

LABOR AND THE NITAQAT PROGRAM: EFFECT ON THE SAUDI ARABIAN ECONOMY

1 Overview of the Nitaqat program

Nitaqat classifies entities into four bands: Excellent, Green, Yellow and Red

The Ministry of Labor of the Kingdom of Saudi Arabia has launched the *Nitaqat* (which means 'Ranges' in Arabic) program to increase job opportunities for its citizens in the private sector. The government's direct intervention is aimed at obtaining quick results and giving Saudi nationals a better stand in the local jobs market, which is currently dominated by foreign employees holding 90% (6.5 million) of the jobs.

The Nitaqat program replaces the previous nationalization of jobs program '*Saudization*'. Unlike Nitaqat, Saudization followed a blanket approach requiring 30% quota for the locals in all companies, irrespective of their economic activity and size. Under Nitaqat, the government would evaluate private entities based on their nationalization performance, which is measured by calculating the percentage of Saudi nationals employed by the firm. The nationalization performance of the companies will be calculated on a moving average basis over successive periods of 13 weeks. Based on this performance relative to their economic activity and size, the entities would be classified into four bands: *Excellent*, *Green*, *Yellow* and *Red*.

Figure 1. Nitaqat classifies companies into four bands

<p>Excellent</p> <ul style="list-style-type: none"> Entities achieving superior nationalization performance with the highest percentage of local employees 	<p>Green</p> <ul style="list-style-type: none"> Entities achieving good nationalization performance, with good percentage of local employees Green and Excellent companies represent the top half of entities with same size and economic activity
<p>Yellow</p> <ul style="list-style-type: none"> Entities achieving below average performance with lower percentage of local employees 	<p>Red</p> <ul style="list-style-type: none"> Entities achieving poor nationalization performance by hiring the lowest percentage of local employees. These firms represent the bottom one fifth percentile of entities with same size and economic activity

Source: Ministry of Labor

The labor market has been remapped into 45 economic activities and five sizes based on the workforce employed

The Nitaqat program aims to be more practical in determining the nationalization quotas for each band which varies according to the economic activity and employment size of the firms. In order to devise realistic quotas, the Ministry of Labor has remapped the labor market into 45 economic activities and categorized companies into five sizes based on the workforce employed: micro (0–9 employees), small (10–49 employees), medium (50–499 employees), large (500–2999 employees), and giant (3,000+ employees). Micro entities have

been exempt from the program at the launch stage to ensure fairness and protect small businesses. This has led to 180 different nationalization quotas for business entities of various sizes and sectors. (Refer Appendix 1 for details of Nitaqat requirement for each sector). The table below shows the nationalization quotas for various firm sizes in the Building Materials & Construction sector, thereby providing a snapshot of the Nitaqat system.

Figure 2. Nitaqat quotas for the Building Materials & Construction sector

	Red	Yellow	Green	Excellent
1–10 employees (Micro)	Not applicable	Not applicable	Not applicable	Not applicable
10–49 employees (Small)	0–1%	2–4%	5–24%	25% above
50–499 employees (Medium)	0–1%	2–5%	6–27%	28% above
500–2999 employees (Large)	0–3%	4–6%	7–30%	31% above
3000–more employees (Giant)	0–4%	5–7%	8–30%	31% above

Source: Ministry of Labor

The Nitaqat program is being implemented in a phased manner. After the formal announcement of the program in June 2011, all companies were asked to update their employee information both at the General Organization for Social Insurance (GOSI) and the Ministry of Interior to calculate their nationalization levels.

Figure 3. Different phases of the Nitaqat program

June 2011	Sep 2011	Nov 2011	Feb 2012
<ul style="list-style-type: none"> Announcement of the Nitaqat program Companies asked to update employee information 	<ul style="list-style-type: none"> Implementation of Nitaqat begins Suspension of certain services to entities in the lower bands 	<ul style="list-style-type: none"> Suspension of work permit renewals of employees of Red companies Employees of Red companies free to move to companies in higher bands 	<ul style="list-style-type: none"> Suspension of work permit renewals of employees of Yellow companies Employees of Yellow companies free to move to companies in higher bands

Source: Ministry of Labor, Saudi Hollandi Capital

After November 27, 2011 companies in the red band are not allowed to renew the work permits of expatriates

In the second phase of the program starting September 11, 2011, Saudi Arabia’s Ministry of Labor started suspending services such as transfer of visas, issuance of new visas and opening files for new businesses/branches of companies in the Yellow and Red bands, Following the implementation of the third phase on November 27, 2011, companies in the Red band are not allowed to renew work permits of expatriates, while foreign employees in those companies are permitted to shift to companies in the Excellent and Green bands

without the current employer's consent. Earlier regulation required the foreign employee to work for at least two years with the current sponsor before shifting the job. The final phase was enforced on February 23, 2012, following which companies in the Yellow band are not allowed to renew work permits of foreign employees who have stayed for six years and more in the Kingdom. To continue their stay beyond six years, foreign employees of companies in the Yellow band would have to move to Excellent and Green companies, which they could do without the consent of their employer from February 23, 2012.

The program has been designed in a way that 50% of companies in the same sector and of identical size would come under Excellent and Green bands

The Nitaqat program is designed in a manner that 50% of companies in the same sector and of identical size would come under Excellent and Green bands. Depending on the bands under which the companies fall, they would either receive incentives in the form of services and facilities or face several sanctions.

Nitaqat provides several incentives for companies in the Excellent and Green bands. Firms in the Excellent band can hire anybody from any part of the world and apply for visas with open profession through the electronic system. They are also entitled to a one-year grace period if their municipal and professional licenses or commercial registrations expire. Similarly, companies in the Green band enjoy benefits such as applying for new visas every two months, facility to change their foreign worker's profession (except those restricted to Saudis), and a six-month respite after the expiry of their Zakat and revenue certificates.

