Social spending, expenditure efficiency and fiscal sustainability

Strategies to rebalance the Kuwait budget

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Key messages

Economic growth in Kuwait is heavily reliant on natural resources; slow diversification and limited non-oil revenues maintain its dependence on oil. The declining contribution of non-oil revenues to non-oil gross domestic product (GDP), coupled with insufficient oil revenues to meet expenditure, threatens fiscal sustainability in the future.

Kuwait is characterized by generous yet less efficient public spending compared to many other countries. In 2023/24, total public expenditure in Kuwait was 50 per cent of GDP, significantly higher than the global average of 37 per cent and the high-income countries' average of 41 per cent.

In 2023/24, about 92.6 per cent of the budget in Kuwait was consumed by current expenditure, primarily on compensation of employees and the purchase of goods and services. This leaves limited resources for investing in development projects and enhancing citizens' quality of life.

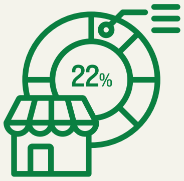
Public expenditure in Kuwait is among the least impactful in the Gulf Cooperation Council (GCC) for achieving sustainable development outcomes. Most GCC countries achieve higher outcomes on the Human Development Index (HDI) with less spending than Kuwait.

Public social expenditure in Kuwait accounted for 44 per cent of the total public budget or 18 per cent of GDP in 2022/23. However, real per capita social spending has declined by about 12 per cent compared to 2018/19.

Improving effectiveness of spending is a major challenge for Kuwait. Despite consistently allocating around 12 per cent of its budget to education, surpassing the global average, the quality of education in Kuwait remains a concern, as reflected in low scores in global education performance indicators. Health sector expenditure is comparable to international benchmarks, yet a quarter of the population suffers from diabetes.

The efficiency of public expenditure in Kuwait is low compared to global and high-income country averages. Improving efficiency to the global average could save an estimated at 6.8 billion Kuwaiti dinars (KD), equivalent to 27 per cent of the 2023/24 public expenditure budget.

Household surveys reveal significant inefficiencies in universal public transfers; improving efficiency requires rationalizing some transfers and more targeting to middle- and lower-income households, which could save significant resources.
For instance, currently about 22 per cent of government transfers go to the top 20 per cent of households, ranked by their income, with an average household income of over KD 6,000.



The lack of an appropriate tool for monitoring public spending or an expenditure tagging framework results in inefficiency in allocating public spending to beneficiary populations. Currently, identifying beneficiary populations for about half of social expenditure is difficult due to the lack of an appropriate budget tagging framework.

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Introduction

Economic growth in Kuwait is mainly driven by its natural resources. The rebound of the economy in Kuwait after the COVID-19 pandemic, with a growth rate of 6 per cent during 2022/23, was the result of the strong performance of oil sector during that year. However, the slow pace of diversification and the continued high reliance on oil revenues in driving economic activities has made the economy vulnerable to oil prices and global economic shocks. The economic downturn since 2015/16, coupled with the adverse impact of the COVID-19 pandemic, has exposed the risks of fiscal unsustainability associated with fluctuations in oil revenues. It also underscores the need for Kuwait to diversify its fiscal resources and improve the efficiency and effectiveness of public spending. Efficient public spending is essential not only for sustaining economic growth but also for enhancing citizens' quality of life and achieving the Sustainable Development Goals (SDGs).

The Social Expenditure Monitor (SEM) for Kuwait is an innovative digital framework developed to assess and enhance the equity, efficiency and effectiveness of social expenditure in the country. It provides a detailed analysis of public spending across various social indicators, which are grouped into seven dimensions: education; health; housing and community amenities; social protection and subsidies; arts, culture and sports; labour market interventions and employment generation; and environmental protection. In addition, the SEM presents the main beneficiaries of expenditure by tagging spending to the beneficiary population. The SEM framework is designed to align with the SDGs and is flexible enough to be adapted to national specificities, making it a valuable tool for policymakers.

The objective of this report is to provide in-depth analysis of the current public expenditure trends of Kuwait, focusing on social spending across key sectors to identify the main challenges and inefficiencies in the allocation and utilization of public funds. This includes understanding the social expenditure landscape and the equity and efficiency of social expenditure using the SEM framework and evaluating the effectiveness of spending in terms of achieving the desired social and developmental outcomes.

The SEM framework helps assess the effectiveness of spending by mapping budget data against target beneficiaries. This is applied to government finance data to better understand the targeting of funds allocated to vulnerable populations. In addition, this report employs the recent Household Income and Expenditure Survey of 2021[1] to assess the size, targeting and impact of public transfers providing income support for Kuwaiti citizens. The conclusions in this report are therefore derived from using both government finance data and income and expenditure survey data where households' responses show actual benefits from public transfer programmes.

The analysis and findings of the paper offer practical and actionable policy recommendations aimed at enhancing the equity, efficiency and effectiveness of public expenditure; optimizing resource allocation; and achieving better social and economic outcomes in order to realize inclusive and sustainable development. Overall, this report aims to provide a roadmap for Kuwait to support the country's efforts to develop a sustainable fiscal management strategy, build a more resilient economy, improve citizens' quality of life and deliver on the SDGs.

01

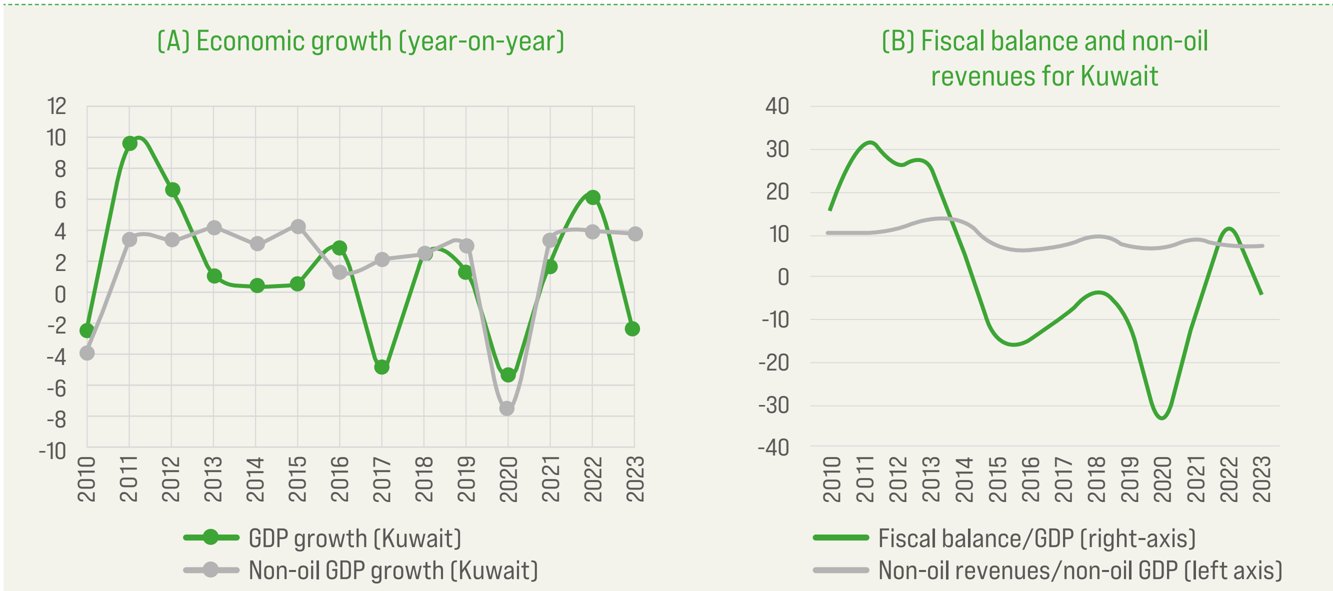
Macroeconomic and public expenditure trends

The economic recovery of Kuwait from the COVID-19 pandemic has remained on track, with strengthened fiscal and external balances. While this performance is driven by higher oil revenues, this high reliance on oil revenues remains a structural challenge due to the risks it presents to economic stability and growth. In 2023, the GDP growth of Kuwait contracted by an estimated 0.61 per cent, which marked a downturn following the significant rebound in 2022. Over the decade 2013-2023, Kuwait experienced economic downturns in at least seven years (figure 1A). Non-oil GDP growth has recovered post-pandemic, maintaining a steady rate of around 4 per cent in the past three years. It is projected to remain steady in the medium term,[2] which implies that the pace of diversification is expected to remain slow.

Fiscal balances in Kuwait remain highly sensitive to oil and gas revenues, which accounted for 91 per cent of government revenues in 2023.[3] Following the drop in oil prices after 2014 and the adverse impacts of the pandemic, the fiscal balance as a share of GDP plummeted from 31 per cent in 2011 to a historic low of -31.6 per cent in 2020 (Figure 1B).[4] In 2022, fiscal balances recovered to an 11 per cent GDP surplus, driven by high oil revenues and a strategy of expenditure restraint. However, in 2023, the fiscal balance shifted to a -3 per cent GDP deficit due to reduced oil and gas revenues. Additionally, non-oil revenues as a share of non-oil GDP have declined from about 14 per cent in 2013 to 8 per cent in 2023 despite a 47 per cent increase in non-oil GDP during the same period.

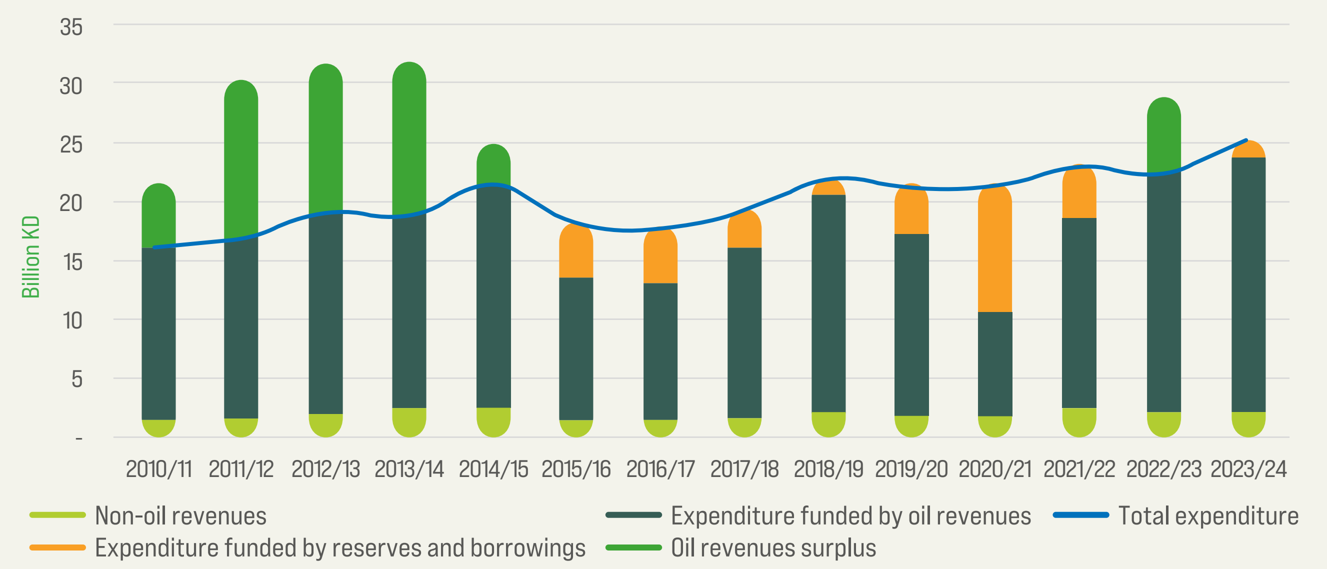
The combination of multiple factors, including the slow pace of economic diversification, the declining contribution of non-oil revenues to non-oil GDP, and insufficient oil revenues to meet expenditure in recent years, puts the fiscal sustainability of Kuwait in the future at risk. Since 2015, funding deficits have been prevalent, except in 2022 (figure 2). The mobilization of non-oil revenues has remained low, averaging 10 per cent of total revenues, which is insufficient to offset the decline in oil revenues. In 2023/24, the deficit was KD 1.56 billion, and for 2024/25, it is projected to reach KD 5.6 billion.[5] Between 2015/16 to 2023/24, the net cumulative deficit is about KD 28 billion. The continuous shortfall in revenues, with the exception of 2022/23, has resulted in increasing borrowing from reserves to finance expenditure, which poses a critical challenge to future fiscal sustainability of Kuwait. Fiscal reforms must consider prioritizing the growth of non-oil GDP and increasing the share of non-oil revenues to enhance fiscal sustainability.

