the best option for managing the financial side of PPPs and SMEs, and what are the options for lowering their impact on public finances?

### *Objectives*

- Develop a financial sector outlook for Kuwait, within the current global context, that is based on research and incorporates preferred policies.
- Develop a comprehensive evidence base to support Kuwait's policy and planning process, encompassing quantitative (e.g. modeling), qualitative and regulatory analyses in order to meet future challenges for the country. Develop a financial sector white paper.
- Provide insights and briefings on possible new directions and products for the Kuwaiti financial sector. Include information on managing the sector during times of crisis or conflict and on developing consumer protection policies.

## **I I. Research title: The economy pillar, Sustainable Development Goals and the economy of Kuwait**

### *Introduction*

After the millennium development goals (MDGs) from 2000 to 2015, the 2030 Agenda for Sustainable Development (2030 Agenda) and the 17 sustainable development goals (SDGs) of the United Nations provide the direction and blueprint of sustainable development for international development and cooperation by 2030. The 2030 Agenda containing 17 SDGs, 169 targets and 232 indicators set out quantitative and qualitative objectives across the social, economic and environmental dimensions of sustainable development. Achieving the 2030 Agenda involves huge challenges as well as opportunities to the UN member nations where they have to strengthen their capacity building, data and information collection, planning, policy making and implementation, evaluation and financial commitments and adopt adequate actions according to their own national priorities, which is also true for Kuwait.

The state of Kuwait is fully committed to supporting the U.N. Sustainable Development Goals (SDGs). These 17 goals should be integrated into the national planning process and policy dialogue, which will help to maintain momentum for the SDGs.

### *Problem Statement*

The state of Kuwait is fully committed to achieving the SDGs and providing support for this important UN initiative. Indeed, Kuwait has ongoing initiatives to deliver projects that will support the 17 goals. Many of the U.N. goals dovetail with the objectives outlined in the seven pillars of Kuwait's own national development plan, 2035 Future Vision. Kuwait's economy pillar, in particular, has strong links to the U.N. goals, especially goals eight and nine.

In a continuing partnership, Kuwait and the United Nations Development Programme are collaborating on mapping certain SDG targets. Developing a better understanding of the relationship between the SDGs and the economy pillar would help to maximize policy impacts and resource use to deliver sustainable economic growth in Kuwait.

Kuwait's overall SDG index score in 2019 was 63.5 (regional 65.9), and it ranked 106th among 162 countries. Kuwait is committed to implementation of the 2030 Agenda and has published several official documents. Work is ongoing to integrate this within the national plan. The Central Statistics Bureau and GSSCPD are taking a lead to support the national commitment, where the State of Kuwait has implemented strategic development projects for achieving relevant SDGs and their targets (Voluntary National Review 2019, Kuwait).

FIGURE 8

### Kuwait: 2019 SDG index and SDG dashboards and trends (Sachs et al. 2019)<sup>2</sup>



#### Possible Research Questions

- What are the key interactions between the SDGs and the economy pillar?
- How can the interaction between planning and delivery of the goals be maximized?
- Which elements are common both to the SDG indicators and the economy pillar?
- In what ways do three-dimensional interactions exist among the economy pillar, Kuwait's other six pillars and the U.N.'s 17 development goals?
- How do Kuwait's contributions to the SDGs compare to the contributions of other countries, including through the funding of international development generally and how that fosters attainment of the SDGs?
- What are the statistical challenges for SDGs for Kuwait and how they can be managed?

<sup>2</sup> <https://www.sdgindex.org/reports/2018/>

*Objective*

To foster cross-pollination between the SDGs and the economy pillar and align the objectives with key policies that minimize resource use and maximize the effective delivery of national economic policies.

## **12. Research title: Evaluation of the economy pillar during the ongoing midterm (five-year) plan**

*Introduction*

A clear and systematic approach is required to evaluate the impact of the economy pillar within the ongoing midterm plan. Best practice strategies call for the early-stage development of a framework to evaluate policies. For example, to evaluate an infrastructure support program, a project manager can collect data on employment, or GDP growth, or improvement in road traffic, or some combination of these. Policy objectives will dictate the specific parameters chosen to shape the research methodology.

