

Saudization and the Nitaqat Programs: Overview and Performance

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The limited success of Saudization program in curbing the unemployment of Saudi Nationals led to the introduction of a supplemental program called the “Nitaqat” in 2011. This paper gives an overview of the Saudization and Nitaqat programs. It also examines the performance of the Saudization program pre and post Nitaqat. Data show that Nitaqat has led to a significant increase in the number of Saudis employed in the private sector. However, it has not been able to reduce the unemployment rate among Saudis while causing the exacerbation of Ghost Saudization and the closure of more than 200,000 firms in two years.

JEL Codes: H87, J21, J68, and J82

1. Introduction

Saudi Arabia’s continued dependence on foreign labor mixed with rising unemployment of Saudi nationals has been a challenging problem for the Saudi Ministry of Labor (MoL). A nationalization program called “Saudization”, which means the replacement of foreign workers with Saudi Nationals, was put in place to tackle this problem. A targeted Saudization or nationalization rate for the labor market is usually set in the Ministry of Economy and Planning’s (MoEP) Five-Year Development Plan (DP). However, the target rate is often not reached due to various reasons including the availability of cheaper foreign labor hired in masses by the private sector, Saudis’ lack of training and preparedness for the labor market, and the inefficiency of Saudization policies.

The failure of the Saudization program in curbing the unemployment of Saudi Nationals led the MoL to introduce the Nitaqat program as a re-enforcement policy in 2011. Nitaqat which means “bands” or “zones” is designed to provide companies with more attainable targets. It imposes sanctions on companies in non-compliance and provides incentives to those in compliance for the advancement of the Saudization agenda. The concern, however, is that the Nitaqat could put unnecessary burden on the private sector by creating additional costs for companies (Looney, 2004 and Ramady, 2013). This in turn could lead to the closure of businesses.

This paper examines the performance of the Saudization program before and after the introduction of the Nitaqat using data from the MoEP and Saudi Arabian Monetary Agency (SAMA). It is the first study that discusses the outcomes of the Nitaqat three years after its inception. The paper is organized as follows: section 2 gives a brief review of the literature, while section 3 discusses the Saudization program and its performance in the eighth DP. Section 4 gives an overview of the Nitaqat program and discusses its impact on the labor market during the ninth DP. The paper finishes with a conclusion in section 5.

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2. Literature Review

The literature on Saudization and the Nitaqat programs falls under the broad literature in labor economics that focuses on the impact of quota-based employment programs. The United States' (U.S.) affirmative action program is the most studied quota based employment program in this literature. Affirmative action is a government-mandated program that imposes quotas on the employment of minority groups in government jobs and in jobs from private companies with government contracts in the United States. See Holzer & Neumark (2000) for a detailed survey of studies on the U.S. affirmative action program.

Papers that have studied the effect of quota-based hiring policies in countries other than the U.S. include studies by Howard & Prakash (2012), Chin & Prakash (2011), and Prakash (2009). These studies examined the impact of Indian minority quota-based employment policies on the Indian labor market. They found that the hiring quota-based policies improved the employment outcome of some of the minority groups in India by increasing their probability of finding a salaried job and choosing higher-skilled occupations, which in turn led to higher household consumption expenditures.

Additional studies in the literature focus on quota-based employment policies that are instituted for the purpose of nationalization of the labor force, especially in the Gulf Cooperation Council (GCC) countries – Bahrain, Kuwait, Oman, Saudi Arabia, Qatar, and the UAE. These countries' reliance on a foreign work force in the face of increasing national unemployment has forced their governments to enact and enforce quota-based hiring policies for their citizens. These policies are employment stimulus programs aim at increasing the employment of the nationals of these countries in the private sector. They are referred to as Bahrainization in Bahrain, Kuwaitization in Kuwait, Omanization in Oman, Saudization in Saudi Arabia, Qatarization in Qatar, and Emiratization in UAE (Randeree, 2012).