Figure 1. Economic growth and fiscal balance trends in Kuwait (Percentage)



Source: IMF, 2023 and 2024; Kuwait, Ministry of Finance, n.d.

Figure 2. Diversification challenge: non-oil revenues remain low; oil revenues are falling short of meeting expenditure

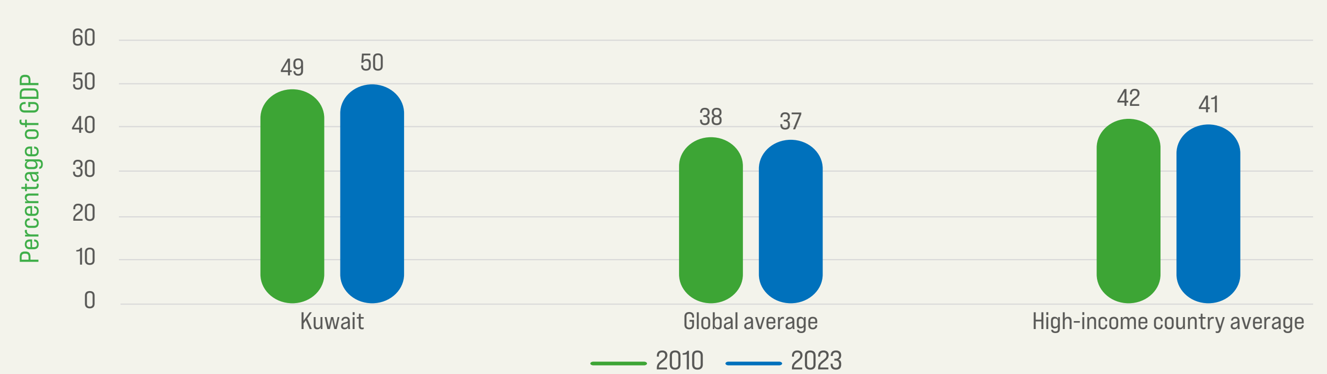


Source: Kuwait, Ministry of Finance, n.d.

Improving expenditure efficiency remains a key challenge. A policy priority for Kuwait is thus to build up fiscal buffers so as to be able to cope with revenue volatility due to unforeseen situations such as the COVID-19 pandemic or fluctuating oil prices. Kuwait has set up a fiscal strategy towards improving expenditure efficiency across government-run public services, as emphasized in the Kuwait National Development Plan 2020-2025. The Plan suggests changes in public spending across several areas, identifying areas of inefficiency, such as in social safety net expenditure and education expenditure, among others, which consume a significant part of the budget.[6] In the Kuwaiti Government work programme for 2024-2027, reducing unsustainable public spending and decreasing reliance on oil revenues is of critical importance for improving public financial sustainability.[7]

Historically, Kuwait has spent a larger share of its GDP than the global average. Public expenditure as a share of GDP has increased further during the past decade, and Kuwait ranks higher than both the global average and the average of high-income countries (figure 3). In 2023, total public expenditure or general government expenditure represented 50 per cent of GDP, exceeding the global average of 37 per cent and the high-income country average of 41 per cent.[8]

Figure 3. Total public expenditure in Kuwait compared to global benchmarks



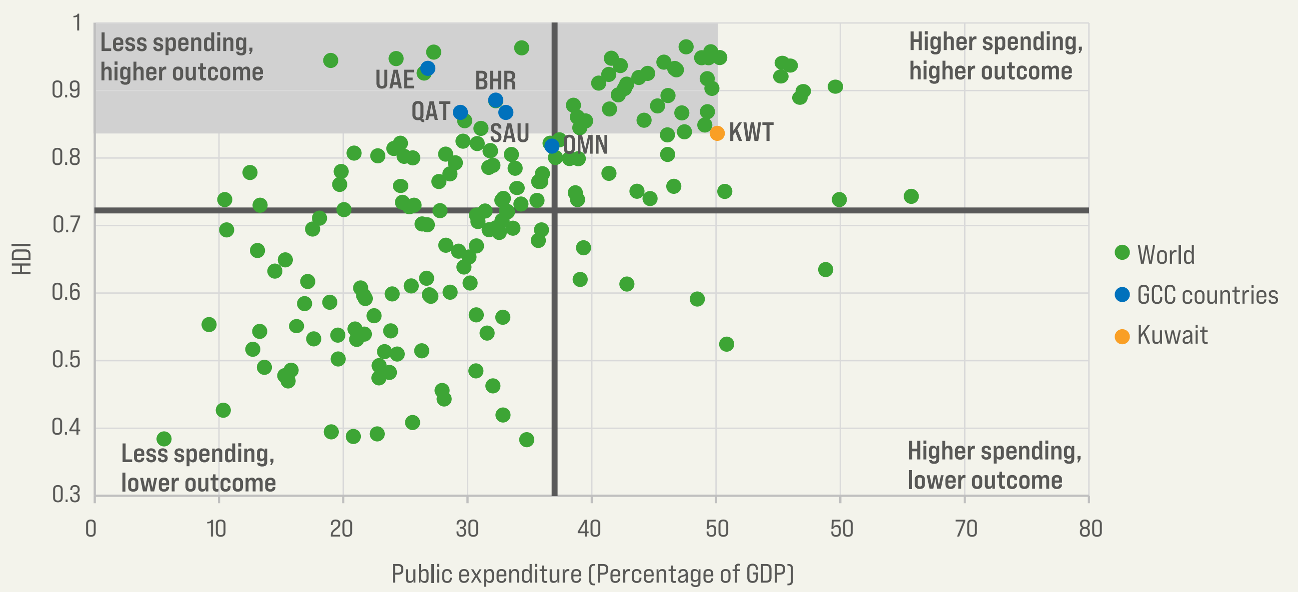
Source: Kuwait, Ministry of Finance, n.d.; IMF, 2024. Data are for 188 countries, including 62 high-income countries.

Countries that spend higher shares of GDP in the form of public expenditure tend to have higher levels of human development, as evidenced by the positive association between general government expenditure and HDI scores (figure 4).[9] However, it is not always the amount spent but also the quality of spending that is needed to achieve improved outcomes. Globally, about 22 per cent of countries (41 out of 184 countries in the sample) have higher HDI rankings with less expenditure than Kuwait (see the shade in figure 4). Most GCC countries achieve rank higher on the HDI with less spending than Kuwait.

Equity in allocations can correct imbalances in society and improve overall achievement in human development, thus significantly improving the quality of public spending. Across countries, public expenditure on health and education programmes as a share of GDP maintains a strong positive association with scores on the Inequality-adjusted Human Development Index (IHDI), which measures a country's achievements in education, health and income taking into account how evenly those achievements are distributed among the population (figure 5).[10] In Kuwait, the estimated difference between HDI and IHDI is large, particularly due to high inequality in achievements within education.[11] Overall, Kuwait is among the countries which rank higher on the IHDI with higher spending on health and education as a share of GDP. Globally, about 29 per cent of countries (28 out of 96 countries in the sample) have higher IHDI rankings with less expenditure on health and education than Kuwait. Among the GCC countries, Oman ranks higher on the IHDI than Kuwait with less spending. Assessing expenditure in detail and identifying areas of shortfall in allocations within education or in other social sectors is important for addressing gaps and improving equity in achieving outcomes.

The composition of public expenditure in Kuwait suggests that quality of spending has a particularly significant impact on human development. The share of social benefits is low, at about 3 per cent in 2022/23, and has shrunk over the years (figure 6). The majority of the public budget is spent on current spending. The share of total current expenditure has increased from 87.5 per cent in 2016/17 to about 93 per cent in 2023/24. This pattern of spending leaves few resources for capital spending to create assets and jobs and increase productivity. Therefore, targeted reduction of the provision of public services, improving operational efficiency, and energizing the private sector remain key challenges the Government should undertake to rebalance the budget.

Figure 4. Public expenditure and Human Development Index scores, 2022 (3-year average)



Source: IMF, 2024; UNDP, 2024.