*Problem Statement*

Some of the policies outlined in Kuwait's first medium-term (five-year) plan, which extended from 2010-2011 to 2013-2014, did not yield the expected outcomes, while other objectives from that document were not fully achieved. The current five-year plan, along with other national planning documents, stresses the need to learn from such policy failures. In retrospect, it is clear there was no coordinated approach to linking government objectives across departments. Flaws in the policy-making process are also clear in retrospect. Regulatory and policy-impact statements should have been a component of the initial stage in the process. Proposed policies were not built upon a strong, underlying base of research.

Program evaluation done at a later stage can also be helpful, most specifically in projecting whether targets are likely to be met and in setting future directions (GSSCPD 2017). In the current midterm plan (GSSCPD 2015), there is a section called "Part Four: Legislative and Institutional Requirements for the Development Plan, Follow- Up, and Evaluation," in which an institutional framework for evaluation is discussed.

A number of evaluation methodologies can be used for evaluating the plan, such as Randomized Control Trials (RCT) or quasi-experimental approaches. A specific example might be using a difference-in-differences technique that is sometimes used in econometrics. There has to be a clear discussion on the approach to counterfactuals to properly evaluate the plan and policies within the ongoing mid-term plan.

*Possible Research Questions*

- What is the socio-economic impact of the economy pillar of the ongoing, five-year mid-term plan in Kuwait?
- What impact do public-sector investments have on the GDP and employment? How to take on board displacements and deadweight in getting the impact?
- What are the ways to develop a robust methodology for analysis? How to develop counterfactuals and how to choose an approach to evaluate, e.g. can we use difference-in-differences method for this research topic?
- What worked and what is working for the ongoing policies within national plan?

- What are the lessons learned from implementation of the national plan?

### *Objectives*

- Develop a clear rubric by which to evaluate the current midterm plan.
- Decide on how the economy pillar within the national plan will be evaluated and identify the data that will provide the most accurate picture of the plan. Decide on the methodology it will use.
- Deploy a good practice evaluation methodology to deliver the research projects and use it to help shape the program to evaluate the plan.
- Design, develop and deliver a database for evaluation for the work at an early stage. (e.g. identifying counterfactuals at an early stage).

## **13. Research title: Evaluation of the strategic economic projects within the current five-year national plan**

### *Introduction*

Current economic development projects have been strategically designed to make a positive impact on the economy of Kuwait during both the medium- and long-term. It is important to quantify the expected impacts and evaluate the actual effects once the projects have been completed. A selected number of projects should be evaluated.

### *Problem Statement*

Kuwait has a large number of existing projects, as outlined in its national plan. The website <http://www.newkuwait.gov.kw/> summarizes a number of impressive strategic investments by the state of Kuwait across all seven pillars of its national development plan. The investments are expected to enhance prosperity and accelerate economic growth in the country. A deep understanding of “what works” and “lessons learned” will contribute to improved plans in the future.

### *Possible Research Questions*

- How do the selected projects impact socioeconomic factors in Kuwait?
- How do public-sector investments, including PPP, impact the GDP and employment? How can we manage displacements and deadweight<sup>15</sup> in an impact assessment?
- What are the ways to develop a robust methodology for analysis? What is the best methodology for this project? (e.g. developing counterfactuals; choosing an approach to evaluate such as difference-in-differences method.)
- What worked and what is working for the selected projects?
- What are the lessons learned implementation of the selected projects?
- Are SMEs impacted? If so, to what extent?
- What are the financial and economic impacts of the projects?
- In what ways did the investments achieve their initial objectives? Or, is the final outcome different?

<sup>15</sup> Displacement: Positive outcomes offset by a negative outcome of the same policy elsewhere. Substitution: Intervention only realized at the expense of other target groups. Leakage: Benefits leak to others. Deadweight: Outcomes would have occurred anyway.

### Objectives

Applying an economic analysis to selected projects across all pillars of the Kuwaiti national plan will sharpen the understanding of how investments impact not just financial returns but socioeconomic factors.