The focus of this paper is on Saudization policies of Saudi Arabia and their impact on the Saudi labor market. The following are some of the recent studies on Saudization, the Nitaqat program, and the Saudi labor market: Harvard Kennedy School (2015), Peck (2014), Ramadi (2013), Saudi Hollandi Capital (2012), Fakeeh (2009), and Al-Asmari (2008). Harvard Kennedy School (2015) wrote a background paper on the Saudi labor market that resulted from its partnership with the Saudi Human Resources Development Fund (HRDF). The HRDF-Harvard partnership connects researchers with Saudi policy makers to generate in-depth knowledge of the current constraints in the areas of employment and job creation in the Kingdom. The paper is said to be a living document that focuses on identifying problems in the labor market and making headway into diagnosing the underlying causes of these problems. It promotes a smart policy design that encourages a collaborative and problem-driven scheme whereby parties use collective expertise to tackle important labor issues.

Peck (2014) empirically analyzed the effects of quota-based Nitaqat policies on nationalization, firm size, and firm exit in the Saudi's private sector. The paper used a comprehensive data set on the full universe of Saudi private-sector firms to perform a regression kink. The regression kink results were then complemented with a differences-in-differences approach to estimate the overall effects of the program. The paper found that the Nitaqat program succeeded in increasing the employment of Saudi nationals but

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caused significant costs to private companies and the shutting down of approximately 11,000 private companies within 16 months of its implementation.

Ramady (2013) examined the effects of the Nitaqat on the overall economic growth and productivity in Saudi Arabia assuming the introduction of a SAR 3,000 per month minimum wage for Saudi workers in the private sector under the government's Hafiz system. The paper concluded that the Nitaqat program and the minimum wage policies would decrease labor productivity and potentially affect other Saudi government's initiatives such as opening up the Saudi economy to the global market and raising the quantity of foreign direct investment (FDI) inflows. The study also suggested that foreign firms could exit Saudi Arabia believing that Saudization policies will put them at a disadvantage, especially cost wise, when compared to their foreign competitors. In addition, potential new entrants will become more reluctant to invest in Saudi Arabia resulting in a reduction in FDI.

Saudi Hollandi Capital (2012) gave an overview of the Nitaqat program in addition to discussing its effect on the Saudi's economy. The paper highlights some of the factors that incited the Saudi government to launch the Nitaqat, factors such as the unsuccessful implementation of the Saudization program, large presence of foreign employees, high unemployment rate among Saudis, increase in youth population, and unrest in the region. According to this study, the increase in the employment opportunities for Saudis and the reduction in outward remittances are the positive effects of the Nitaqat program while skills mismatch among local labor force, increase costs for private companies, fall in the inflow of FDI, and closure of businesses are the potential negative effects.

Fakeeh (2009) wrote a doctorate thesis that discusses the paradox of high wealth and high unemployment of Saudi nationals in the Kingdom. He also attempted to determine if Saudization is the solution to the unemployment problem in Saudi Arabia by analyzing the shortcomings of the program as instituted by the government and as used by the private sector. The study was conducted based on documented evidence as well as on interviews with representatives of key stakeholder groups such as policy makers, employers, and employees in the Saudi Western Province of Jeddah. The study concluded that policy makers continue to view Saudization as an economic and social necessity while understanding the difficulties that Saudization policies present for private companies and their reluctance in using them. The study suggested that Saudization policies must fit the reality of the labor market in order to be more efficient.

Al-Asmari (2008) provided some background information on the efforts made by the Saudi government in developing local manpower and replacing foreign labor with Saudi nationals through the Saudization program. The study concluded that more still needs to be done in the development of local human resources and in reducing dependency on foreign labor in the private sector. The Saudi government's strides made at the education and training levels, the development of job-replacement policies, and the creation of career opportunities were still not enough in resolving these issues. The study also stressed the importance of harmonizing the education system with the actual needs and requirements of the labor market in Saudi Arabia.

This paper adds to the recent literature on Saudization by providing updated information about the Nitaqat program and by comparing the performance of the Saudization program before and after the implementation of the Nitaqat during the eighth and ninth DPs. The paper offers clear evidence of the achievement of the Nitaqat at effectively raising the

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number of Saudis employed in the private sector and the apparent shortcomings of the program in reducing the rate of unemployment for Saudi nationals.