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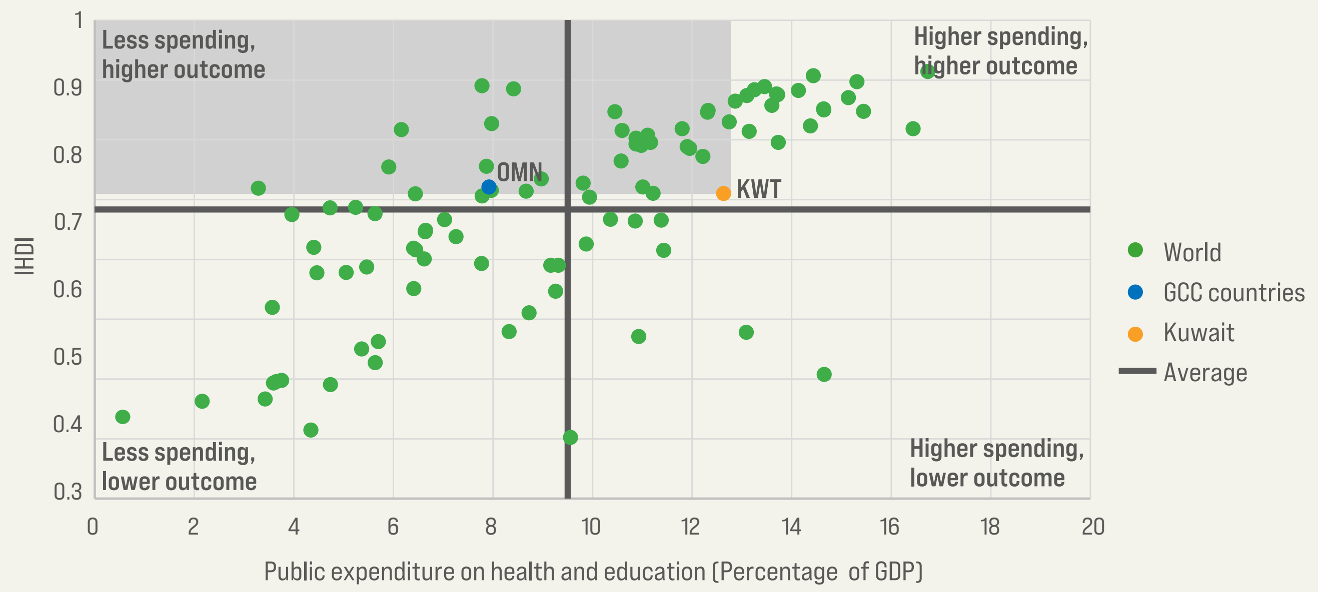
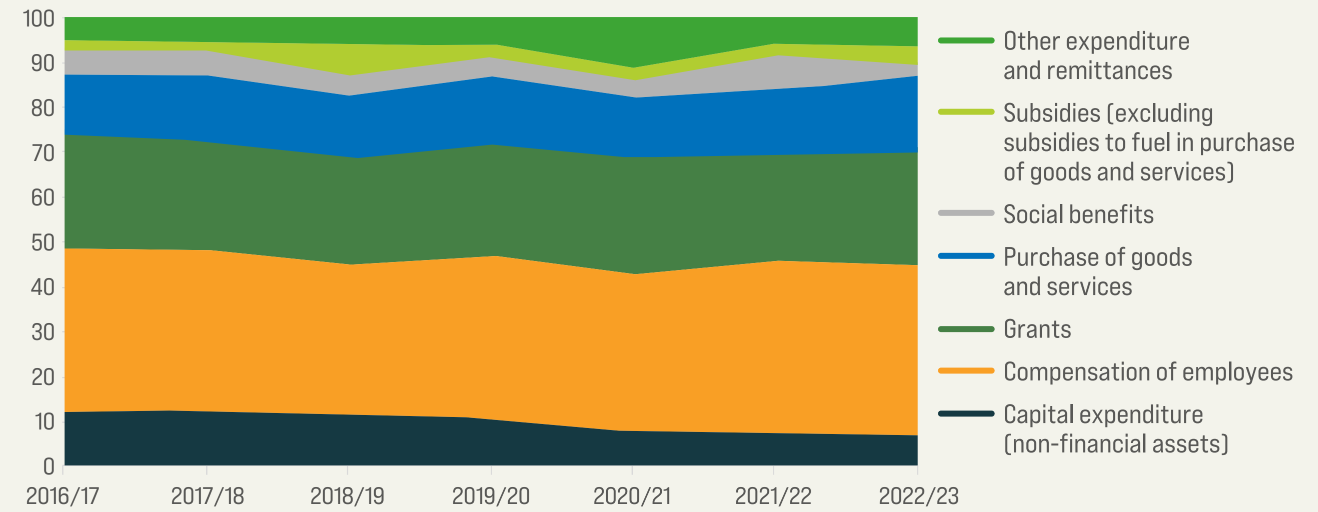
Figure 5. Public expenditure on health and education and Inequality-adjusted Human Development Index, 2021 (3-year average)



Source: IMF, 2014; ESCWA, n.d.

Figure 6. Composition of public expenditure (Percentage share of 2016/17 to 2022/23 budget)

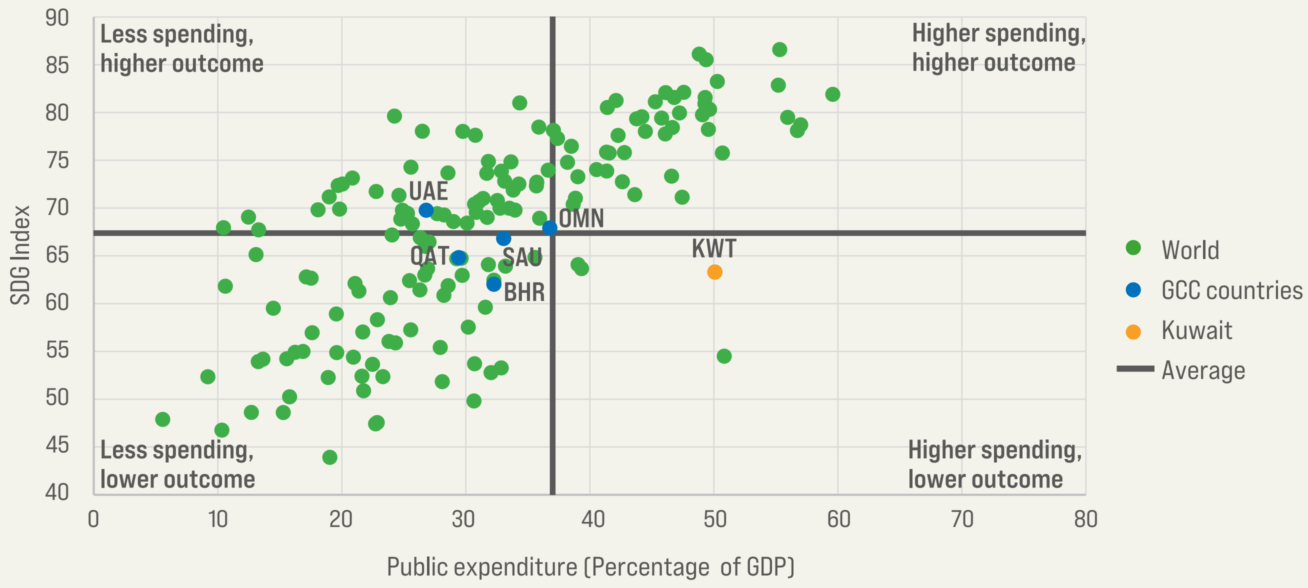


Source: Kuwait, Ministry of Finance, n.d.

Note: Total current expenditure includes all categories except capital expenditure (non-financial assets). For 2023/24, the detail economic classification is yet to be made available.

Countries with a higher share of public expenditure tend to perform better in progress towards the SDGs, as measured by the SDG Index (figure 7). The SDG Index measures countries' progress towards achieving the SDG indicators across all 17 Goals.[12] Based on the observed trend, a 10 per cent increase in public expenditure is associated with a roughly 6.5-point increase in SDG Index scoring. Most countries that allocated higher than average spending, which is about 37 per cent of GDP globally, have attained higher than the average SDG Index score of 67.

Figure 7. Public expenditure and SDG Index, 2022 (3-year average)

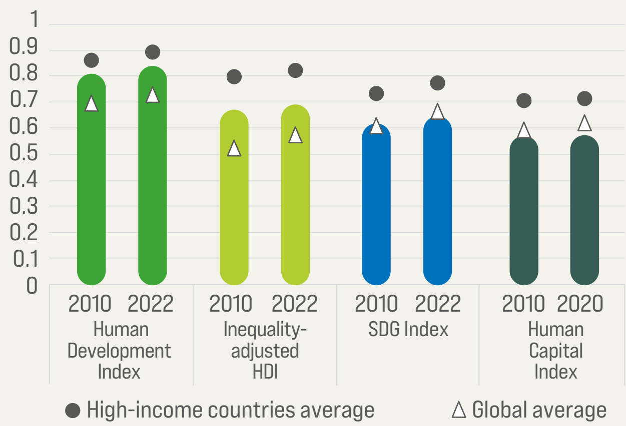


Source: United Nations, Sustainable Development Report, 2022; IMF, 2024.

Kuwait is among the four countries in the global sample that have higher than average spending but lower than average SDG Index rankings (figure 7). A deeper look into the quality of spending in Kuwait and its impact on the SDGs is required. Understanding the public social expenditure landscape and budget allocations for different social sectors and the beneficiaries of spending, as well as assessing the efficiency of public expenditure, can help further understanding of the challenges and the policy options available for improving the effectiveness of spending in relation to development outcomes.

The scores of Kuwait on HDI, IHDI, SDG Index and the Human Capital Index (HCI)[13] against global and high-income country averages are shown below (figure 8). Kuwait scores lower than high-income countries on average across all four indices. In addition, the score of Kuwait on the Development Challenges Index of the Economic and Social Commission for Western Asia (ESCWA),[14] measured by challenges in the areas of quality-adjusted human development achievements, environmental sustainability and governance, is 0.432, which exceeds the global average of 0.425 and the high-income country average of 0.277. This high score indicates a prevalence of development challenges for Kuwait. In order for Kuwait to catch up with other high-income countries, it needs to monitor and thoroughly assess the quality of public social spending as well as overall public expenditure aimed at achieving inclusive and sustainable development.

Figure 8. Performance of Kuwait on key indicators of the HDI, IHDI, SDG Index and the HCI



Source: World Bank, 2021; UNDP, 2024; United Nations, 2022.

Note: The IHDI score for Kuwait is not available from UNDP due to the absence of data on the inequality-adjusted income index. IHDI is computed here using the same methodology as UNDP but with the inequality-adjusted income index data from the ESCWA Development Challenges Index and the inequality-adjusted education index and inequality-adjusted life expectancy index data available from UNDP.

02

Key highlights of social expenditure

A. Introduction to Social Expenditure Monitor for Kuwait

The SEM, produced by ESCWA, is broad in scope, aligned with the SDGs and flexible enough to be adapted to national specificities. The SEM addresses the critical gap left by other measures that only capture expenditure on health, education and social protection areas given that on-budget public transfers for social purposes need to be broader to take into consideration the SDGs to which all United Nations Member States are committed.

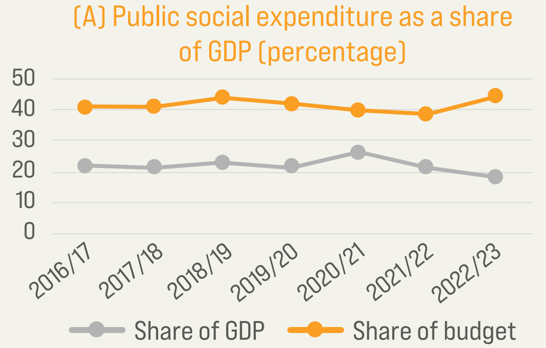
The SEM framework classifies social expenditure into seven dimensions: (1) education; (2) health; (3) housing and community amenities; (4) labour market interventions and employment generation; (5) social protection and subsidies; (6) arts, culture and sports; and (7) environmental protection. The dimensions cover all public expenditure that has a social purpose and incorporate the 2030 Agenda targets which aim for improvement or universal access (covering 69 out of the 169 targets).[15]

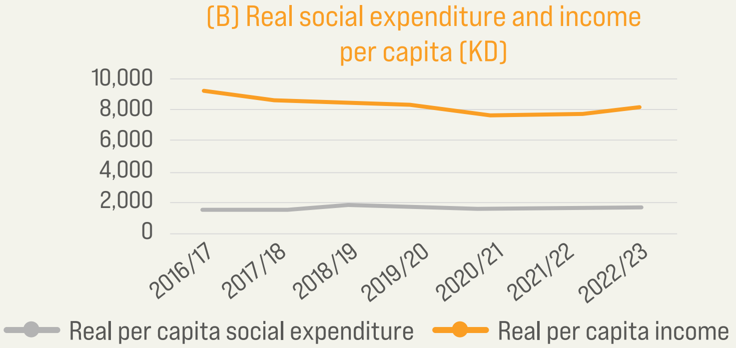
Each dimension has a series of social policy expenditure indicators that are essential for achieving several SDG targets. The indicators show the purpose of expenditure (or kind of social service) and the beneficiary population. The classification of expenditure is aligned with the International Monetary Fund (IMF) Classification of the Functions of Government system[16] and is further cross-classified by economic classification into current and capital expenditure which helps analyse productivity and growth in a macroeconomic context.[17] The indicators aim to capture crucial social development priorities in the Arab region and represent a concrete step towards aligning thinking on social policy interventions and fiscal space with national budgets and macroeconomic policy.