## 14. Research title: How further development of the SMEs can increase their economic impacts and affect employment in Kuwait

### Introduction

The SME economy in Kuwait is small. By one estimate, the SME subsector is responsible for less than 10% of the country's GDP, compared to a global average of about 40%<sup>16</sup>. The World Bank estimates that SMEs are responsible for 3% of Kuwait's GDP, while they employ around 23% of the country's total workforce<sup>17</sup>. Yet "unofficial evidence" suggests that the number of SMEs in Kuwait exceeds 30,000 and represents 90% of registered companies. About 85% of those seem to be owned by families and individuals<sup>18</sup>.

### Problem Statement

SMEs play an important role in Organisation for Economic Co-operation and Development (OECD) member countries, where they account for 60–70% of jobs in most of these countries. That share is even larger in Italy and Japan, while the U.S. has a relatively small share. In Kuwait, SMEs receive 7% of the total bank lending, compared to an average of 13% in developed countries and 26% in developing countries<sup>19</sup>. A 2014 World Bank survey gathered data in order to understand key barriers to SME business growth, surveying 502 SMEs in Kuwait. More than 35% of respondents saw business licensing and permits as the main factor blocking their growth, according to the survey. Other reasons for hindrance include labor regulations, regulatory uncertainty and administrative corruption<sup>20</sup>.

SMEs face structural challenges due to their size. By their very nature, they cannot readily benefit from economies of scale. A number of ongoing initiatives, including an SME incubator and SME ecosystems, are attempting to support the SMEs. But these strategies should be evaluated for their effectiveness within an economic framework.

### Possible Research Questions

- How can SME databases, statistics and surveys from various sources be made consistent and open to the public?
- How can banks help SMEs access financing and reduce dependency on public funding, including reducing their long-term dependency on the national SME fund?
- How can the business environment for SMEs be enhanced?
- How should SMEs innovate to increase access to existing technology while also developing innovative new technologies? How can they best manage technology R&D costs?
- How can SMEs increase their access to domestic and international markets?

<sup>16</sup> IBS (2016). Taking Stock of SME Banking in Kuwait, Consultancy and Research Department, Institute of Banking Studies Research.

<sup>17</sup> <http://www.worldbank.org/en/news/feature/2016/03/01/building-kuwait-future-one-small-enterprise-at-a-time>.

<sup>18</sup> UNDP (2011).

<sup>19</sup> IBS (2016).

<sup>20</sup> <http://www.worldbank.org/en/news/feature/2016/03/01/building-kuwait-future-one-small-enterprise-at-a-time>.

- How can the public sector, through such things as government procurements, support the growth of SMEs?
- Which economic sectors and subsectors are most likely to lead to growth in SMEs and growth in their contribution to the economy?

### *Objectives*

Develop an evidence base to further enhance opportunities for the SMEs to accelerate output and employment growth.

## **Subsection B: Strategic evidence: medium- and long-term projects**

### *A comprehensive database and regular surveys*

Policies are most likely to be effective when they are built upon a solid evidence base and are informed by high-quality data that is easy to access. Reputable sources for research statistics include the Kuwait Central Statistical Bureau<sup>21</sup>, which is the main source for statistics from domestic sources, and the Kuwait Central Bank<sup>22</sup>, publications from different national sources, e.g. newspapers, and online. Reputable international data sources include the U.N., World Bank and I.M.F. In most cases, these international agencies develop their databases in partnership with local statistical-gathering entities.

There is, however, a need to develop a high-quality, comprehensive database that would support research and offer an evidence base for policy development. Especially helpful features of such a database would include: long-term data collection; panel data sets for key economic and country statistics; routine updating; consistency across feeder databases; and an audit trail across all data sets. In addition, regular surveys should be conducted to support policy development and implementation and their further refinements. For example, a quarterly *Kuwait Economy Pulse Survey* or an annual *Chairman/ CEO survey* for the private sector would be beneficial in taking appropriate and timely actions to remove any “doing business” weaknesses in the country.