3. The Saudization Program

The Saudization program started with the first Saudi Government DP in 1970. Its objective was to increase the number of employed Saudis in the Kingdom, especially in the private sector. The program became a priority for the Saudi government in the late 1990s due to a rising unemployment among Saudi Nationals and a rapidly growing population. A target rate of Saudization (Saudi employment as percent of total employment) is usually set in the DPs. The government of Saudi Arabia completed its ninth DP (2010-2014) in 2014 and is currently working on its tenth DP (2015 - 2019).

Table 1 gives a brief overview of the changes in the Saudi labor market during the eighth DP (2005 – 2009). The target Saudization rate was set at 51.5 percent in the eighth DP, that is, the expectation was that by the end of 2009, Saudi Nationals should represent 51.5 percent of Saudi Arabia's work force. This was a 20.6 percent expected increase from its 2004 value. However, for various reasons, the Saudization rate fell short of the target, rising only by 12.2 percent in 2009 and missing its target by 40.8 percent (Ministry of Economy and Planning, 2010). In addition, there were 2.2 million new jobs created by the private sector during the eighth DP, however, only about 8.9 percent of them (195,755 jobs) were taken by Saudi Nationals (Sfakianakis, 2014).

The unemployment rate for Saudi nationals, which was expected to decline from 7 percent in 2004 to 2.8 percent by the end of the eighth DP in 2009, rose to 9.6 percent and missed its target by 161.8 percent. The number of unemployed Saudis, which was targeted to decrease from 267,900 in 2004 to 138,900 by the end of 2009, also increased to 414,400 unemployed Saudis and missed its target by 213.5 percent. Meanwhile, the number of employed Saudi nationals rose as expected but fell short of target by 68.7 percent. Of all the labor market's targets set in the eighth DP, only the number of employed foreign workers exceeded expectation, declining by 10.3 percent compared to a 5.7 percent target.

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Table 1: Saudi Arabian Main Indicators of Labor Market at the End of the Eight DP

	Actual 2004	Target 2009	Actual 2009	Percentage Change during the 8 th DP		Percentage Above & Off Target ⁽¹⁾
				Target	Actual	
Saudi Manpower (Thousands)	3804.2	4886.0	4329.0	28.4%	13.8%	(51.4%)
Male	3271.6	3996.7	3636.5	22.2%	11.1%	(50.0%)
Female	532.6	889.3	692.5	67.1%	30.0%	(55.3%)
Saudi Labor Participation rate (%)	36.9	39.2	36.7	6.2%	-0.5%	(108.1%)
Total Employment (Thousands)	8281.8	9221.3	8173.1	11.3%	-1.3%	(111.5%)
Saudi	3536.3	4747.1	3914.6	34.2%	10.7%	(68.7%)
Non-Saudi	4745.5	4474.2	4258.5	-5.7%	-10.3%	75.4%
Saudization Rate (Saudi Employment as % of Total)	42.7	51.5	47.9	20.6%	12.2%	(40.8%)
Unemployed Saudis (Thousands)	267.9	138.9	414.4	-48.2%	54.7%	(213.5%)
Male	183.6	99.7	238.1	-45.7%	29.7%	(165.0%)
Female	84.3	39.2	176.3	-53.5%	109.1%	(303.9%)
Saudi Unemployment Rate (% of Saudi Manpower)	7.0	2.8	9.6	-60.0%	37.1%	(161.8%)
Male	5.6	2.5	6.5	-55.3%	16.1%	(129.1%)
Female	15.8	4.4	25.5	-72.1%	61.4%	(185.2%)

Source: Data are from the Ministry of Economy and Planning 2006a, 2006b, 2010a, 2010b, and 2010c.

(1) A positive number means percentage above target. Negative numbers are in parenthesis and mean percentage off target. Percentage changes and percentages above and off target are calculated by the author

The failure of the Saudization program in reducing Saudis' unemployment rate was caused by factors such as Saudis' lack of skills and work ethics, mismatch between acquired skills and required skills, lack of strategic planning by the government and the private sector, increased costs to the private sector, socio-economic constraints, and work circumstances. For a detailed analysis of the barriers to Saudization see Fakeeh (2009) and Harvard Kennedy School (2015).