"Hafiz" program provides a monthly allowance of SAR2,000 to the unemployed Saudi Arabian workforce

Nitaqat is being run alongside "Hafiz", another initiative of the Ministry of Labor. Hafiz is an unemployment benefits national program which grants a monthly allowance of SAR2,000 to unemployed Saudi Arabian men and women. The program also helps Saudi jobseekers to find jobs, and provides them with training. The number of beneficiaries under Hafiz program rose to close to a million in April from about 500,000, when the program started in November. The Human Resource Development Fund (HRDF) which administers the payment of the monthly assistance, has paid out about SAR4 billion to the Hafiz beneficiaries till April 2012. According to the director general of HRDF, the program is expected to pay out about SAR20-30 billion by the end of the first year. The beneficiaries would however lose their allowances if they fail to meet the program guidelines such as attending interviews and training sessions.

Simultaneously, the Saudi government has launched the Liqaat program; as part of the Liqaat program, job fairs will be held across the country, during which job interviews will be arranged between employers and job seekers. According to the labor ministry, bio-data of about 100,000 Saudi nationals were scrutinized as part of the Liqaat program, of which 15,000 were selected for interviews.

In an attempt to bolster the implementation of the Nitaqat program, the government plans to introduce a wage protection system. As part of this program, the ministry will electronically monitor the payment of wages to both Saudi and expatriate workers and ensure that contractors fulfill their obligations. As this wage protection system will be directly linked to the Social Insurance Organization and Nitaqat program, it will prohibit workers from doing several jobs at the same time. This program will be implemented in a phased manner, starting with bigger companies and gradually extending to smaller companies.

2 Factors prompting the Saudi Arabian government to launch the Nitaqat program

2.1 Unsuccessful implementation of Saudization program

The Saudi Arabian government has introduced several initiatives to nationalize private sector jobs in the past. The idea of improving local participation in private sector jobs was introduced in the first five-year development plan (1970–75), during which the government decreed that 75% of workers should be Saudis and 51% of total salaries should be paid to local employees. However, the policy became a priority only in late 1990s when the Kingdom faced budget deficits and high rates of unemployment. As part of the sixth development plan (1995–2000), the government aimed at creating nearly 319,500 jobs for Saudi nationals. Since the previous five-year plans proved to be ineffective in increasing the participation of the nationals in the private sector, and realizing the difficulties in correcting the imbalance, the government set a supposedly more realistic target of 25% Saudization in the private sector by 2002 during its seventh five-year development plan (2000–05). The target was later altered to a blanket of 30% for all companies. However, just a third of the target was achieved after years of implementation.

Few sectors in the Kingdom such as Building & Construction; Agriculture, Forests & Fishing; and Finance, Insurance & Real Estate (except Banking, which has a Saudization rate of about 86%) are heavily dependent on foreign employees; representation of expatriates in these sectors is above 90%. However, with such heavy dependence on foreign employees, it would be impossible for these sectors to sustain a 30% quota for Saudis. Unrealistic target was one of the reasons for the unsuccessful implementation of the Saudization program. This called for a new program with more practical quotas. The new nationalization program, Nitaqat, uses a practical and dynamic approach in determining quotas. As part of Nitaqat, separate quotas have been imposed on firms based on their size and economic activity.

The Saudization program followed a blanket approach requiring 30% quota for all companies

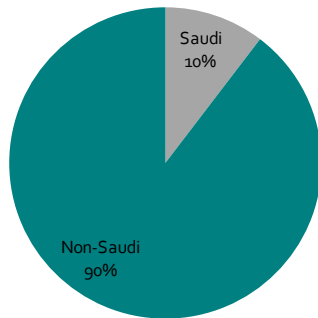
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2.2 Large presence of foreign employees & high rate of unemployment among Saudis

Foreign employees hold about 90% of private jobs in Saudi Arabia

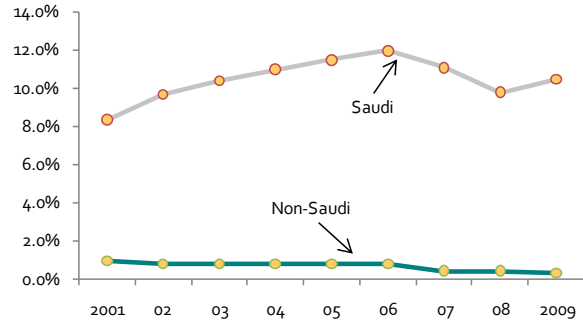
Currently, foreign employees represent around 31% (8.4 million) of the Kingdom's population. They dominate the private sector workforce by holding about 90% of jobs¹. On the other hand, nationals who represent 70% (18.7 million) of the population account for the remaining 10% of jobs.

Figure 4. Private sector employment in KSA, 2010



Source: SAMA

Figure 5. Unemployment rates are high for Saudis



Source: SAMA

Unemployment rate for Saudi nationals and non-Saudis stood at 10.5% and 0.3%, respectively, in 2009

Foreign employees constitute the major chunk of employees in the Kingdom's private sector. This is leading to higher unemployment rates among Saudi nationals and causing discontent among the locals. The exhibit above shows that the unemployment rates among nationals have been consistently high for several years. In 2009, the unemployment rate for Saudi nationals stood at 10.5% vis-à-vis 0.3% for non-Saudis.

High foreign remittance is another factor that has been brought to light. Every year, foreign employees in the Kingdom send significant sums of money in the form of remittances back to their home countries. In 2010, Saudi Arabia became the world's second biggest remittance source, sending USD27.1 billion in expatriate remittances. (For more details, refer section 3.1: Reduction in outward remittances).

2.3 Rise in youth population

Saudi Arabia has a young population with over 40% of its people under the age of 20

Saudi Arabia has a young population with over 40% of its people under the age of 20. Population under the age of 20 increased 4.3% during 2006–09. The increase in the number of Saudis reaching the working age is exerting further pressure on the labor market. Figures from the International Labor Organization (ILO) indicate that the Kingdom's youth unemployment level is worse than that of Tunisia, Jordan and Egypt. According to the Central Department of Statistics and Information, unemployment rate in the 20–24 age category stood at 30.2% in 2009. Unemployment, especially among the youth, is a critical

¹ SAMA Annual report 2011

issue which has diverse negative implications that could affect the Kingdom's socioeconomic stability and burden the government's welfare system.