### *International trade policy*

Kuwait has high level of dependency on revenues from oil exports and on the import of items that take on additional value during manufacturing. The country also imports consumable products and has a good level of merchandise trade. Currently, there is an appetite in the planning process to develop products for the non-oil export market, including re-exporting products and export diversification in the production base. This will require a fresh perspective for exports by the private sector and will also require actions to facilitate the import of selected raw materials for export or re-export. As Kuwait implements economic reforms, such as the removal of subsidies and the introduction of a VAT, trade policies should be updated and refined. International trade is also an important element of World Economic Forum reports. In addition, Kuwait has international obligations to align its trade policy with international agreements linked to international trade. In Kuwait, the Ministry of Commerce and Industry (MCI), in coordination with other ministries, formulates and implements trade policy. The Kuwait Chamber of Commerce and Industry provides private-sector side input on trade policy.

<sup>21</sup> [https://www.csb.gov.kw/Default\\_EN.aspx](https://www.csb.gov.kw/Default_EN.aspx)

<sup>22</sup> <http://www.cbk.gov.kw/en/index.jsp>



### *Developing a housing market and need model*

A housing model should be developed that would capture the relationship between housing supply and demand and how they are shaped by an interplay of forces including: demographic trends; income; the labor market; and the housing market itself. New requirements that facilitate the country's ability to plan housing should be developed. A second model that employs alternative economic assumptions also should be developed; that model would consider medium- and long-term prospects for the housing market, and would review the role of public support.

### *Research for the labor market (a selected overlapping project with the economy pillar)*

Recent reports by Marmore (2017) and DAR (2017) discuss labor market trends over the coming years. There is a need to develop the evidence base further, within a labor economics framework, and identify priority reform areas. The evidence base for the labor market should be integrated within the overall planning structure and labor market initiatives. The development of a labor market evidence base should be considered. That evidence base could:

- Identify skill gaps within the economy and in priority subsectors that require employees with specific skills.
- Support continuing labor market reforms and track public and private sector employment figures.
- Use alternative assumptions, such as key macroeconomic variables, to project supply and demand trends.
- Help create policies regarding skill shortages in priority manufacturing subsectors.
- Investigate options for setting a minimum wage for the labor market within the context of ongoing policies in other areas

### *Human capital and education (a selected overlapping project with the economy pillar)*

The state of Kuwait spends a large sum of money on education. In 2015–16, the country spent KD 2,443 million on education, representing 18.6% of total public spending for the year and ranking second to defense spending, which represented 18.9% of the total<sup>23</sup>. Per pupil spending at both the primary and secondary level is higher in Kuwait than it is in other countries such as the U.S., U.K., Canada, Finland and Turkey. Despite the higher rate of spending, The IEA's Trends in International Mathematics and Science Study (TIMSS) shows that Kuwaiti children score lower on standardized tests when compared to the children in the countries mentioned above. The literature on economic growth, both theoretical and empirical, recognizes that education is an important ingredient for growth in any country. Given that, further research on the contribution of education to Kuwait's economic growth is justified.

<sup>23</sup> Table 7 Government Expenditure, Kuwait Statistical Bureau

### *Nutrition in Kuwait: Developing a rationale for publicly subsidizing the food sector*

Kuwait subsidizes its food sector, making it one of the most-heavily subsidized sectors in the state. In 2015, the sector received a KD360 mill subsidy, which is 1% of the country's GDP and 13% of its total annual budget for subsidies. In 2012, the subsidy for the sector was KD106 mill and 0.2% of the GDP<sup>24</sup>.

Nutrition is vital in preventing disease and ensuring a population's health. Adults face health issues including obesity, and stunting in children under age 5 due to nutritional deficiencies is common<sup>25</sup>. Undernourishment also is problematic<sup>26</sup>. Kuwait's focus on nutrition is interlinked with the U.N.'s SDGs.

There are plans to remove government subsidies in order to relieve budgetary pressure and remove market distortions. If that were to happen, it would fall to the private sector to decide whether to maintain food subsidies to key subsectors. Policy makers need a clear rationale in order to make an informed decision on the value of food subsidies.

### *Ways to use the topics in the research agenda*

The research titles mentioned above are expected to work as broad guidelines, not as fixed or narrow options. Each topic may be broadened and further developed. Here is an example of what that might look like:

### **Example of how to develop a research topic further**

#### **Research focus: A macroeconomic model for the economy of Kuwait for use in policy analysis and in the forecasting of macroeconomic variables**

#### *Initial research design*

At the inception stage, the firm that will deliver the model and accompanying research and will talk with key experts (KPPC and non-KPPC) who use economic models on a regular basis in order to develop an evidence base for policy and national planning. Best practice methodology should be followed in developing the model; a macro econometric model, for example, is a potential candidate. The model should be suitable for national planning and forecasting macroeconomic variables.