4. The Nitaqat Program

Due to the continuing failure of the Saudization program in reducing the number of unemployed Saudi nationals, the MoL decided in June 2011 to introduce a supplemental program called the Nitaqat. The "Nitaqat," which stands for "bands" or "zones" in Arabic, is a program that seeks to increase work opportunities for Saudi nationals in the private sector by following a different set of rules than Saudization.

Under the Saudization program, all private companies, irrespective of their economic activity and size, were required to have 30% of their workforce occupied by Saudi nationals. The Nitaqat, however, measures the nationalization performance of companies by calculating, over successive periods of 13 weeks, a moving average of the percentage of Saudi nationals employed by a firm, taking into account the firm's economic activity and size (Ministry of labor, 2011). Based on the measured nationalization performance, companies are grouped into four bands: *Premium, Green, Yellow, and Red*. The description of each band is presented in Table 2 below.

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Table 2: Nitaqat Companies' Classification

<p>Premium Entities achieving superior nationalization performance with the highest percentage of Saudi employees</p>	<p>Green Entities achieving good nationalization performance, with a good percentage of Saudi employees</p>
<p>Yellow Entities achieving below average performance with a lower percentage of Saudi employees</p>	<p>Red Entities achieving poor nationalization performance by hiring the lowest percentage of Saudi employees.</p> <p>These firms should represent no more than the bottom one fifth percentile of entities with same size and economic activity</p>

Source: Saudi Ministry of Labor, 2011; Saudi Hollandi Capital, 2012.

The government of Saudi Arabia expects to quickly replace foreign workers with Saudi nationals in the private sector using the Nitaqat quota-based program. Each of the four classification groups of the Nitaqat has nationalization quotas that vary according to the economic activity and employment size of the firms. The labor market was mapped into 45 economic activities and companies were grouped into five sizes according to the number of employed workers. A micro company is a business with a total of 1 to 9 workers, while a company that has between 10 to 49 employees is classified as small. Medium size companies are businesses with a workforce of between 50 to 499 employees, while large companies are those with a total of 500 to 2999 employees. Giant companies are firms with 3,000 employees or more. Micro companies are exempt from the Nitaqat quota but are required to employ a least one Saudi national.

Table 3 below shows a sample of Nitaqat color band ranges for the education sector. For instance, a medium size (50 – 499 workers) college with 20 Saudi workers and 80 foreign employees will be classified as Yellow with a Saudization rate of 20 percent.

Table 3: Sample of Nitaqat Saudization Quotas in Education Sector

Kindergartens, Institutes, And Colleges	Small Size 10-49 Employees	Medium Size 50-499 Employees	Large Size 500-2,999 Employees	Giant Size 3,000 & more Employees
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

Source: Saudi Hollandi Bank, 2012.

The Nitaqat program was implemented in phases from its inception in June 2011. During the first phase of the program, all private companies were asked to update information about their employees at the Ministry of Interior and the General Organization for Social Insurance (GOSI). The MoL used the information provided by these companies to calculate their initial nationalization levels. The implementation of the Nitaqat started with the second phase of the program that began in September 2011. During this phase, the MoL began to apply sanctions against firms in the lower or unsafe zones (*Yellow and Red bands*) and incentives for firms in the higher or safe zones (*Premium and Green bands*).

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Both sanctions and incentives of the Nitaqat are designed so that the program could reach its goal of having 50% of companies of the same sector and size in the Green and Premium bands. Sanctions include for instance the denial of new work visas and the non-renewal of existing visas for companies in the Red and Yellow bands. Incentives for Premium and Green companies include unrestricted approval of new visas and being granted one new visa for every two foreign workers leaving the country on a final exit visa. For more on the Nitaqat’s sanctions and incentives see Ministry of Labor (2011) and Saudi Hollandi Capital (2012).