2.4 Unrest in the region

The wave of civil unrest that swept across the MENA region last year escalated the urgency for improving job opportunities for Saudi nationals in the Kingdom. Unemployment among others was believed to be a key reason for political instability in several countries across the region. The unrest led to the toppling of governments in countries such as Egypt and Libya. Although Saudi Arabia remained largely insulated from these events, the gravity of the situation is well understood. The Saudi Arabian government announced several social and economic packages during the year to address unemployment and income disparity in the Kingdom. In February, a USD37 billion package, including pay hikes, unemployment benefits and affordable housing, was announced. Job creation emerged as a top priority in the government's agenda. The King ordered the creation of 66,000 security force posts, and another 66,000 jobs for graduate teachers and health diploma holders.

3 Impact of the Nitaqat program on KSA's economy

The government has devised the Nitaqat program as a long-term solution to the unemployment problem. We believe the Kingdom's economy would immensely benefit from the implementation of the program and the adverse implications would only be short-term in nature.

3.1 Positive impact of Nitaqat

Increase in employment opportunities

The government has been forced to implement the ambitious Nitaqat program to bring down the persistent unemployment rates and develop an indigenous pool of local talent. The Nitaqat program would help the government meet its target of creating 1.12 million new jobs for Saudi nationals by 2014, or 92% of all new jobs created as stated in its current development plan. Further, the Saudi Arabia government aims to create 3.5 million jobs for Saudi nationals by 2025, with help of Nitaqat and two other initiatives, Hafiz and Labor Market Observatory. The demand for the locals has gone up immediately following the implementation of the program as companies do not want to fall under the Yellow or Red bands and face sanctions. Moreover, this is also boosting the wages for Saudi nationals. In its annual survey published in September 2011, human resources consultant Hay Group notes that Nitaqat has positively impacted the salaries of the Kingdom's workforce; the average guaranteed cash package for Saudi nationals increased 7.5%. New jobs and rising

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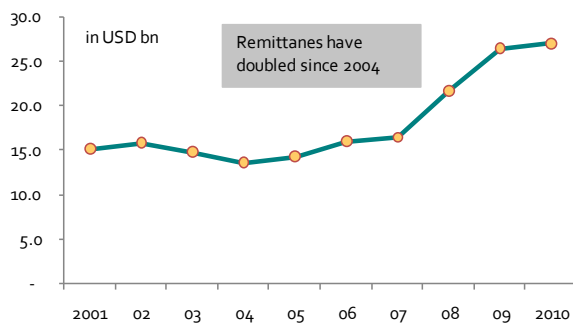
The Nitaqat program would help the government meet its target to create 1.12 million new jobs for Saudi nationals by 2014

wages could boost the aggregate demand in the short term, providing greater overall momentum to the economy.

Reduction in outward remittances

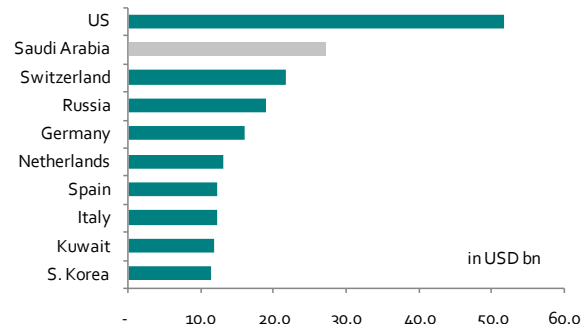
Saudi Arabia is currently the world's second biggest source of remittances. In 2010, foreign employees in the Kingdom sent out over USD27.1 billion to their home countries, leading to a significant loss to the economy.

Figure 6. Outbound remittances from Saudi Arabia



Source: The World Bank

Figure 7. KSA- second largest sender of remittances in '10



Source: The World Bank

Saudi Arabia is the world's second largest outward remittance source; outward remittances stood at USD27.1 billion in 2010

Foreign remittances increased at a CAGR of 6.7% to USD27.1 billion in 2010 from USD15.1 billion in 2001. Gradual replacement of foreign employees by Saudi nationals could help decrease the amount of outbound remittances, and increase domestic savings and consumption.

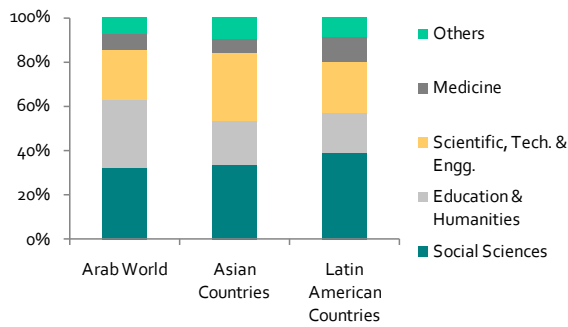
3.2 Near-term concerns over implementation of Nitaqat

Skills mismatch among local labor force

Historically, Saudi Arabia has been highly dependent on the expatriate workforce for economic development as the locals lacked both skills and relevant experience. Even today, there is considerable skill mismatch among the local labor force. For example, Saudi nationals accounted for just 2.7% of auxiliary basic engineering jobs and held just 6.9% of jobs in industrial and chemical processes and food industries in 2010. This could be ascribed to the fact that a large number of students in the Kingdom take up higher studies in humanities and arts rather than in science and technology, which have more demand in the labor market. Humanities and arts remain the single-largest majors chosen by Saudi Arabian students; accounting for 41% of university graduates in 2009. Implementation of the Nitaqat program could further exacerbate the problem of shortage of skilled workforce in Saudi Arabia.

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Figure 8. Preference for Humanities and Arts in Saudi Arabia



Source: The World Bank, UNESCO

Figure 9. Private sector productivity and private sector employment growth in KSA



Source: SAMA, Saudi Hollandi Capital; Note – Arrived at private sector productivity by dividing Non-oil Private sector GDP with the total private employee count.