There should be a literature review of modeling in macroeconomic policy contexts and a discussion of the model's technical details.

#### *Output*

- One user friendly, fit-for-purpose model to analyze policy impacts and forecast macroeconomic variables for the economy of Kuwait.
- A report on the model's methodological, theoretical and empirical framework; expanded scenarios with a list of equations (and elasticity/ies, where relevant); and estimated results with underlying assumptions, regarding statistical reliability, quality assurance, validation and limitations, if any.
- A manual for the model that includes worked examples.
- A data manual with data sources and access options.

<sup>24</sup> Table 2, IMF Country Report No. 15/328

<sup>25</sup> Kuwait country profile – Global Nutrition Report 2017

<sup>26</sup> Economist Intelligence Unit

# III. Plan to close the main gaps in research



## Introduction

This section presents a plan to close the main research gaps and develop the model identified in the earlier sections. The key areas of focus for delivery are:

- Access to the information needed to meet the policy and operational needs of the various ministries and public authorities.
- Maximization of investments in research and the formation of strategic partnerships of all kinds.
- Improvement in the quality of the research base used in the national planning process and a strengthening of the ways it can underpin policies across government ministries.
- Incorporation of risk planning for new and emerging priorities at Kuwait's national level.
- Close work with partners and networks to jointly own, design and fund research, pursuing a balanced and flexible approach to developing an evidence base that supports Kuwait public policies and national plans.
- Fostering innovation and quality and enabling policy makers to access and use evidence.
- Improvement and innovation in the capacity and capability for policy research in Kuwait.

- Broadening of the base of national and international research partners to sustain and improve quality and innovation in research and delivery.
- For immediate- and medium-term projects
  - Work in collaboration with current partners
  - Deliver by procurement
  - In-house projects delivered by consultants
- For strategic long-term projects
  - Widen collaboration and expert base
  - Develop capacity in Kuwait by better engaging senior experts and Kuwaiti youth who aspire to have a good life.
  - Find innovative ways to deliver research for KNDP and public policy

#### *Action plan for the research focus areas*

A plan for each of the areas is presented in Table I. The listed time frame begins once agreement on a project is reached. The table also covers governance of the projects and how to engage with stakeholders and work in collaboration with partners. The table should be viewed alongside the charts for delivery presented in section I, and in this section of the report.