Furthermore, the MoL decided in 2013 to reserve 19 job categories exclusively for Saudi nationals (Sayel, 2013). These restricted jobs are listed in Table 4. As per the MoL, there will be no work permit renewal for expatriates (foreign workers) currently occupying jobs that are reserved for Saudis.

Table 4: The 19 Job Titles Off-limit to Expatriates

Executive HR manager	Staff relations clerk	Hotel receptionist	Broker
HR manager	Recruitment clerk	Health receptionist	Key specialist
Labor affairs manager	Staff affairs clerk	Claims clerk	Customs broker
Staff relations manager	Attendance control clerk	Treasury secretary	Female sales specialists
Staff relations specialist	Receptionist (general)	Security	

Source: Sayel, 2013.

Other initiatives of the MoL are the “Hafiz,” “Liqaat,” and “Taqat” programs also introduced in 2011 and run in conjunction with the Nitaqat. Hafiz is an unemployment benefits program that grants unemployed Saudi men and women an allowance of SAR2,000 (\$533) every month for up to one year (Al-Jassem, 2012). In addition, Hafiz provides Saudi jobseekers with training and helps them find jobs. The “Liqaat” program holds job fairs across Saudi Arabia for the purpose of facilitating job interviews between employers and Saudi job seekers. The “Taqat” (capability) program focusses on helping match unemployed Saudis with jobs in the private sector.

4.1 Nitaqat’s Outcomes

Three years after its establishment in 2011, the Nitaqat program reached its goal of moving companies out of the unsafe zones and increasing the number of Saudis employed in the private sector. Saudi Deputy Minister of Labor Ahmad Al-Humaidan pointed out that almost 86 percent of private firms were in the safe zones of the Nitaqat as of October 2014. This was a big achievement for the Nitaqat program since only half of the companies were in the safe zones in 2011 (Saudi Gazette, 2014a).

Another positive result of the Nitaqat program was the large increase in the number of Saudi nationals employed in the private sector which rose by 83.6 percent between 2011 and 2014 as shown in Table 5. The Saudization rate in the private sector rose from 10.8 percent in 2011 to 15.5 percent in 2014, a 43.5 percent increase (SAMA 2013 and 2015). However, data in Table 6 show that of 2.2 million jobs created in the private sector (90.2 percent of total jobs created) between 2011 and 2014, only 31.5 percent of them (0.7 million jobs) went to Saudis while the remaining 68.5 percent went to expatriates.

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Table 5: Private Sector Employment by Nationality, 2011 and 2014

Year	Saudis (Million)	Non-Saudis (Million)	Total (Million)	Saudization Rate (%)
2011	0.844	6.937	7.781	10.8
2014	1.550	8.471	10.021	15.5
Percentage Change	83.6%	22.1%	28.8%	43.5%

Source: SAMA 2014, 2015.

Percentage changes are calculated by the author

Table 6: Job Creation in the Private and Public Sectors, 2011 and 2014

Year	Total Employment Private Sector			Total Employment Public Sector			Total Employment
	Saudis	Non-Saudis	Total	Saudis	Non-Saudis	Total	
2011	844,476	6,937,020	7,781,496	919,108	79,030	998,138	8,779,634
2014	1,549,975	8,471,364	10,021,339	1,168,586	72,162	1,240,748	11,262,087
Net Increase-New Jobs Created	705,499	1,534,344	2,239,843	249,478	(6,868)	242,610	2,482,453
Jobs created as share of total (%)			90.2%			9.8%	100%
Allocation of new jobs	31.5%	68.5%	100%	102.8%	(2.8%)	100%	

Source: SAMA 2013, 2015.

Percentages are measured by the author. Negative numbers are in parenthesis.

The public sector created about 242,610 jobs (9.8% of total jobs created) between 2011 and 2014 and all of them were allocated to Saudis in addition to 6,868 public jobs that used to be occupied by expatriates. The latter, however, dominated the Saudi labor market in 2014 by occupying 75.2 percent (8.5 million foreign workers) of the 11.3 million jobs in Saudi Arabia (SAMA, 2015).