Costs for private companies could rise

Implementation of Nitaqat could lead to higher costs for private companies

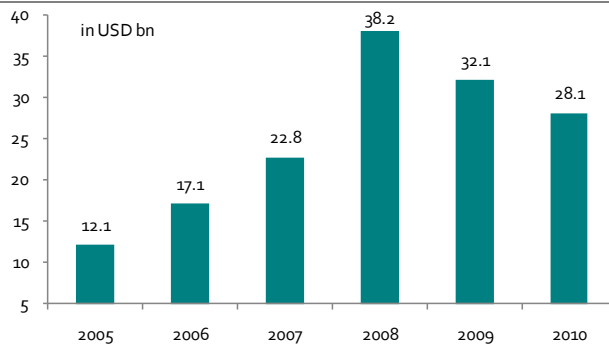
Implementation of Nitaqat amid a shortage of skilled workforce could lead to higher costs for companies in two ways: (i) extraordinary demand for a small percentage of skilled local workforce is leading to higher wages and thereby increased costs for employers; and (ii) in order to meet the Nitaqat quotas, employers are forced to hire unskilled labor and train them, thereby increasing costs. This rise in costs could affect the profitability of companies and impact the private sector's growth. This could also lead to a cyclical problem as the growth of the private sector is crucial in creating new jobs for Saudi nationals, and implementation of Nitaqat is hindering that very growth.

Impact on business sentiment and FDI inflow

Saudi Arabia ranked 12th in terms of the overall ease of doing business in the Doing Business 2012 report

Saudi Arabia has been ranked 12th in terms of the overall ease of doing business in the *Doing Business 2012* report. Although the Kingdom currently ranks higher than its regional peers and the MENA regional average, introduction of the Nitaqat program is likely to impact its position in the index.

Figure 10. FDI inflows into Saudi Arabia



Source: UNCTAD

Figure 11. Ease of Doing Business rankings* of GCC countries



Source: The World Bank; * Lower number represents better ranking

Rise in the cost of doing business and fall in productivity might make KSA's economy less attractive to foreign investors

With Nitaqat, the cost of doing business is likely to rise. This could make the economy less attractive to foreign investors, and lead to a decrease in Foreign Direct Investment (FDI) as companies would wait to see the results of the implementation of the program. FDI is essential to boost the private sector, which is critical in creating new jobs. FDI in Saudi Arabia has already been in a downward trend as it dropped to USD 28.1 billion in 2010 from the peak of USD 38.2 billion in 2008. Implementation of the Nitaqat program could further reduce FDI inflows.

Closure of businesses

Strict enforcement of Nitaqat could lead to closure of several small firms as they would not be able to afford the increased costs of doing business. The government is also expected to force non-compliant companies to shut down. According to Saudi Arabia's Labor Minister, nearly 50% of private sector firms fall under the Yellow and Red bands and could be forced out of business if they fail to comply with the Nitaqat rules within the stipulated time frame. KPMG estimates that 10–20% of businesses would shut down due to Nitaqat. Firms in the Yellow and Red bands are finding it difficult to hold on to their senior foreign staff as the program allows foreign employees to shift to Excellent and Green firms without their current employer's consent after a certain deadline.

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4 Impact of Nitaqat on various sectors

Our workings indicate that the Nitaqat program is likely to have significant negative impact on sectors such as Agriculture and Wholesale & Retail Trade, while sectors such as Insurance would be relatively less affected.

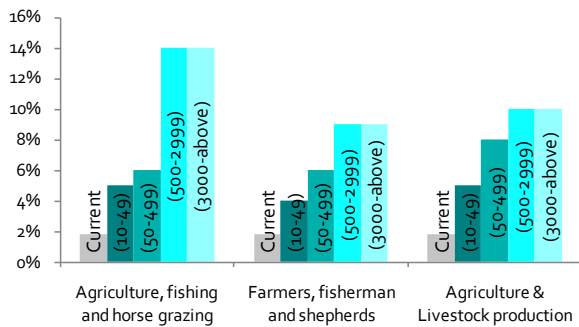
4.1 Agriculture

Data from Saudi Arabian Monetary Authority (SAMA) suggests that the Agriculture, Forests and Fishing sector accounted for 7% of total private employment and had a Saudization rate of just 1.8% in 2010. This needs to be seen against the limits set by Nitaqat. However, the Nitaqat program, does not mention Agriculture, Forests and Fishing as one sector (like SAMA), but breaks it into three different categories: Agriculture, Fishing & Horse Grazing; Farmers, Fisherman & Shepherds; and Agriculture & Livestock Production. Each category is given a separate quota. For the purpose of analysis, we compare the Saudization rate of 1.8% against each of these three sectors to understand the level of impact of the new system.

Findings reveal that, on an average, the bottom 50% of entities in the three categories would need to increase their Saudization rate by a wide margin to enter the higher bands of Green and Excellent. This could be a difficult task since Saudi nationals have been reported to be less interested in working in agricultural farms and related areas.

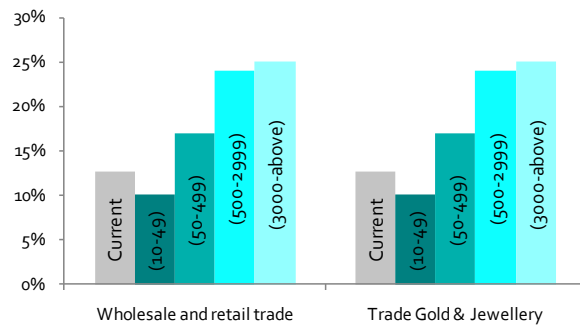
Agriculture accounted for around 7% of total private employment in 2010

Figure 12. Agriculture and related sector needs to employ more Saudis in order to enter the Green Band



Source: Ministry of Labor, SAMA, Saudi Hollandi Capital

Figure 13. Large wholesale & retail trade companies also need to employ more Saudis