FIGURE 9

#### **A three-pronged delivery model**

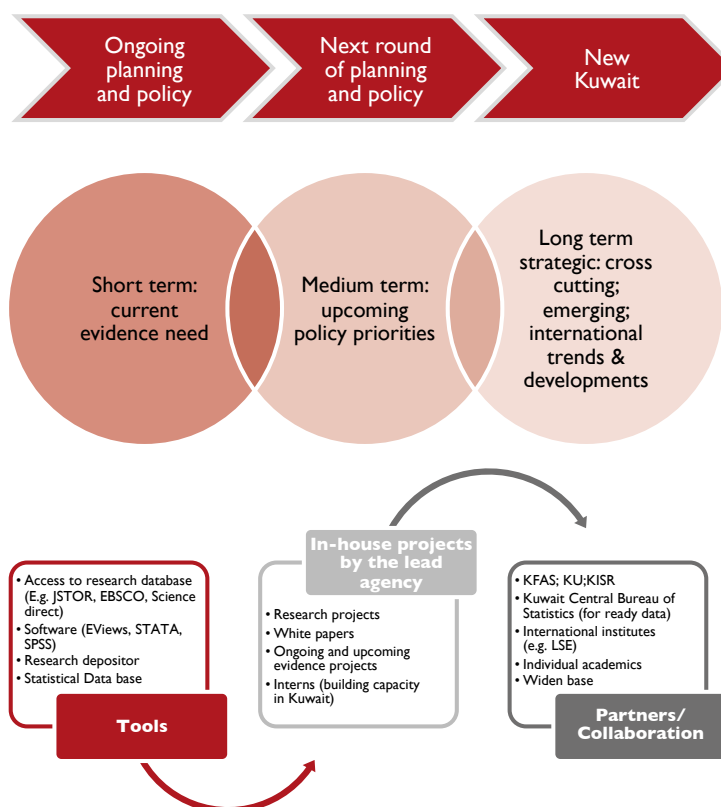


TABLE I

**Action plan for the research titles**

Set a	Immediate action areas	Status	Proposed duration of the project (months - indicative)	How it can be delivered	Governance
1	An initial white paper for the economy of Kuwait	Complete		KPPC In house	
2	A macroeconomic model to guide Kuwait's economic policy analysis and forecasting	Complete	9	OE, BRG	
3	Economic Growth and productivity	New	6	Consultants; Collaboration/ Partners; Consortium (encourage to deliver in collaboration with Kuwait based organizations); open tender; senior fellowship; internship	One advisor of the pillar ensuring quality and one administration support/ coordination at KPPC; link at collaboration/ partners/ consortium/ guidance from SG and involvements at key milestones of the projects; involve relevant ministries at key milestones by informing and updating
4	Technology, innovation and the economy of Kuwait	Ongoing	6		
5	Improving the private sector contribution to GDP by identifying and supporting potential high-growth sectors	New	6		
6	Identifying opportunities and challenges for policy interactions and economic reforms between the economic pillar and the other six pillars	New	6		
7	Public finance and management of the economy to support economic growth		6		
8	Agriculture, fisheries and agribusiness to foster private sector economic growth	New	6		
9	An economic analysis of the manufacturing sector in Kuwait: opportunities for growth	New	6		
10	Preparing Kuwait for the future by positioning the financial sector for growth and diversification	Complete	6 to 12		
11	The Economy Pillar, Sustainable Development Goals and the Economy of Kuwait	New/ Ongoing	6		
12	Evaluation of the economy pillar during the ongoing midterm (five-year) plan	New	3+3+3+3		
13	Evaluation of the strategic economic projects within the current five- year national plan	New	3+3+3+3		
14	How further development of the SMEs can increase their economic impacts and affect employment in Kuwait	New	6 to 9		
Set b	Strategic evidence – medium and longer-term projects				
1	A comprehensive database and regular surveys	New	Routine		
2	International trade policy	New	6		
3	Developing a housing market and need model	New	6		
4	Research for the labor market (a selected overlapping project with the economy pillar)	New	6		
5	Human capital and education (a selected overlapping project with the economy pillar)	New	6		
6	Nutrition in Kuwait: Developing a rationale for publicly subsidizing the food sector	New	6		

### *Ongoing short-term and strategic longer-term*

The evidence gaps are divided into short-term and long-term strategic priorities. The shorter-term priorities are those that require immediate attention for the projects within the national plan that are currently being implemented. The short-term priority research projects can be delivered either by tapping into an existing research base or through an immediate commission. The longer-term strategic research gaps will require attention from key players, i.e. GSSCPD, KPPC and UNDP so that these can be properly aligned to overall planning for evidence needs for national planning, for the current five-year and upcoming five-year midrange plan. These research projects can be delivered either as a primary research or as secondary research or a mix of the two to fill in the gaps. Primary research requires gathering of fresh data and will take longer to deliver, while secondary research involves the use of an existing evidence base. Given the nature of the research topics proposed here, following a secondary research method is feasible for most of the topics. Other than the regular survey mentioned in subsection section B, the secondary research method is recommended as this will save time and resources. For the regular survey on the economy, a project can be developed alongside other, ongoing survey projects at the Kuwait Central Statistical Bureau.

Filling in the main research gaps will improve the quality and increase the impact and value for the money of all affected policies. More complete research will foster improvements in planning and prioritization of the work for all partners and stakeholders. Building a closer relationship with targeted public authorities and policy-making bodies will ensure that the resulting products effectively impact the policy-making process. There will be a cross- network and partnership approach to the commissioning of evidence, and a close working relationship with national and international bodies.

### *Developing an objective and flexible research program*

Research for national planning, policy and operational needs will have an objective and flexible program of research activities to cater to changing needs across Kuwaiti government ministries, ensuring support among the respective ministers for long-term policy development.