Did the Nitaqat program help the MoEP reach the labor market targets set in the ninth DP? Table 7 gives a summary of changes that occurred during the ninth DP in comparison to the set targets. The overall Saudization rate in 2014 stood at 44.5 percent (Jadwa Investment, 2015). This was a 7.1 percent decrease from its 2009 level and it was off target by 159.7 percent. In addition, there was no improvement in Saudis' unemployment rate during the ninth DP despite a significant rise in the number of Saudi nationals employed in the private sector after the introduction of the Nitaqat program. In fact, Saudis' unemployment rate rose from 9.6 percent in 2009 to 11.7 percent at the end of the ninth DP in 2014, missing its target by 151.3 percent.

The rising unemployment rate among Saudi nationals was not due to lack of jobs but to a faster growing Saudi manpower and a higher allocation of newly created private sector jobs to expatriates. In fact, Table 7 shows that the quantity of Saudi manpower sharply increased during the ninth DP, rising above target by 24.7 percent while, the number of employed Saudis rose but by a lower rate than expected and was off target by 9.8 percent. The number of employed expatriates, on the other hand, rose by 44.1 percent and exceeded target by 1,741.7 percent.

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Table 7: Saudi Arabian Main Labor Market Indicators at the End of the Ninth DP

	Actual 2009	Target 2014	Actual 2014	Percentage Change during the 9 th DP		Percentage Above & Off Target ⁽¹⁾
				Target	Actual	
Saudi Manpower (000)	4329.0	5,328.6	5,577	23.1%	28.8%	24.7%
Total Employment (000)⁽²⁾	8173.1	9,396.3	11,068	15.0 %	35.4%	136%
Saudi	3914.6	5,037.0	4,927	28.7%	25.9%	(9.8)%
Non-Saudi	4258.5	4,359.3	6,141	2.4%	44.2%	1741.7%
Saudization Rate (Saudi Employment as % of Total)	47.9	53.6	44.5	11.9%	-7.1%	(159.7%)
Unemployed Saudis (000)	414.4	291.6	651	-29.6%	57.1%	(292.9%)
Saudi Unemployment Rate (% of Saudi Manpower)	9.6	5.5	11.7	-42.7%	21.9%	(151.3%)

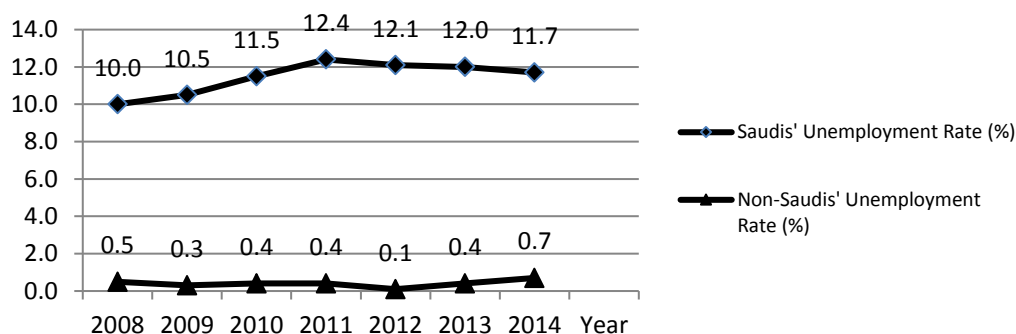
Source: Data from Ministry of Economy and Planning 2010a, 2010b, 2010c and Jadwa Investment, 2015.

(1) Positive numbers mean percentages above targets & negative numbers in parenthesis mean percentages off targets

(2) Data from the Ministry of Economy and Planning are slightly different from data from Saudi Arabian Monetary Authority
Percentage changes and percentages above and off target are calculated by the author.

Moreover, Figure 1 shows that Saudis' unemployment rate has not only been consistently higher than that of expatriates, but has also been increasing over the years. Indeed, it rose from 10 percent in 2008 to 12.4 percent in 2011, but declined modestly after the implementation of the Nitaqat program to 11.7 percent at the end of the ninth DP in 2014.