Source: Ministry of Labor, SAMA, Saudi Hollandi Capital

4.2 Wholesale & Retail Trade

SAMA estimates that the Wholesale & Retail sector, which accounts for 21.5% of total private employment in KSA, had a Saudization rate of 12.6% in 2010. The sector employed 189,085 Saudi nationals of the total 1,501,414 people employed in the sector. As per the Nitaqat program, entities in the Wholesale & Retail sector employing a minimum of 10–49 employees need to reach a Saudization rate of at least 10% to fall under the Green and Excellent bands. The Saudization rate of 12.6% suggests that the sector would probably comply with the Nitaqat system. However, Saudization targets of at least 17%, 24% and 25% for bigger format wholesale and retail stores employing 50–499 people, 500–2,999 people, and above 3,000 people seem difficult. Similar is the case with companies engaged in trading gold and jewellery (see the exhibit above). The recent measures taken by the

The Wholesale & Retail sector had a Saudization rate of 12.6% in 2010

Saudi Arabia government are expected to give a push to the Saudization level in the retail sector. The implementation of the royal decree issued in June 2011, forbidding men and permitting only Saudi women to work in the lingerie shops from January 2012 is estimated to have created around 40,000 jobs for Saudi women. The Saudi women replaced male workers, most of whom are foreign workers. This decree would be extended to cosmetic shops from July 2012. The ministry of labour is considering the possibility of feminizing a range of other activities, which could result in increased employment opportunities for women.

4.3 Building & Construction

This sector is the mainstay of private sector employment in KSA, accounting for 43.2% of total private employment. According to SAMA, the sector had Saudization levels of 6.7% in 2010. Considering the sector's extreme dependency on foreign labor, the Ministry of Labor has set more realistic targets for companies in this sector. Nitaqat classifies the sector into Building Materials & Construction, Construction Maintenance & Cleaning, and Operation & Subsistence. The exhibit below shows that the target figures (Green band) for entities of all sizes in the sector are closer to the existing average figure of Saudization. Therefore, contrary to popular belief, the Building & Construction sector is fairly safe and may not be impacted much by the Nitaqat program.

The Building & Construction sector is the mainstay of private sector employment, accounting for 43.2% of total private employment

Figure 14. Green band Saudization targets for Building Materials & Construction seem manageable

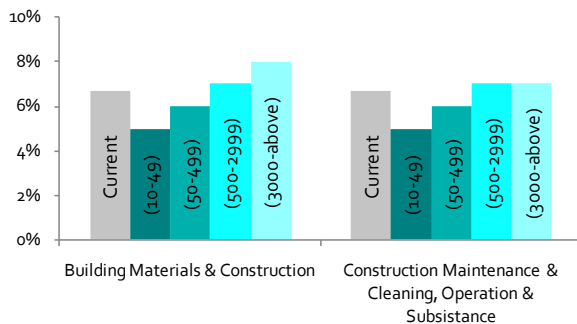
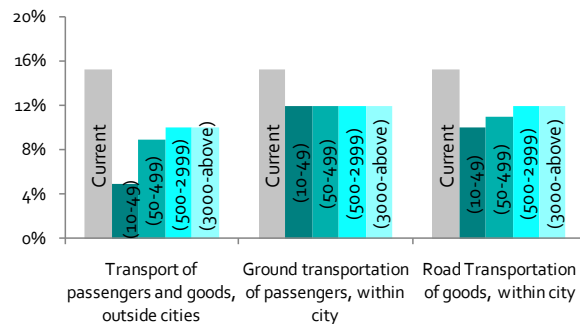


Figure 15. Companies engaged in the transport business already seem to be employing many Saudi nationals



Source: Ministry of Labor, SAMA, Saudi Hollandi Capital

Source: Ministry of Labor, SAMA, Saudi Hollandi Capital

4.4 Transport, Storage & Communications sector

According to SAMA, the Transport, Storage & Communications sector had a Saudization rate of 15.3% in 2010. The sector contributes nearly 10.5% to total private sector employment in Saudi Arabia. The Nitaqat program classifies the Transport sector into Transport of Passengers and Goods (outside cities), Ground Transportation of Passengers (within city), and Road Transportation of Goods (within city). Comparing the average Saudization figure from SAMA for the Transport, storage and communications sector with

Transport companies claim to be finding it difficult to employ Saudi nationals to meet Nitaqat targets.

targets set by Nitaqat for the three categories, we believe that the program may not have much impact on the sector. However, transport companies claim to be finding it difficult to employ Saudi nationals and meet the Nitaqat targets, as Saudis are reluctant to take up these jobs.

4.5 Insurance sector

The Insurance sector had a Saudization rate of 50% in 2010²; it employed over 3,500 Saudi nationals. The program requires entities in the Insurance & Business Services sector with more than 500 employees to have a Saudization rate of at least 20% to fall under higher bands. Therefore, the Insurance sector would not be impacted much as the average Saudization rate is well above this target.

5 Impact on key companies

SABIC, Saudi Arabia's biggest company by far in terms of market capitalization claims to have a high Saudization rate and also encourages suppliers to increase their rates of nationalization. In January 2011, SABIC launched an initiative called "SABIC National Saudization Program for Contractor Jobs in Jubail and Yanbu Industrial Cities". As part of the initiative, contractors need to maintain a certain rate of Saudization to receive business from SABIC. The Energy and Utilities services provider Saudi Electricity had a Saudization rate of 86.3% in 2010, placing it in the Excellent band. Saudi Arabia's leading food group SAVOLA also falls in the Excellent band due to its high nationalization rate of 41%. In the banking sector, Saudi Hollandi bank has a Saudization rate of 87.4%, placing it in the Excellent band. Due to unavailability of Saudization rates for all companies, we have provided their employee count and the Nitaqat range required to be in the Green band in the following table.