B. Recent trends in social expenditure in Kuwait

The social spending of Kuwait, taking into account each of the seven dimensions of the SEM, accounted for KD 9.84 billion in 2022/23, which is 44 per cent of the total public budget or 18 per cent of GDP (figure 9A). In the 2023/24 budget estimates,[18] allocations for social expenditure increased to 47 per cent of the budget, which was mainly driven by increases in fuel subsidies. However, the majority of the social spending, almost 96.5 per cent, goes to consumption expenditure.

Figure 9. Trends in public social expenditure across all seven dimensions in Kuwait





Source: ESCWA, n.d.

Note: Real series are constructed by deflating the nominal series by the Consumer Price Index with base year 2013.

Although social expenditure as a share of budget increased during 2021/22 and 2022/23, it declined as a share of GDP from about 21 per cent to 18 per cent, largely due to the performance of oil sectors that increased GDP in 2022/23. The per capita GDP increased slightly between 2021/22 to 2022/23 by 7 per cent. However, over the past few years, the real per capita GDP of Kuwait has declined by 12 per cent, from KD 9,226 in 2016/17 to KD 8,158 in 2022/23 (figure 9B).

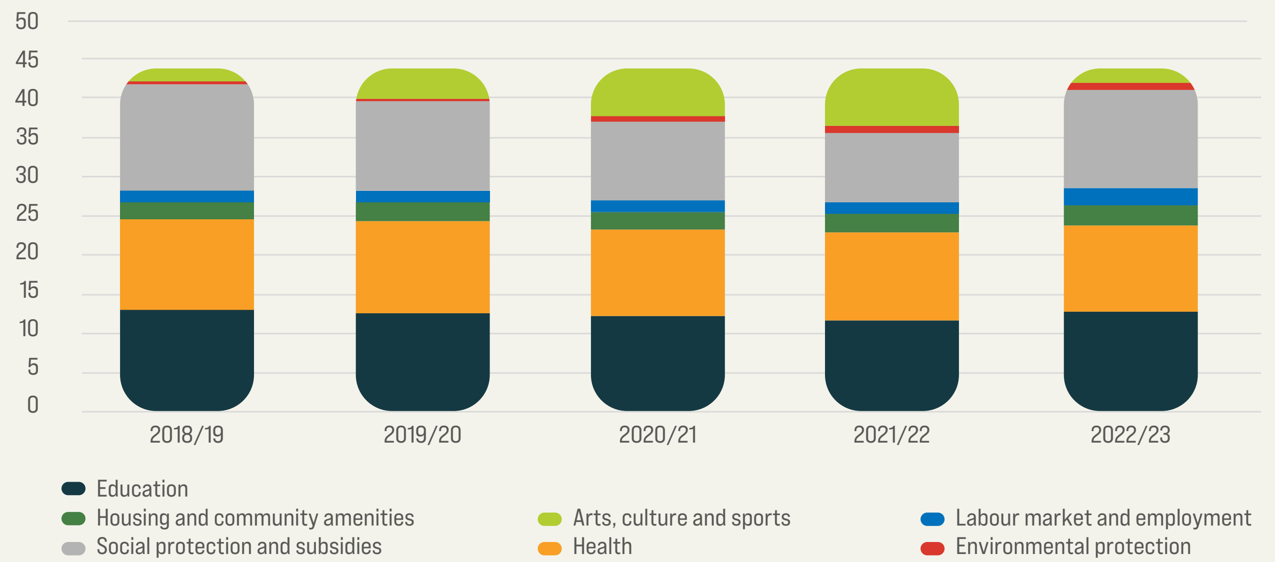
Real social expenditure per capita amounted to KD 1,615 in 2022/23, based on the Consumer Price Index with base year 2013. During the pre-COVID-19 period, per capita social spending had an increasing trend, reaching KD 1,834 in 2018/19. Thereafter, the real social expenditure per capita has declined and it was lower by about 12 per cent in 2022/23 as compared to 2018/19 (figure 9B).

Social expenditure trends across the dimensions and indicators of the SEM show an interesting pattern. In 2022/23, the largest dimensions of social expenditure were education, followed closely by social protection[19] and subsidies, and health, and together accounted for 36.4 per cent of the budget (figure 10). Meanwhile, other areas of social policy, such as housing and community amenities, labour market support and employment generation programmes, expenditure on arts, culture and sports, and environment protection received significantly less support - all four dimensions together accounted for 7.6 per cent of the budget. Over the past five years, the share of these four dimensions in the budget has increased by only 2.5 percentage points, mainly due to increased allocations to labour market and employment generation programmes. Each dimension is discussed separately below.

1. Education

Expenditure on education, as a share of budget, has been stable over time, accounting for around 12 per cent of the annual budget for the five years between 2017/18 and 2022/23. Out of the education budget, pre-primary and primary education and secondary education received about 8 per cent of the budget in 2022/23. Expenditure on post-secondary school skills training and research and development in the field of education was minimal (figure 11). Overall, Kuwait meets the international benchmark established by the Education 2030 Framework for Action of allocating at least 4–6 per cent of GDP to education.[20]

Figure 10. Trend and composition of social expenditure by SEM dimension (Percentage share of budget)



Source: ESCWA, n.d.

The main challenges, however, remain improving the quality of education, achieving higher values on global indicators of education as well as focusing on science, mathematics and reading subjects for basic primary education.[21] The most recent Trends in International Mathematics and Science Study test score for Kuwait was 383, which is significantly below the global average of 449, demonstrating challenges in the quality of education.[22]

2. Health

Public expenditure on health, as a share of budget, was relatively stagnant for the five years between 2017/18 and 2022/23, ranging between 11 and 12 per cent of the annual budget. The majority of health expenditure is directed at inpatient services, which accounted for about 10 per cent of the budget in 2022/23 (figure 11). Expenditure on medicine, medical products and equipment, public health services, outpatient services and allocations earmarked for research and development within the health sector together accounted for less than 1 per cent of the budget. Overall, Kuwait meets the international benchmark established by World Health Organization of allocating 6 per cent of GDP to the health sector for achieving the SDG commitment to universal health coverage.[23]

While Kuwait has made significant improvements in addressing mortality and diseases, the health sector is facing emerging challenges, particularly concerning the rising prevalence of non-communicable diseases. Unhealthy diets, sedentary lifestyles and exposure to pollution contribute to unhealthy lives.[24] Meanwhile, diabetes prevalence in Kuwait has become among the highest in the world at 24.9 per cent. Attention to policy and resource allocations are required to address these challenges.

3. Housing and community amenities

Housing and community amenities play a fundamental role in various aspects of improving quality of life and human development. In the last year, expenditure dedicated to housing and community amenities, excluding fuel purchased by the Ministry of Electricity and Water, has increased slightly, rising from 2.3 per cent of budget in 2021/22 to around 2.5 per cent in 2022/23. It increased further to 3 per cent in the 2023/24 budget estimates, which include housing projects for citizens by the Public Authority for Housing Welfare.[25] The majority of expenditure in this dimension could not be further classified to identify the purpose and beneficiaries of spending due to a lack of available information (figure 11).

4. Labour markets and employment generation

Support for labour markets and employment generation programmes, as a share of budget, has increased significantly over the past five years. Expenditure in this area represented just 0.4 per cent of the 2019/20 budget but rose to more than 2 per cent of the budget in 2022/23. However, the information needed to disaggregate this expenditure based on the type of support was unavailable (figure 11).

5. Social protection and subsidies

On average, spending on social protection programmes, excluding pensions and retirement benefits that are part of employees' compensation, is about 2 per cent of the budget. Specific social protection expenditure in Kuwait includes housing support (0.5 per cent of the 2022/23 budget), support for families and children (0.1 per cent), support for vulnerable populations (0.02 per cent), and other types of unspecified support (1.4 per cent).

Most fuel and oil subsidies have the social objective of reducing prices and supporting people. However, without an appropriate targeting mechanism, the general fuel and oil subsidies are considered as regressive since the higher income population benefits more from generalised subsidies than the lower income population. Despite energy policy reforms initiated in January 2015, these subsidies consumed about 10.6 per cent of the budget in 2022/23, which included a fuel subsidy to public corporations and the fuel purchased by the Ministry of Electricity and Water classified under the purchase of goods and services (figure 11). Reform and the rationalization of subsidies are a priority for the Government, given the high costs.