### *Prioritizing and developing research*

- Set a strategy for the development and implementation of national plans based on research and evidence identified during an analysis of the pillars.
- Align priorities in the economy across other pillars within the national plan.
- Hold continuing discussions across networks and partners to identify and meet public policy research needs.
- Prioritize proposed evidence activities based on applied, strategic and statutory research requirements that will meet the policy and implementation needs in the ongoing and upcoming five-year plans.
- Work closely with strategic partner organizations.

### *Deliver research activities on a joint partnership, ownership, design and funding basis*

Research will be jointly funded, owned and designed across national entities.

The lead agency can initiate meetings and partnerships that bring together researchers, policy makers and other stakeholders who are designing and delivering long-term, inter-

disciplinary research. For example, by holding national and international conferences and workshops in Kuwait, leading academics can be tapped to help rapidly address emerging policy questions.

*Ensure innovation and quality to access and use evidence for policy and national planning across the government in Kuwait*

Research, undertaken with a best-practices approach, should be used in innovative ways in the policy-making process. Best practices include quality control measures, assessments, effective communication among specialists and decision makers and close links to corporations.

Working closely between the private sector and academic institutes will ensure continuous improvement and encourage innovation. For example, useful research can be shared with the private sector in Kuwait so that businesses and SMEs can develop products that will benefit the country's economy.

An innovative new project can spur bids from the research community, businesses and the public sector and, in turn, lead to new collaborations among all interested parties. Some commentators suggest that private sector researchers and academics in Kuwait collaborate on published research less frequently than do specialists in other countries (Stern et al., 2017). This type of project could nurture closer ties.

*Developing critical evidence capacity and capabilities in Kuwait's planning and policy-making process*

Evidence capacity and capabilities can be furthered through links to the Kuwait National Development Plan (KNDP) policy and operational requirements.

Lead institute staff members will develop project and research ideas. Lead institutes may include: the United Nations Development Programme (UNDP); the Kuwait Public Policy Centre; and the General Secretariat of the Supreme Council for Planning and Development (GSSCPD). These lead institutes can collaborate with national and international organizations and will be encouraged to submit policy papers to national and international journals and conferences. The aim is to maintain continual professional development of the staff, disseminate research to peers, accept feedback on refining the evidence base and raise the lead agency's profile.

Developing critical evidence capabilities and capacities within Kuwait will benefit national planning and public policy development. Two work strands will be pursued. The **first** will help senior academics, policy makers and businesses to work more closely with lead agency staff.

They will also be invited to attend and present at conferences and seminars organized by the lead agency. Over the long-term, paid fellowships will be developed. The **second** work area will be targeted at young people in Kuwait who will be brought on as junior and senior interns at the lead agencies. They can develop skills by working closely with senior employees of the lead agencies. Providing youth with development opportunities is a major national objective. This area is one way to achieve that goal.

*Widen the base of national and international research partners to sustain and improve quality and innovation in research and delivery*

The research market will be supported in myriad ways, which will enable it to produce innovative, high-quality work. Opening the work to competitive and innovative procurement practices will drive down costs. Along with maintaining and developing in-house expertise, widening the base and fostering competition will ensure the development of a larger pool of experts.

First, there are a number of national-level partners, including the Kuwait Foundation for the Advancement of Sciences (KFAS), the Kuwait Institute for Scientific Research (KISR) and Kuwait University, with whom a number of projects are ongoing. For immediate projects, research can be delivered within current partnerships for upcoming projects on a continuous basis that are available at GSSCPD and KPPC. For the longer term, a database of national-level expertise by thematic areas of KNDP pillars can be developed where experts can express an interest to work for the lead agency, GSSCPD.

Second, international partners - including the John F. Kennedy School of Government at Harvard University, the London School of Economics (LSE), and the Oxford Institute for Energy Studies (OIES) - will continue to support the proposed research agenda. The base of collaborators can be expanded to include other specialized institutes that can support the specific needs of Kuwaiti public policy making.

Third, depending on the nature of the project, international contractors could link to local partners and submit proposals for funding to one of the lead agencies.

<sup>27</sup> <https://www.bsg.ox.ac.uk/z>



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