The insurance sector had a Saudization rate of 50% in 2010

Saudi Electricity had a Saudization rate of 86.3% in 2010

² The SAMA Insurance Annual report 2010

Figure 16. Nitaqat ranges for Key companies

Company	Sector	No. of. employees	Nitaqat range for Green band
SABIC	Petro chemical	33,000*	45-79%
Saudi Electricity	Energy & Utilities	27,601*	20-69%
Saudi Telecom	Telecom	20,000 [#]	30-74%
SAVOLA Group	Agri and Food	17,000*	10-26%
Al Rajhi	Banking	9,578*	65-89%
Tawuniya	Insurance	4,031 [#]	20-54%
Red Sea	Building and Construction	3000*	8-30%
MA'ADEN	Mining	2,372*	30-59%
Jarir	Retail	2,030*	24-34%
Dar Al Arkan	Real Estate Development	450 [#]	8-30%
Saudi Hollandi Bank	Banking	1417 [#]	65-89%

Source: Zawya Notes : * indicates employee count at Group level, # indicates employee count at Company level

6 Case study - Omanization

The government of Oman launched a jobs localization program called Omanization in 1988 to reduce the economy's dependency on expatriates and increase the participation of nationals in the labor market. Oman, which had a very young population, started suffering from low employment rates from 1980s. In order to correct the imbalance in the workforce, the government designed a plan with a set of quotas and incentives for the private sector. It initially set Omanization targets for six areas of the private sector: Transport, Storage & Communication (60% quota); Finance, Insurance and Real Estate (45%); Industrial (35%); Hotels & Restaurants (30%); Wholesale or Retail Trading (20%) and Contracting (15%). Along with the private sector, Omanization targets have also been set for government departments. Later, Oman's government started using a mixed approach by setting targets for key sectors and also particular occupations/work streams in the sectors. The government has set targets for sectors such as IT, Telecom and Banks as well as for occupations in particular sectors. In IT, separate targets have been set for senior management, sales and marketing, technical support and infrastructure. The table below provides a list of quotas set for certain occupations in some sectors.

Oman's government initially set Omanization targets for six areas of the private sector

Figure 17. Omanization targets for various sectors

Sector	Occupation	Omanization Target %		
		2008	2009	2010
IT	Senior management	7	8	9
	Sales & Marketing	100	100	100
	Technical support & Infrastructure	13	14	15
Telecom	Total percentage	62	64	68
Oil & Gas	Productive & Operating	87	90	90
	Local companies	77	80	82
Contracting	2nd class companies	30	30	30
	Continued projects	80	80	80
Automobiles	Total percentage	52	55	58
Sales & Distribution	Total percentage	55	60	65
Transport & Navigation	Sea ports	78	78	78
	Shipping	84	84	84
Accounting	Managers	23	26	29
	Professionals	55	60	66
Industry	Total percentage	-	-	35
Banks	Total percentage	-	-	90

Source: Ministry of Manpower, Oman

Oman's government has encouraged universities to train the Omani workforce to cater to the requirements of the private sector

As part of the Omanization program, the government has taken several steps to promote the employment of Omanis in the private sector. It has set control procedures on expatriate labor coming into the private sector, particularly in occupations such as skilled manual workers and semi-skilled manual workers that can be easily Omanized due to the low level of skills required. It has encouraged universities and other educational institutions to train the Omani workforce to cater to the requirements of the private sector. It also promoted self employment by providing guidelines and suitable incentives for entrepreneurs. It provided incentives such as the labor levy rebate scheme to the private sector to encourage participation in the program. Under this scheme, the government provides compensation to private sector firms in lieu of salaries and allowances payable to Omanis during the period of training. A green card system has also been setup wherein companies meeting the Omanization targets are given a green card that enables them to receive preferential treatment from the government.

The total representation of Omanis in the private sector rose to 16.6% in 2000 from 14.7% in 1995. It further surged to 18.3% in 2006. During 2006–10, the expatriate employment rose in the private sector along with strong growth in the private sector employment. The

Oman, as part of its “Oman 2020 – Vision for Oman’s economy” aims to achieve Omanization rates of 95% and 75% in the public and private sector, respectively

To correct the long-term imbalances in the labor market, Saudi Arabia government should introduce wide scale education reforms

employment of the locals in the private sector fell to 15.7 % in 2010. However, Omanization rate in government departments grew to 85.6% in 2009 compared to 68% in 1995. As part of “Oman 2020 – Vision for Oman’s economy”, the government aims to achieve Omanization rates of 95% and 75% in public and private sectors, respectively.

Although Omanization program has not been a complete success, it is a relatively successful jobs localization program compared to Saudization. Realistic goals and alignment of Omanization policies with the country’s educational reform strategies made the policy initiative fruitful. The mixed approach of setting targets for key sectors and particular professions has helped increase employment of Omanis.

7 Conclusion

Nitaqat is certainly a logical extension of the erstwhile Saudization program. The program has been designed taking into consideration the shortcomings of the previous initiative. Although there seem to be few concerns over the implementation of the Nitaqat program in the short term, it would help improve efficiency and skills of Saudi nationals in the long run. This would lead to increased participation of the locals in the private sector and reduction in unemployment rates. It is also likely to help lower the private sector’s dependence on foreign employees. According to the director general of Human Resources Development Fund, Nitaqat has helped in creating over 300,000 job opportunities for Saudi nationals in the private sector so far.

The government is working on several initiatives to alleviate the concerns regarding the implementation of the program. The initiatives include developing a database of qualified Saudi job seekers, providing incentives to work in remote regions and increasing resources of the Human Resource Development Fund and several others.

In addition to the above the government needs to take initiatives to correct long-term imbalances in the labor market. It needs to introduce extensive educational reforms to create a skilled local workforce. Also, the education system in the Kingdom must be aligned with the needs of the labor market and should train Saudi nationals with the hard and soft skills required to compete with foreign employees for private sector jobs.