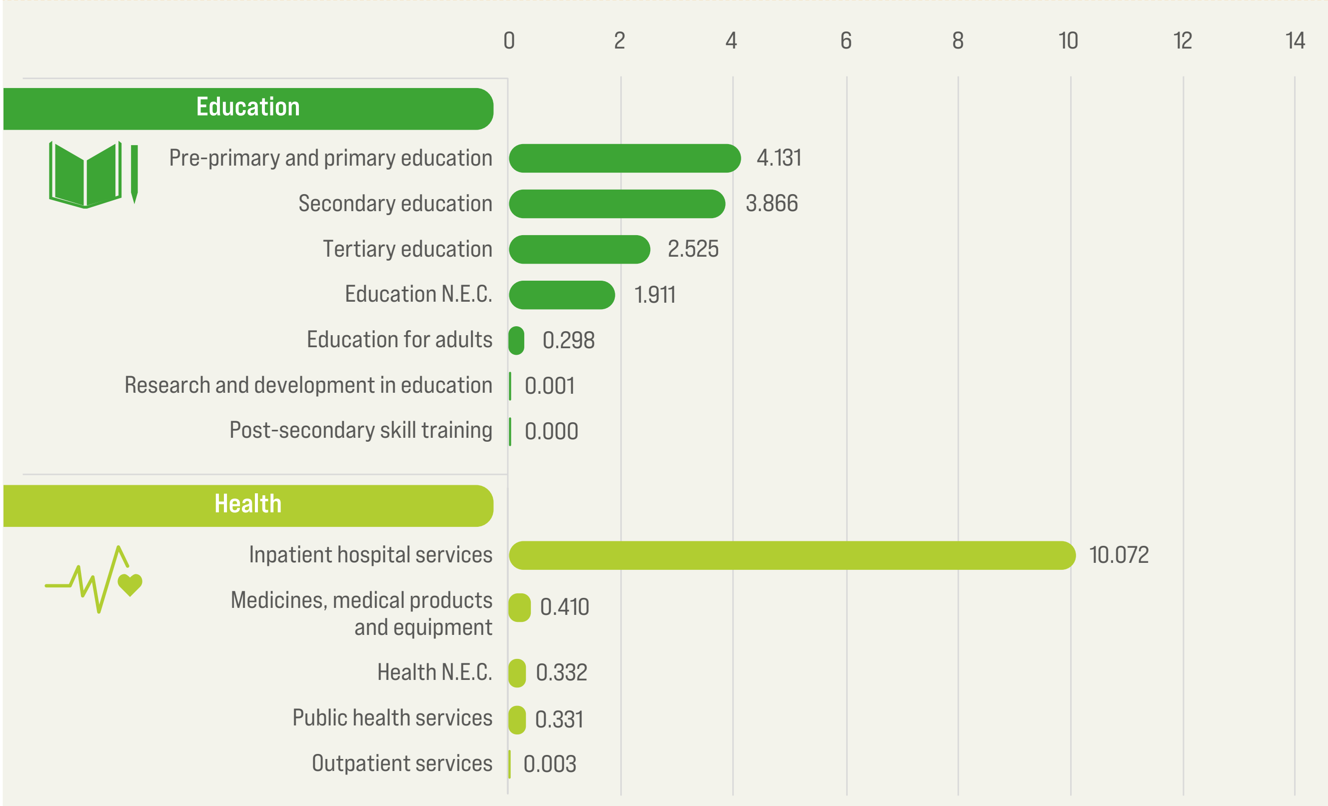
6. Arts, culture and sports

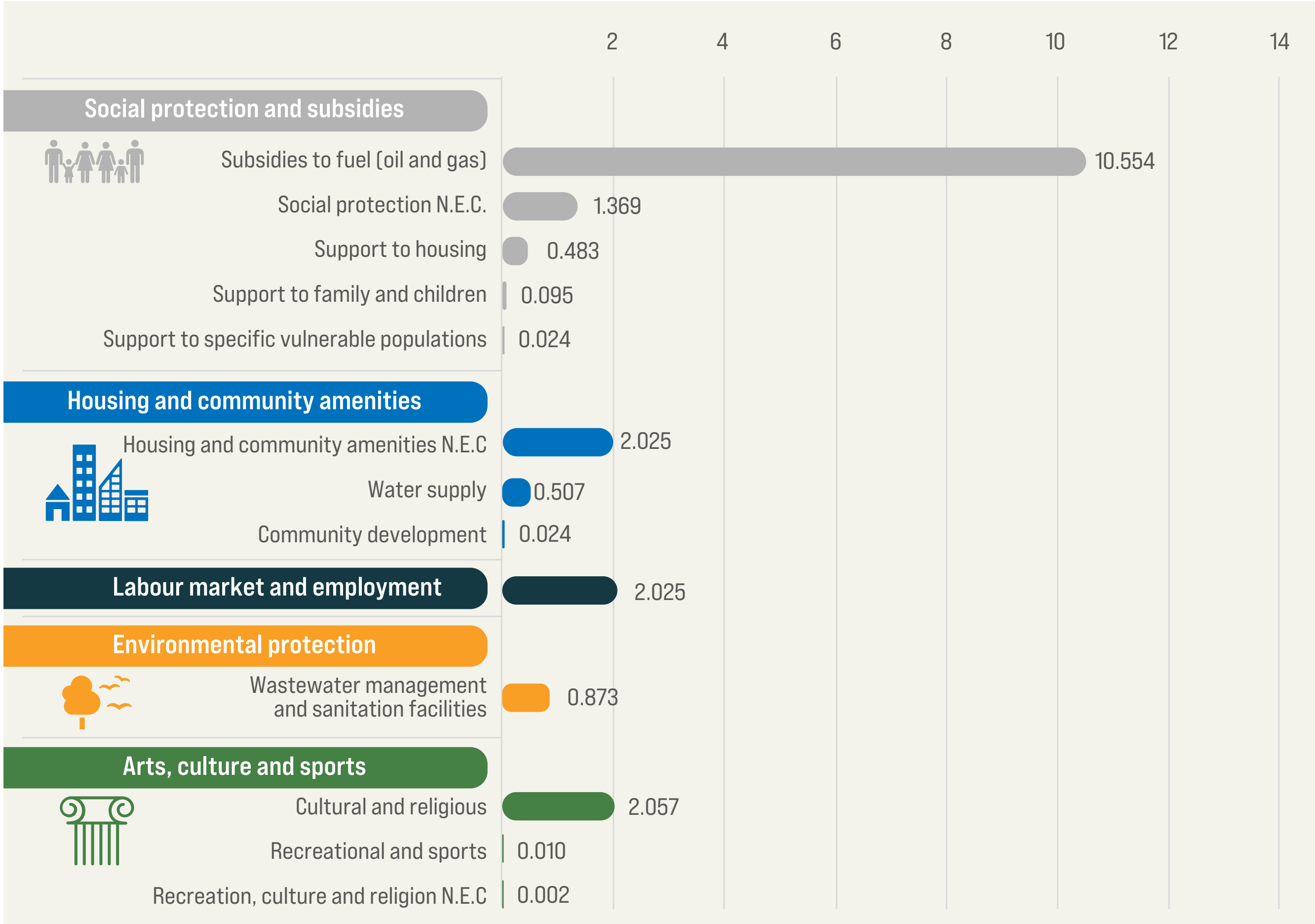
Public expenditure on arts, culture and sports helps incentivize and cultivate talent and creativity in young people, and therefore is an essential long-term investments in the population. However, spending on these sectors often comes under strain, particularly as pressures on public budgets mount. Arts, culture and sports expenditure has totalled between 1.9 per cent and 2.1 per cent of the public budget of Kuwait in each of the last four years. More than 95 per cent of this spending goes towards supporting culture and religion (figure 11). There is modest spending on sports and physical education facilities and the promotion of athletes and teams. Although these programmes target a wide population, more spending on arts, culture and sports would benefit children and young people by developing their creativity, helping them achieve their full potential and giving rise to talents. Combined with education, this would contribute to improving human development.

7. Environmental protection

Environmental protection is important to many other dimensions, in particular health. However, allocations to environmental protection have been minimal among all of the seven SEM dimensions. In 2019/20, expenditure on environmental protection represented only 0.5 per cent of the budget, while in 2022/23, the figure was around 0.9 per cent, focussing on wastewater management and sanitation facilities (figure 11).

Figure 11. Expenditure on social expenditure indicators (Percentage share of 2022/23 budget)





Source: ESCWA, n.d.

Note: The abbreviation N.E.C stands for "not elsewhere classified", referring to expenditure that could not be further disaggregated with the available information.

03

Targeting of social expenditure at beneficiaries

A. Social expenditure targeted at beneficiaries

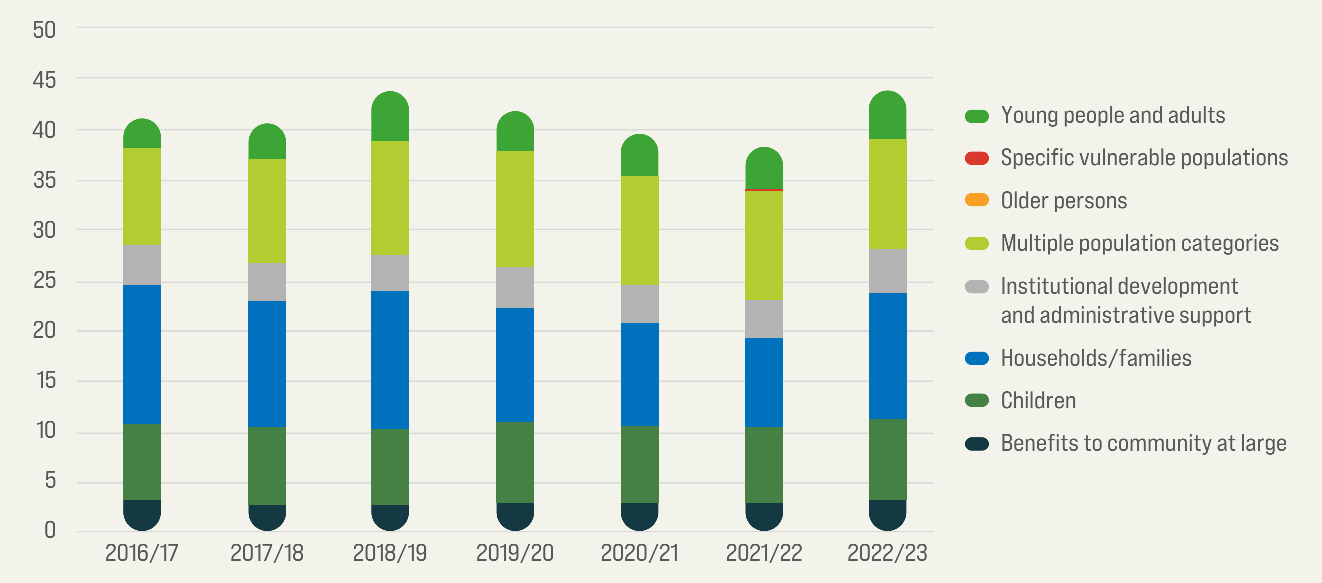
To better understand the distribution of social expenditure, the SEM offers an innovative classification of expenditure across broad categories of beneficiaries, namely: children, young people and adults; older persons; vulnerable populations such as persons with disabilities, ill persons, survivors and socially marginalized people; households benefitting from financial or in-kind support; and the community at large.

Out of total budget of 2022/23, around 8 per cent was targeted at programmes for supporting children through education programmes (figure 12). About 5 per cent of public expenditure was targeted to young people and adults. As per available information, less than 0.1 per cent of public expenditure was specifically targeted at vulnerable populations, including persons with disabilities, ill persons, survivors and the socially marginalized or those at risk of social exclusion. This number might be an underestimation as the majority of allocations were through programmes where information about the identification of the beneficiary population is not available. For instance, subsidy programmes indirectly benefit all households, or health-care programmes can benefit all age groups of the population. However, without an appropriate data disaggregation tagging framework, such as those in programme-based budgets, it is difficult to identify the beneficiaries of expenditures. Improving the effectiveness of spending requires identifying clear targeting criteria to beneficiary populations and also periodic evaluation of expenditure programmes.

B. Effectiveness of public transfers and targeting mechanisms

Using household survey data collected from the 2021 Household Income and Expenditure Survey, with a focus on Kuwaiti households, we analysed the effectiveness of government transfers to

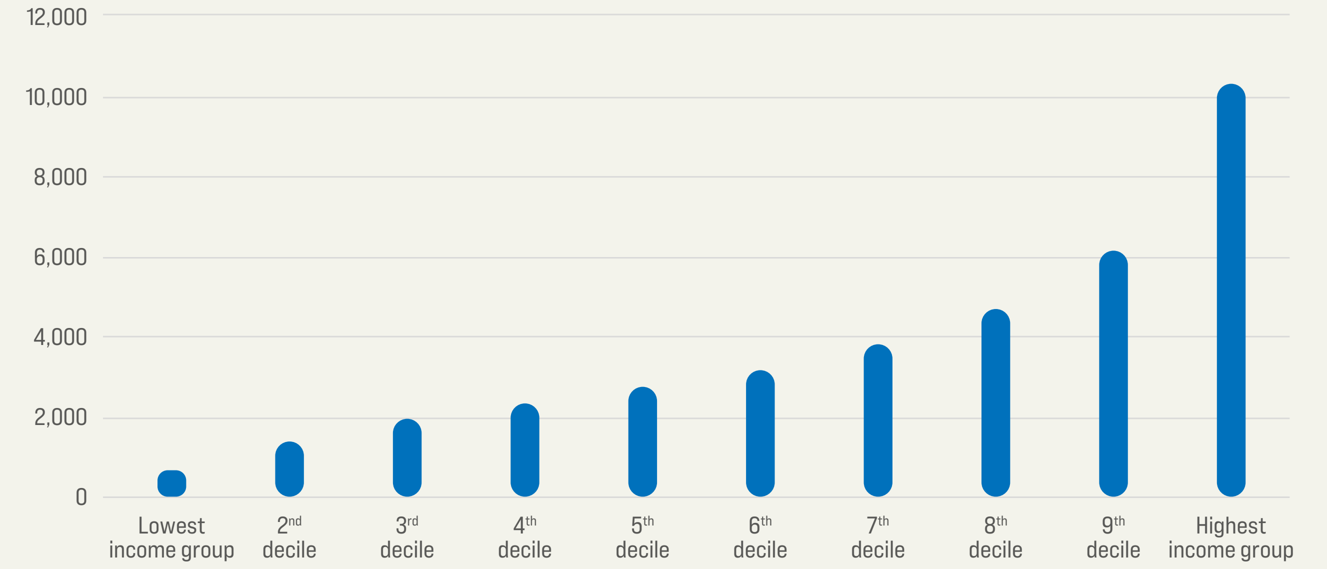
Figure 12. Social expenditure across beneficiary groups (Percentage share of 2016/17 to 2022/23 budget)



Source: ESCWA, Social Expenditure Monitor dashboard, accessed on May 2024.

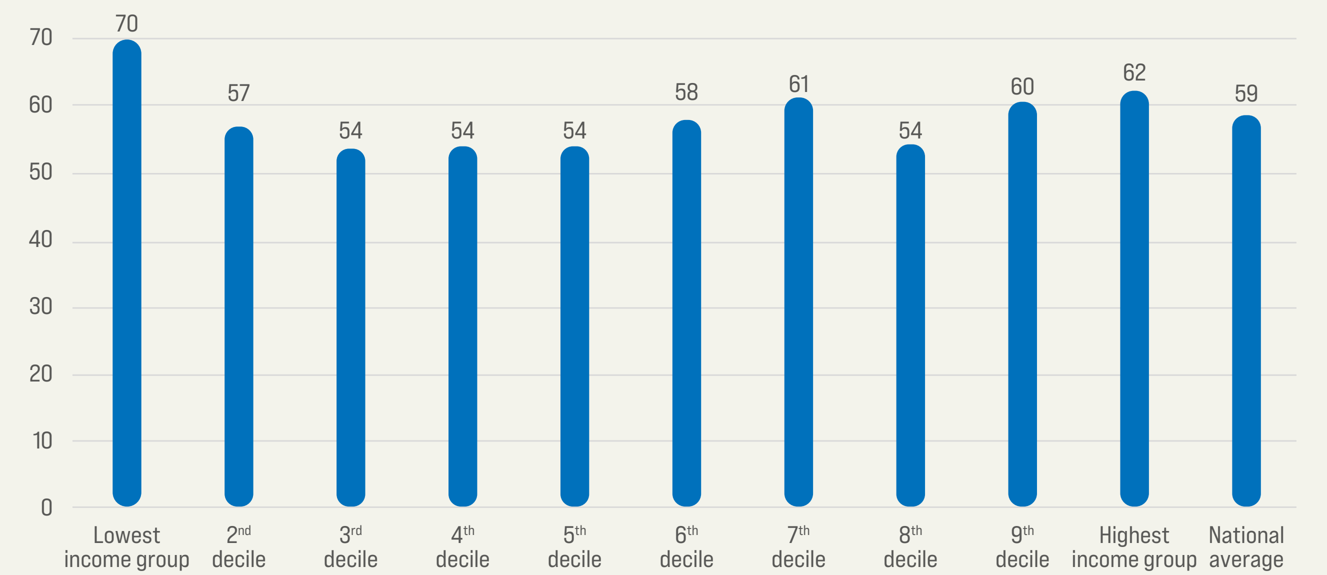
households, ranked by their pre-transfer incomes divided into deciles (figure 13). There is a significant variation in household income across the income deciles; the highest decile has an average household income of KD 10,293 as compared to KD 688 in the lowest decile. Government transfers are received by 70 per cent of the households in the lowest income decile. On average nationwide, 59 per cent of Kuwaiti households benefit from universal government transfers (figure 14).

Figure 13. Average income of households by pre-transfer household income deciles (KD per month)



Source: Authors' calculations based on Household Income and Expenditure Survey, 2021.

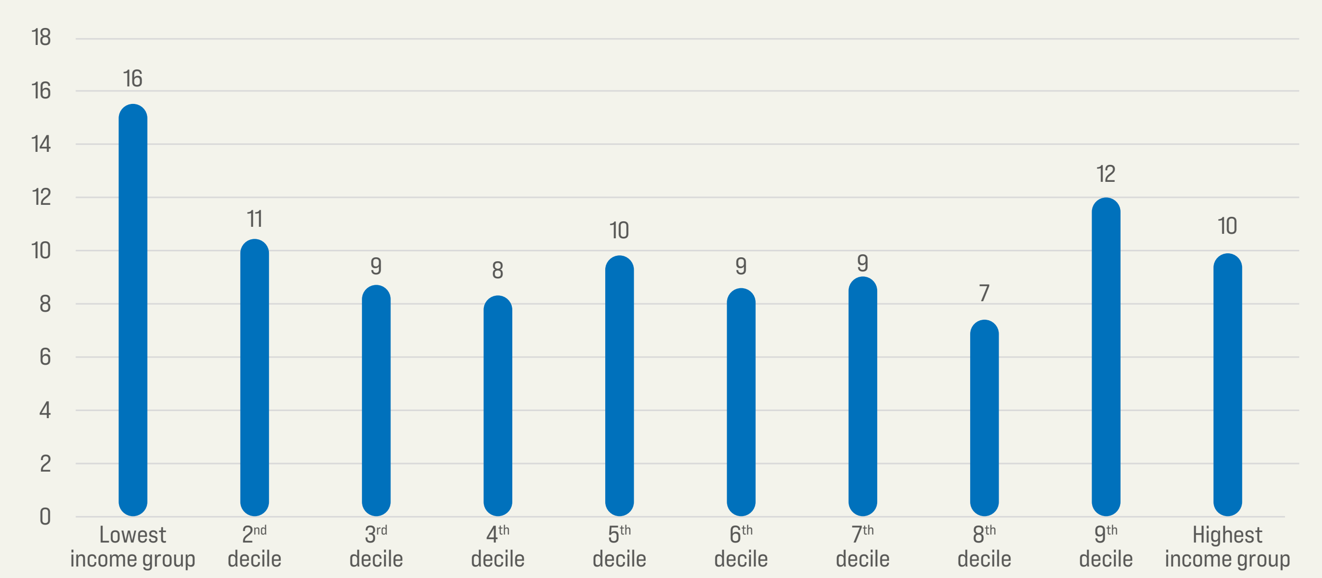
Figure 14. Share of Kuwaiti households receiving public transfers by income deciles (Percentage)



Source: Authors' calculations based on Household Income and Expenditure Survey, 2021.

However, there are significant gaps and inefficiencies in the targeting mechanisms of public transfers. For instance, households at the highest income decile, with an average household income of over KD 10,000, are the recipients of 10 per cent of total public transfers (figure 15). Similarly, the second highest decile income group of households, with an average household income of over KD 6,000, are the recipients of 12 per cent of total government transfers. Together, the households of the ninth and tenth decile are the recipients of 22 per cent of total government transfers. These transfers are part of universal government transfers such as marriage allowance, housing rental allowance, health treatment abroad and similar transfers that are provided to Kuwaiti citizens irrespective of their income. Some of these universal transfers can be revisited by taking into account equity and efficiency perspectives. Rationalization of transfers by more targeting to lower and middle-income households can save significant resources.

Figure 15. Share of government transfers received by Kuwaiti households ordered by pre-transfer income deciles (Percentage of total transfers)



Source: Authors' calculations based on Household Income and Expenditure Survey, 2021.

Expenditure efficiency

04

A. Public expenditure efficiency

Evaluating the performance of total public expenditure in terms of achievement on the SDG Index on a scale of 0 to 1 reveals an efficiency score for Kuwait of 0.54, which is significantly lower than the global average of 0.74 and the high-income country average of 0.85 (figure 16A). The results imply that Kuwait is nearly halfway behind the highest scores in efficient public spending, and is 30 percentage points behind the high-income country average. While the public expenditure of Kuwait is high as a share of GDP, the limited efficiency of public expenditure implies a significant waste of public resources.

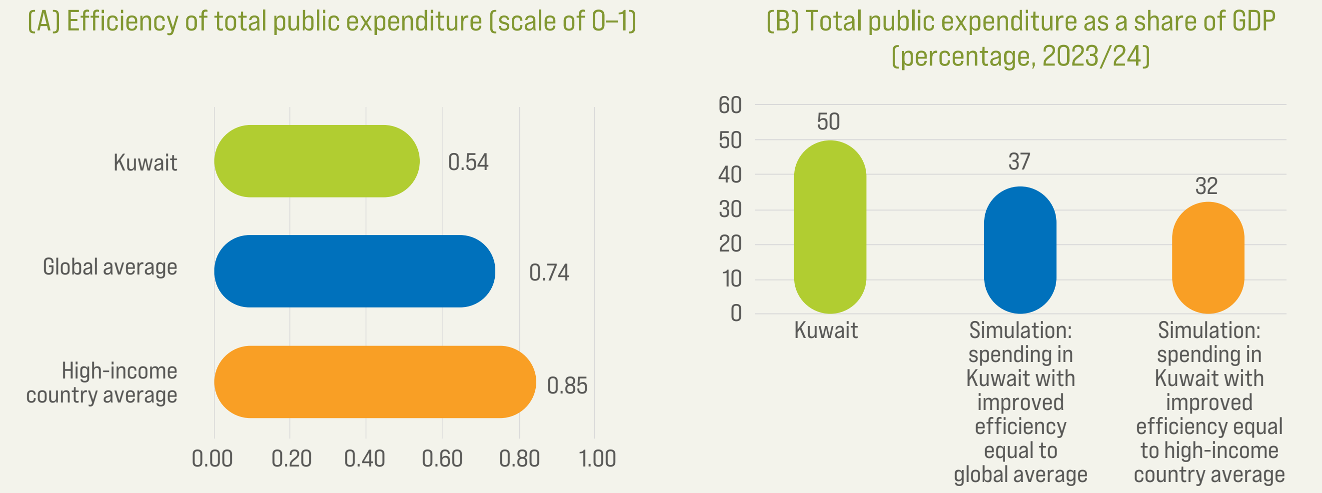
Simulations from the results suggest that by improving public expenditure efficiency to the global average level, Kuwait could reduce its total public expenditure from 50 per cent of GDP to 36.6 per cent, while still maintaining its performance on the SDG Index (figure 16B). This represents a saving of about KD 6.8 billion, equivalent to saving of 27 per cent of public expenditure in the 2023/24 budget. If efficiency were increased further to the average of high-income countries globally, total public expenditure could be reduced further to 32 per cent of GDP, saving an additional KD 2.3 billion. Conversely, if public expenditure in Kuwait were held constant and efficiency improved to the high-income country average, it could improve its score on the SDG Index from 63.7 to 80.6, raising its ranking from 111th to 15th globally.