8 Appendix: Nitaqat requirements by sectors

Sector	10-49	50-499	500-2,999	3,000 and more
Agriculture, Fishing and Horse Grazing				
Red	0-1%	0-1%	0-4%	0-4%
Yellow	2-4%	2-5%	5-13%	5-13%
Green	5-24%	6-26%	14-26%	14-26%
Excellent	25% above	27% above	27% above	27% above
Farmers, Fisherman and Shepherds				
Red	0-1%	0-1%	0-1%	0-1%
Yellow	2-3%	2-5%	2-8%	2-8%
Green	4-24%	6-26%	9-26%	9-26%
Excellent	25% above	27% above	27% above	27% above
Agriculture & Livestock Production				
Red	0-1%	0-3%	0-5%	0-5%
Yellow	2-4%	4-7%	6-9%	6-9%
Green	5-24%	8-26%	10-26%	10-26%
Excellent	25% above	27% above	27% above	27% above
Oil & Gas Extraction				
Red	0-4%	0-9%	0-14%	0-14%
Yellow	5-9%	10-25%	15-34%	15-34%
Green	10-54%	30-79%	35-84%	35-84%
Excellent	55% above	80% above	84% above	84% above
Mines & Quarries				
Red	0-2%	0-5%	0-9%	0-9%
Yellow	3-4%	6-19%	10-29%	10-29%
Green	5-29%	20-44%	30-59%	30-59%
Excellent	30% above	45% above	60% above	60% above
Manufacturing				
Red	0-4%	0-5%	0-7%	0-7%
Yellow	5-7%	6-14%	8-9%	8-9%
Green	8-24%	15-29%	20-34%	20-34%
Excellent	25% above	30% above	35% above	35% above
Petrochemical, Coal & Rubber				
Red	0-4%	0-7%	0-19%	0-19%
Yellow	5-9%	8-24%	20-44%	20-44%
Green	10-30%	25-44%	45-79%	45-79%
Excellent	31% above	45% above	80% above	80% above
Cement Industry				
Red	0-4%	0-5%	0-7%	0-7%
Yellow	5-14%	6-24%	8-29%	8-29%
Green	15-29%	25-39%	30-59%	30-59%
Excellent	30% above	40% above	60% above	60% above
Electricity, Gas & Water				
Red	0-4%	0-5%	0-7%	0-7%
Yellow	5-9%	6-14%	8-19%	8-19%
Green	10-29%	15-63%	20-69%	20-69%
Excellent	30% above	64% above	70% above	70% above

Source: Ministry of Labor

Sector	10-49	50-499	500-2,999	3,000 and more
Building Materials & Construction				
Red	0-1%	0-1%	0-3%	0-4%
Yellow	2-4%	2-5%	4-6%	5-7%
Green	5-24%	6-27%	7-30%	8-30%
Excellent	25% above	28% above	31% above	31% above
Construction Maintenance & Hygiene, employment & Subsistence				
Red	0-1%	0-2%	0-3%	0-3%
Yellow	2-4%	3-5%	4-6%	4-6%
Green	5-24%	6-27%	7-30%	7-30%
Excellent	25% above	28% above	31% above	31% above
Wholesale & Retail Trade				
Red	0-4%	0-4%	0-9%	0-9%
Yellow	5-9%	5-16%	10-23%	10-24%
Green	10-26%	17-33%	24-34%	25-36%
Excellent	27% above	34% above	35% above	37% above
Trade Gold & Jewellery				
Red	0-9%	0-9%	0-9%	0-9%
Yellow	10-14%	10-19%	10-28%	10-28%
Green	15-54%	20-59%	29-59%	29-59%
Excellent	55% above	60% above	60% above	60% above
Pharmacies & Drug Stores				
Red	0-4%	0-50%	0-9%	0-9%
Yellow	5-6%	6-12%	10-14%	10-14%
Green	7-19%	13-29%	15-29%	15-29%
Excellent	20% above	30% above	30% above	30% above
Nutrition Services				
Red	0-1%	0-1%	0-4%	0-4%
Yellow	2-4%	2-6%	5-15%	5-15%
Green	5-24%	7-27%	16-30%	16-30%
Excellent	25% above	28% above	31% above	31% above
Accommodation & Tourism				
Red	0-1%	0-4%	0-4%	0-5%
Yellow	2-5%	5-17%	5-17%	6-17%
Green	6-26%	18-39%	18-39%	18-41%
Excellent	27% above	40% above	40% above	42% above
Transport Of Passengers And Goods Outside The Cities				
Red	0-0%	0-4%	0-4%	0-4%
Yellow	1-4%	5-8%	5-9%	5-9%
Green	5-19%	9-24%	10-39%	10-39%
Excellent	20% above	25% above	40% above	40% above
Land Transport Of Passengers Within Cities				
Red	0-4%	0-4%	0-4%	0-4%
Yellow	5-11%	5-11%	5-11%	5-11%
Green	12-34%	12-39%	12-44%	12-44%
Excellent	35% above	40% above	45% above	45% above

Source: Ministry of Labor

Sector	10-49	50-499	500-2,999	3,000 and more
Road Transport Of Goods in Cities				
Red	0-5%	0-6%	0-7%	0-7%
Yellow	6-9%	7-10%	8-11%	8-11%
Green	10-19%	11-20%	12-21%	12-21%
Excellent	20% above	21% above	22% above	22% above
Shipping				
Red	0-5%	0-9%	0-9%	0-9%
Yellow	6-17%	10-24%	10-24%	10-24%
Green	18-64%	25-69%	25-74%	25-74%
Excellent	65% above	70% above	75% above	75% above
Storage				
Red	0-4%	0-9%	0-9%	0-9%
Yellow	5-7%	10-19%	10-29%	10-29%
Green	8-29%	20-39%	30-44%	30-44%
Excellent	30% above	40% above	45% above	45% above
Air Transport				
Red	0-6%	0-8%	0-9%	0-9%
Yellow	7-19%	9-24%	10-29%	10-29%
Green	20-59%	25-59%	30-59%	30-59%
Excellent	60% above	60% above	60% above	60% above
Communications				
Red	0-6%	0-9%	0-9%	0-9%
Yellow	7-19%	10-29%	10-29%	10-29%
Green	20-59%	30-69%	30-74%	30-74%
Excellent	60% above	70% above	75% above	75% above
Insurance & Business Services				
Red	0-4%	0-4%	0-4%	0-4%
Yellow	5-9%	5-19%	5-19%	5-19%
Green	10-39%	20-54%	20-54%	20-54%
Excellent	40% above	55% above	55% above	55% above
Financial Institutions (Banks)				
Red	0-9%	0-19%	0-49%	0-49%
Yellow	10-29%	20-49%	50-64%	50-64%
Green	30-79%	50-89%	65-89%	65-89%
Excellent	80% above	90% above	90% above	90% above
Collection Offices & Real Estate Services				
Red	0-4%	0-4%	0-4%	0-4%
Yellow	5-17%	5-17%	5-17%	5-17%
Green	18-59%	18-59%	18-59%	18-59%
Excellent	60% above	60% above	60% above	60% above

Source: Ministry of Labor

Sector	10-49	50-499	500-2,999	3,000 and more
Consulting Services & Business				
Red	0-4%	0-5%	0-6%	0-6%
Yellow	5-9%	6-11%	7-11%	7-11%
Green	10-39%	12-39%	12-39%	12-39%
Excellent	40% above	40% above	40% above	40% above
Social & Community Services				
Red	0-1%	0-4%	0-9%	0-9%
Yellow	2-4%	5-16%	10-21%	10-21%
Green	5-39%	17-64%	22-74%	22-74%
Excellent	40% above	65% above	75% above	75% above
Offices , Public Services				
Red	0-9%	0-9%	0-9%	0-9%
Yellow	10-29%	10-29%	10-29%	10-29%
Green	30-89%	30-89%	30-89%	30-89%
Excellent	90% above	90% above	90% above	90% above
Agents of Private Recruitment				
Red	0-9%	0-9%	0-9%	0-9%
Yellow	10-29%	10-29%	10-29%	10-29%
Green	30-89%	30-89%	30-89%	30-89%
Excellent	90% above	90% above	90% above	90% above
Personal Services				
Red	0-1%	0-4%	0-4%	0-4%
Yellow	2-6%	5-12%	5-12%	5-12%
Green	7-29%	13-64%	13-64%	13-64%
Excellent	30% above	65% above	65% above	65% above
Workshops & Maintenance Shops				
Red	0-1%	0-2%	0-14%	0-14%
Yellow	2-4%	3-6%	15-29%	15-29%
Green	5-29%	7-34%	30-39%	30-39%
Excellent	30% above	35% above	40% above	40% above
Printing, Publishing & Media				
Red	0-1%	0-9%	0-14%	0-14%
Yellow	2-9%	10-19%	15-34%	15-34%
Green	10-34%	20-39%	35-64%	35-64%
Excellent	35% above	40% above	65% above	65% above
Laboratory				
Red	0-9%	0-10%	0-11%	0-11%
Yellow	10-14%	11-15%	12-16%	12-16%
Green	15-29%	16-30%	17-31%	17-31%
Excellent	30% above	31% above	32% above	32% above
Health Services				
Red	0-4%	0-9%	0-9%	0-9%
Yellow	5-13%	10-15%	10-19%	10-19%
Green	14-29%	16-29%	20-34%	20-34%
Excellent	30% above	30% above	35% above	35% above

Source: Ministry of Labor

Sector	10-49	50-499	500-2,999	3,000 and more
Kindergartens, Institutes And Colleges				
Red	0-9%	0-11%	0-14%	0-14%
Yellow	10-33%	12-34%	15-34%	15-34%
Green	34-69%	35-69%	35-69%	35-69%
Excellent	70% above	70% above	70% above	70% above
Private & Public Schools For Girls				
Red	0-29%	0-39%	0-39%	0-39%
Yellow	30-49%	40-49%	40-49%	40-49%
Green	50-79%	50-79%	50-79%	50-79%
Excellent	80% above	80% above	80% above	80% above
Private And Public Schools For Boys				
Red	0-9%	0-14%	0-14%	0-14%
Yellow	10-19%	15-19%	15-19%	15-19%
Green	20-39%	20-39%	20-39%	20-39%
Excellent	40% above	40% above	40% above	40% above
Foreign Schools				
Red	0-4%	0-6%	0-6%	0-6%
Yellow	5-9%	7-14%	7-14%	7-14%
Green	10-29%	15-29%	15-29%	15-29%
Excellent	30% above	30% above	30% above	30% above
Security Guards				
Red	0-49%	0-50%	0-51%	0-51%
Yellow	50-74%	51-75%	52-76%	52-76%
Green	75-84%	76-85%	77-86%	77-86%
Excellent	85% above	86% above	87% above	87% above
Private Employment Offices				
Red	0-49%	0-50%	0-51%	0-51%
Yellow	50-74%	51-75%	52-76%	52-76%
Green	75-84%	76-85%	77-86%	77-86%
Excellent	85% above	86% above	87% above	87% above
Kindergarten				
Red	0-9%	0-11%	0-14%	0-14%
Yellow	10-33%	12-34%	15-34%	15-34%
Green	34-69%	35-69%	35-69%	35-69%
Excellent	70-100%	70-100%	70-100%	70-100%
Bread and bakery trade				
Red	0-1%	0-3%	0-6%	0-6%
Yellow	2-4%	4-6%	7-12%	7-12%
Green	5-10%	7-14%	13-19%	13-19%
Excellent	11-100%	15-100	20-100%	20-100%
Ready-mixed concrete				
Red	0-4%	0-5%	0-5%	0-5%
Yellow	5-7%	6-12%	6-14%	6-14%
Green	8-29%	13-34%	15-34%	15-34%
Excellent	30-100%	35-100%	35-100%	35-100%
Information Technology				
Red	0-4%	0-9%	0-14%	0-14%
Yellow	5-9%	10-19%	15-29%	15-29%
Green	10-29%	20-39%	30-44%	30-44%
Excellent	30-100%	40-100%	45-100%	45-100%

Source: Ministry of Labor

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