B. Social expenditure efficiency

Evaluating the performance of public social expenditure in terms of estimated IHDI achievement on a scale of 0 to 1 reveals an efficiency score for Kuwait of 0.72, which is slightly higher than the global average of 0.70 (figure 17A). However, it is 16 points lower than the high-income country average, which is 0.88.[26]

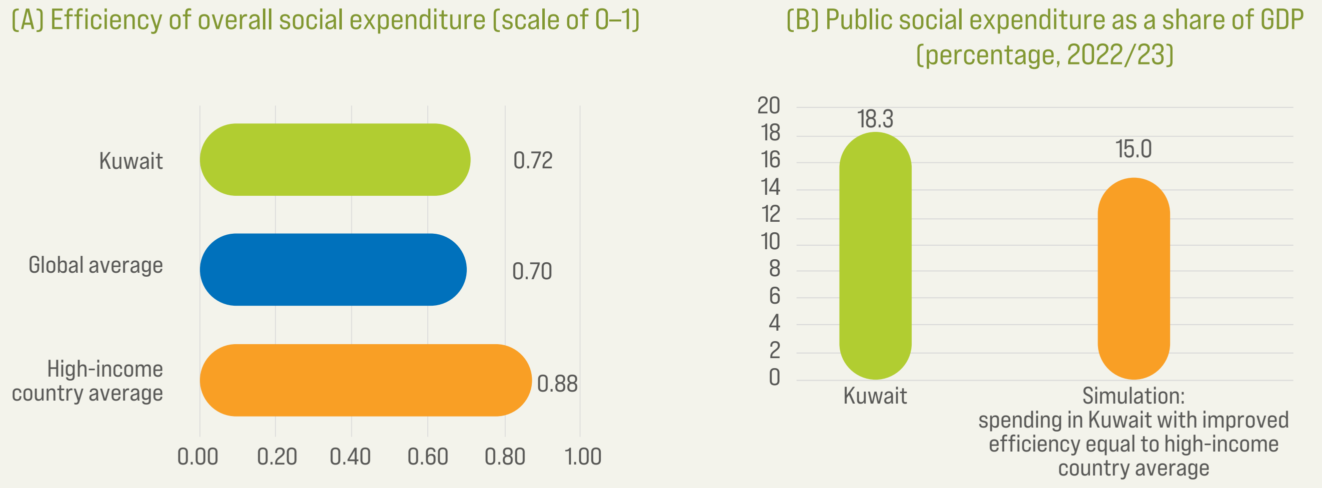
By increasing social expenditure efficiency to the high-income country average, Kuwait could

Figure 16. Efficiency of public expenditure and simulations of the effect of enhancing public expenditure efficiency on reducing wastage in the public budget



Source: ESCWA, Social Expenditure Monitor dashboard, accessed on May 2024. Efficiency of public social expenditure and simulations.

Figure 17. Efficiency of social expenditure and simulations of the effect of enhancing public social expenditure efficiency on reducing wastage in the public budget



Source: ESCWA, Social Expenditure Monitor dashboard, accessed on May 2024.

Note: Due to limited data availability across countries, expenditure on labour market support and arts, culture and sports is excluded from total public social expenditure in the efficiency analysis.

reduce social expenditure from 18 per cent of GDP to an average of about 15 per cent, while maintaining the same estimated IHDI score (figure 17B). This saving represents about KD 1.8 billion, equivalent to 7 per cent of total expenditure in the 2023/24 budget. Alternatively, improving the performance of social expenditure Kuwait could raise its estimated IHDI score from 0.710 to 0.820, and its ranking on the index from 55th to 20th of 165 countries.

C. Education expenditure efficiency

Evaluating the performance of education expenditure in terms of expected years of schooling reveals that Kuwait has an efficiency score of 0.81, compared to the global efficiency average of 0.82, and the high-income country efficiency score of 0.94 (figure 18A). The gap in efficiency scores between Kuwait and the high-income country average is large, despite Kuwait spending a higher share of its GDP on education than that of other high-income countries. The quality of education in Kuwait, proxied by performance in terms of harmonized test scores, remains lower than both the global average and high-income country average. The lower efficiency of education expenditure resonates with the lower score of Kuwait on the HCI as well. Across countries, there is a strong association between efficiency of education expenditure and HCI achievements. The weakness in quality of education, particularly in terms of performance of education, measured by standardized test scores and learning-adjusted years of schooling, contribute to the lower HCI score.

If Kuwait raises its education expenditure efficiency to match the average for high-income countries, expected years of schooling are estimated to increase by more than a full year, from an average of 12.0 years to 13.3 years (figure 18B). Based on the formula for computing HCI, a one-year increase in expected years of schooling would raise the country's HCI score by about 0.03. Another simulation suggests that if Kuwait increases education spending efficiency to the average of high-income countries, education expenditure can be reduced by about 1.0 per cent of GDP, or about KD 0.5 billion, without adversely impacting expected years of schooling.

D. Health expenditure efficiency

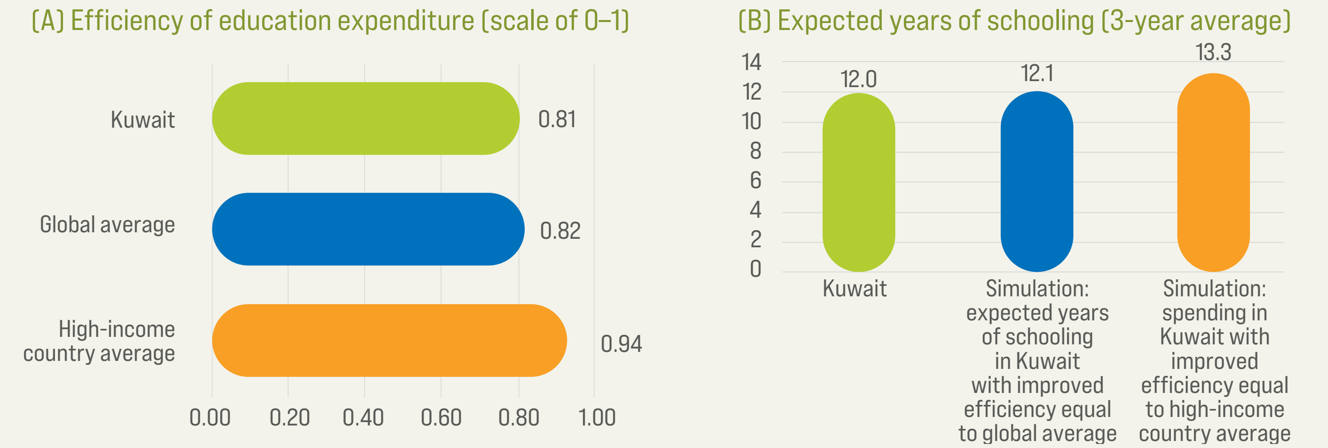
Evaluating the performance of health expenditure on improving life expectancy at birth reveals that Kuwait has a health expenditure efficiency score of 0.87, which exceeds the global average for health efficiency; however, it falls below the high-income country average of 0.91 (figure 19A).

In the health sector, improving the efficiency of spending to the high-income country average could raise life expectancy at birth by almost 4 years, from an average of 77.8 to 81.6 years (Figure 19B).

Alternatively, improvements in efficiency in this sector to the level of high-income countries could free up KD 0.5 billion through reduced health expenditure, while maintaining the same average life expectancy.

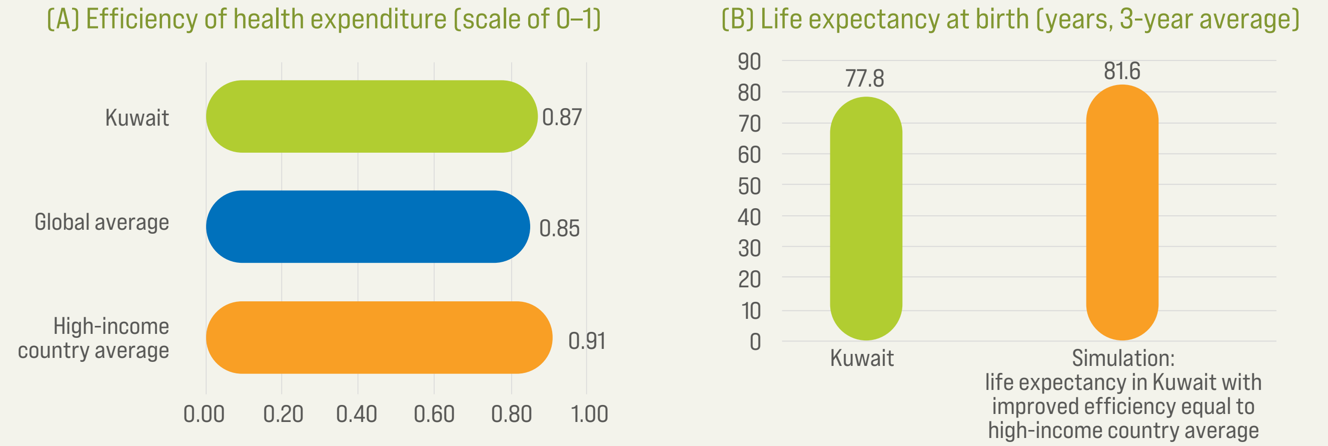
Similar assessments of efficiency were made for the performance of social protection expenditure, environmental protection expenditure and other indicators. The ESCWA SEM efficiency dashboard[27] presents these results and policy simulations.

Figure 18. Efficiency of education expenditure and simulations of the effect of enhancing education expenditure efficiency on education outcomes



Source: ESCWA, Social Expenditure Monitor dashboard, accessed on May 2024.

Figure 19. Efficiency of health expenditure and simulations of enhancing health expenditure efficiency on health outcomes



Source: ESCWA, Social Expenditure Monitor dashboard, accessed on May 2024.

05

Conclusions and policy recommendations

This report presents an urgent call for Kuwait to adopt policy measures that enhance the efficiency and effectiveness of public expenditure, while ensuring fiscal sustainability through strategic reforms. It highlights the critical need to align spending with development goals to promote sustainable and inclusive growth.

Immediate and decisive action in public finance management is imperative, as the window for implementing necessary reforms is rapidly closing. Swift action is required to address current challenges and secure long-term fiscal stability. The report outlines 10 key recommendations essential for safeguarding the fiscal health of Kuwait and preserving social benefits for future generations.

1. Promote economic diversification and growth of non-oil revenues

Policy recommendation: implement structural policies focusing on diversifying the economy away from hydrocarbons.

Tools: boost an enabling environment for the growth of the private sector, invest in higher value-added non-oil sectors that have growth potential, invest in research and innovation to foster technological advancement, and improve the tax structure and tax compliance of non-oil sectors.

Impact: accelerating the growth of non-oil revenues, creating a more balanced and resilient economy, improving revenue mobilization and enhancing fiscal sustainability.

2. Encourage “smart” spending to enhance expenditure efficiency and reduce wastage of public funds

Policy recommendation: implement fiscal strategies reviews that focus on identifying and eliminating inefficiencies in public spending.

Tools: utilize data analytics, digital tools and programme evaluation to identify inefficiencies and wasteful expenditure and redirect funds to programmes that deliver immediate, high-impact social and economic returns.

Impact: reducing wastage and improving the impact of social spending.

3. Reform of subsidies and welfare programmes

Policy recommendation: transition from universal subsidies to targeted support mechanisms.

Tools: rationalize universal public transfers and subsidies by targeting them to lower and middle-income households.

Impact: reducing fiscal pressure while ensuring that the most vulnerable are protected.

4. Promote resilient and inclusive economic growth

Policy recommendation: redirect resources from consumption-oriented public services to capital spending, research and development, training and capacity-building. Implement policies that support labour market interventions and employment generation, particularly for young people and women.

Tools: align policies to prioritize investments in high-impact areas such as skills development, technology upgrades and entrepreneurship. Provide targeted incentives for private enterprises and startups to foster innovation and economic diversification.

Impact: enhancing productivity, human capital and job creation, building resilience, accelerating economic diversification and supporting long-term, inclusive growth

5. Adopt measures for education sector reforms to improve the quality of education and human capital

Policy recommendation: increase investment in research and development, teacher training programmes and curriculum reform, and integrate digital technologies into the educational framework.

Tools: policy alignment.

Impact: improving the quality of education and human capital, reducing inequality in outcomes and reducing inefficiencies in education expenditure.

6. Improve the health-care system to promote healthy lifestyles

Policy recommendation: address inefficiencies in the health-care system by promoting healthier lifestyles, improving public health services, and managing the rising prevalence of non-communicable diseases.

Tools: policy shifts to invest in preventive health-care measures and modernize health-care infrastructure.

Impact: enhancing public health, promote healthy lifestyles and reducing health-care inefficiencies.

7. Gradually implement performance-based budgeting to improve the effectiveness of public expenditure

Policy recommendation: introduce performance-based budgeting systems that link funding allocations to specific, measurable outcomes.

Tools: use impact assessment surveys to regularly evaluate and adjust policies to achieve higher efficiency and effectiveness.

Impact: ensuring social spending is directed towards high impact and effective programmes.

8. Strengthen fiscal discipline and transparency

Policy recommendation: implement fiscal rules that limit spending increases, particularly during periods of high oil revenues to prevent unsustainable expenditure growth and focus on long-term stability.

Tools: align expenditure budgets with strategic plans and improve the timeliness and quality of budget reports.

Impact: improving budget credibility, medium term fiscal strategies and macroeconomic stability.

9. Enhance public financial management with data-driven frameworks

Policy recommendation: invest in advanced digital platforms and comprehensive data monitoring systems to improve the transparency, accountability and effectiveness of public financial management.

Tools: implement digital platforms and decision support systems to enhance fiscal management. Utilize the Classification of the Functions of Government at the five-digit level for detailed data analysis. Transform budgets into innovative data portals to facilitate real-time monitoring and evaluation.

Impact: enhancing decision-makers' ability to make informed, fiscally sound decisions, improving the effectiveness of social expenditure, and strengthening overall fiscal transparency and accountability.

10. Align spending with the SDGs

Policy recommendation: ensure that public spending is aligned with the SDGs.

Tools: increase investments in critical areas that improve the quality of human capital, skills, entrepreneurship, creativity, green infrastructure, economic diversification, healthy living and resilience to climate shocks.

Impact: improved sustainable development outcomes and rankings on development indices.

Overall, enhancing social spending, boosting expenditure efficiency and fiscal sustainability requires improving public finance management for the future. The Government needs to act swiftly to implement reforms to optimize the use of public resources, improve developmental outcomes, secure the nation's financial future, and maintain its social welfare commitments.

Improvements to data required to assess the effectiveness of social expenditure and identify its beneficiaries

The SEM framework is able to present several indicators from the available budget data, as disaggregated by the Classification of the Functions of Government. To build the entire set of SEM indicators, further data disaggregation is required. The table below highlights these indicators and identifies the necessary disaggregation of Classification of the Functions of Government codes needed to construct them.

Dimension	SEM indicator	Further disaggregation of Classification of the Functions of Government needed
Education	Pre-primary education	70911
	Primary education	70912
	Administrative and institutional support	70980
Health	Reproductive health care	70733
	Administrative and institutional support	70760
Housing and community amenities	Urban commuting	70451
	Rural road connectivity	70451
	Administrative and institutional support	70660

Dimension	SEM indicator	Further disaggregation of Classification of the Functions of Government needed
Labour market intervention and employment generation	Incentives to encourage women's employment	70412
	Training and skills upgrading, including in technology	70412
	Grants and other incentives to private enterprises/start-ups for job creation	70412
	Employment generation programmes	70412
	Research on labour market programmes and policies	70481
	Administrative and institutional support	70760
Social protection and subsidies	Pension schemes	71020
	Social security/insurance	71090
	Support for food security	71090
	Subsidies to food processors	71090
	Administrative and institutional support	71090
	Subsidies and other support for farms	70421
Arts, culture and sports	Promoting individuals and organizations in art and cultural fields	70820
	Promoting athletes and teams	70810
	Administrative and institutional support	70860
Environmental protection	Incentives for renewable energy supply (hydroelectric, solar, wind and biomass)	70436
	Combating desertification/land degradation/pollution abatement	70422, 70530, 70540
	Administrative and institutional support	70560

Source: ESCWA, 2024.

Annex. Assessment framework for expenditure efficiency

Assessing the performance of public expenditure helps policymakers steer allocations to the sectors and population groups that are most in need and where returns in terms of achieving sustainable development objectives will be the greatest. Sufficient social expenditure is crucial to achieve development outcomes, but it is not the sole factor. The quality of governance, access to technology, policy choices to target the most vulnerable, equity in the allocation of expenditure, and a country's level of development have critical impacts as well.[28]

Standard methodologies provide performance assessments by connecting expenditure to its most direct development outcomes or impacts.[29] ESCWA developed the efficiency model based on an extensive review of studies on how expenditure most directly leads to achievements in SDG indicators and/or indices.[30] The model is employed to assess the performance of 127 countries, including Kuwait, using available data. The method, using Data Envelope Analysis, allows the construction of a "frontier" of the most efficient countries, which have high outputs relative to inputs. Countries located at or close to the frontier have high efficiency scores. Countries far from the frontier are relatively inefficient.[31]

The table below presents a framework for assessing the efficiency of different kinds of public expenditure in achieving outcomes, focusing on SDG indicators and/or indices. The choice of outcome indicators is driven partly by conceptual analysis and partly by the data coverage. For example, data on the outcomes of education expenditure relating to the quality of schooling are not available or not adequate to conduct such assessments. Therefore, the teacher-pupil ratio is taken as a proxy, as higher public expenditure on education would improve the teacher-pupil ratio, which improves the quality of education in general. While the SEM framework includes seven dimensions, the efficiency analysis for Kuwait is focused on the four sectors of education, health, social protection and environmental protection due to data coverage limitations hindering the ability to assess efficiency in other sectors.

Public expenditure is an important means of implementing the 2030 Agenda for Sustainable Development. It is a critical means for inclusive and sustainable development and ensuring the commitment to leave no one behind in progressing towards achieving the SDGs. Therefore, the SDG Index is considered an overall measure of the performance of all public expenditure. On the SDG Index, Kuwait scored 64.4, lagging behind both the global average of 70 and the high-income country average score of 78 in 2022.

Within public expenditure, well-targeted social expenditure programmes would ensure that imbalances in society are corrected in addition to improving overall achievements in human development. For this reason, the IHDI[32] is taken as a measure of the performance of social expenditure as it measures a country's achievements in education, health and income as well as how evenly those achievements are distributed among the population. The IHDI value equals the HDI value when there is no inequality across people but falls below the HDI value as inequality rises.[33]

Framework for assessing the efficiency of different kinds of public expenditure in achieving outcomes

	Input variable	Output variable
Public expenditure	Total public expenditure	SDG Index
Social expenditure	Total public social expenditure	Inequality-adjusted Human Development Index
Education	Overall education expenditure	Expected years of schooling
	Pre-primary, primary and secondary education	Pupil-teacher ratio, primary
	Tertiary education	Pupil-teacher ratio, tertiary
	Research and development in education	Harmonized test scores
Health	Overall health expenditure	Life expectancy at birth, total years
	Outpatient services	Mortality from cardiovascular diseases, cancer, diabetes or chronic respiratory diseases between ages 30–70, percentage
	Hospital services	Mortality rate, infants per 1,000 live births
	Public health services	Prevalence of anaemia among pregnant women, percentage
Housing and community amenities	Overall housing and community amenities expenditure	Population living in slums, percentage of urban population
Social protection	Overall social protection expenditure	Prevalence of undernourishment, percentage of population
	Older persons	Proportion of population above statutory retirement age covered by benefit
	Sickness and disability	Proportion of population with severe disability covered by benefits
	Families and children	Prevalence of anaemia among women of reproductive age percentage of women aged 15–49
Environmental protection	Overall environmental protection expenditure	Environmental Protection Index

Source: ESCWA, UNDP and the United Nations Children's Fund, 2022.

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Endnotes

1 We are thankful to the General Secretariat of the Supreme Council of Planning and Development of Kuwait for sharing data on public budgets and the Household Income and Expenditure Survey of 2021.

2 IMF Article IV 2023.

3 The year 2023 refers to financial year 2023/24. ESCWA calculations based on data from Kuwait Final Account (2023/24).

4 The fiscal balances are expenditures minus net revenues excluding the transfers to the Future Generation Fund (FGF).

5 KUNA, 2024.

6 ESCWA, 2019.

7 Kuwait, Council of Ministers General Secretariat, n.d.

8 Kuwait is classified as a high-income country by the World Bank as it recorded a gross national income per capita of $40,600 in 2022. For this analysis, we compare performance indicators for Kuwait with the average for high-income countries globally.

9 UNDP, 2024.

10 The IHDI score for Kuwait is not available from UNDP due to the absence of data on the inequality-adjusted income index. IHDI here is computed using the same methodology as UNDP but with inequality-adjusted income index data from the ESCWA Development Challenges Index and inequality-adjusted education index and inequality-adjusted life expectancy index data available from UNDP.

11 UNDP, 2024.

12 Produced annually by Jeffrey Sachs and other collaborators as part of the Sustainable Development Report.

13 The Human Capital Index, produced by the World Bank, measures the contribution of education and health outcomes to future productivity. Kuwait has a HCI score of 0.56, which ranks it 88th out of 173 countries.

14 ESCWA, 2021.

15 ESCWA, 2019.

16 IMF, 2014.

17 See ESCWA, 2019 for a detailed explanation.

18 The 2023/24 budget data are estimates and are not detailed enough for compiling all social expenditure indicators. Therefore, the analysis in this paper relies on actual expenditure data up till 2022/23.

19 Expenditure on social protection programmes excludes pensions and retirement benefits which are part of employees' compensation. Social protection expenditure in Kuwait includes support to housing, families and children, vulnerable populations, and other types of support mainly in the form of social assistance.

20 UNESCO, 2015.

21 Kuwait, National Committee for Sustainable Development in Kuwait, 2023.

22 World Bank, Gender Data Portal, 2024.

23 McIntyre, Meheus and Rottingen, 2017; WHO, 2014.

24 Kuwait, National Committee for Sustainable Development in Kuwait, 2023.

25 Kuwait, Public Authority for Housing Welfare, 2024.

26 The values presented for social expenditure in this analysis represent three-year averages.

27 ESCWA, Social Expenditure Monitor dashboard, accessed on June 2024.

28 ESCWA, UNDP and UNICEF, 2022.

29 IMF, 2020.

30 See SEM dashboard efficiency tab and the list of resources for application of the efficiency analysis.

31 A three-year moving average of the input and outcome indicators used in this analysis to take into account year-to-year fluctuations in data and also that past expenditure has a cumulative effect on the achievement of outcomes.

32 IHDI is not available for Kuwait due to the absence of data on the inequality-adjusted income index. The inequality-adjusted education index and inequality-adjusted life expectancy index are available. To make analysis of efficiency possible, inequality-adjusted income index was input based on analysis of peer countries with similar macroeconomic structures and the IHDI was calculated from its components.

33 UNDP, 2024.

The report provides a critical analysis of public spending and mobilization of non-oil revenues in Kuwait, highlighting inefficiencies that risk fiscal sustainability. A heavy reliance on natural resources, combined with slow economic diversification and declining non-oil revenues, poses challenges to advancing the Kuwaiti economy and building fiscal space.

The report introduces the Social Expenditure Monitor framework, a tool designed to assess and optimize the efficiency, equity and effectiveness of social spending. It identifies major inefficiencies in resource allocations, including in universal public transfers, and outlines actionable strategies to better allocate resources. It also calls upon the Government to act swiftly to implement reforms to optimize mobilization of non-oil revenues and improve efficiency in use of public resources, so as to secure the country's financial future and maintain its social welfare commitments.

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