Figure 1: Unemployment Rate by Nationality



Data Source: SAMA 2013, 2015 and Jadwa Investment, 2015.

4.2 Nitaqat's Shortcomings

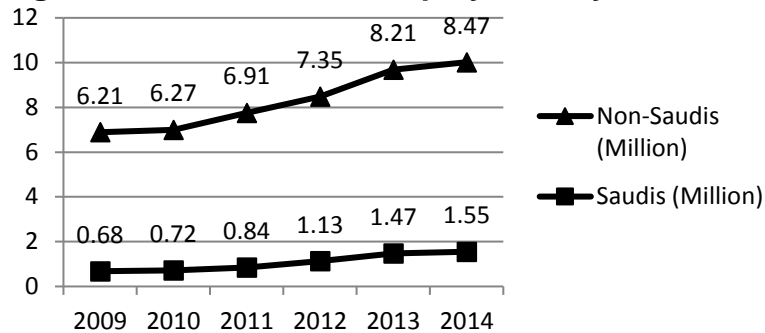
Overall, the Nitaqat quota system was neither able to curb the level of unemployment for Saudi nationals nor speed up the overall Saudization process three years after its inception. Saudis' unemployment rate fell from 12.4 percent in 2011 to only 11.7 percent in 2014. The private sector's Saudization rate, which stood at 15.5 percent in 2014, was still very low compared to 94.2 percent in the public sector (SAMA, 2015).

In addition, the overall Saudization rate, which was around 41.7 percent in 2011, rose but, only moderately after the start of the Nitaqat program to reach 44.5 percent in 2014 (Jadwa Investment, 2015). Figure 2 shows a growing number of expatriates employed in the private sector even after the establishment of the Nitaqat quota system. This is a major issue that the MoL hopes to improve upon during the third phase of the Nitaqat program. The latter was supposed to be introduced on April 20, 2015, but, was postponed until later to give the private sector more time to understand the standards of this phase. The third phase of the Nitaqat program will raise the minimum Green zone's Saudization

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requirements for several sectors, implement new calculation methods for the quota, and change the incentives system (Naffee, 2015).

Figure 2: Private Sector Employment by Nationality



Data Source: SAMA 2012, 2013, 2015

The Nitaqat also led to an increase in private sector operating costs, a rise in private business closures, and an intensification of a phenomenon known as “ghost Saudization.” Operating costs for private businesses rose mainly due to the costs of training Saudi employees and the higher wages they received compared their foreign counterparts. The monthly minimum wage for Saudi employees is currently set at SAR3,000 (Al-Jassem, 2012) while expatriates have no minimum wage. Saudis’ minimum wage is expected to increase to SAR5,300 (\$1,412) per month during the third phase of the Nitaqat program while that of expatriates will be set at SAR2,500 (SICO, 2015). HRDF has been providing financial support to private companies for payment of Saudi salaries up to 50 percent for at least two years (Arab News, 2014a).

A combination of higher operating costs and Saudis’ reluctance to take up certain types of jobs has made it more difficult for companies to comply with the Saudization quota and caused many of them to close their doors. More than 130,000 Saudi contractors were forced to shut down in 2015 citing Saudization quotas under the Nitaqat as the root cause of their demise (Bhatia, 2015). In addition, statistics released by the MoL showed that 200,118 private sector companies (11.1 percent) out of 1.8 million companies in the Red zone of the Nitaqat closed their doors in 2013 (Arab News, 2014b).

Finally, some firms illegally increased the number of their Saudi employees through “ghost Saudization” so they can avoid the Nitaqat’s penalties. “Ghost Saudization” means the registering of fake Saudi employees as employees of a company in order to boost the company’s Saudization rate. “Ghost workers” are not required to go to work, but receive a small monthly compensation for their services. It was reported that, in early 2014, 30 schools were involved in the practice of ghost Saudization. These schools fake their Saudization figures by hiring over 2,000 ghost teachers. The schools signed contracts with the Saudi teachers who were not actually working for them (Saudi Gazette, 2014b). In 2015, 18,000 women were registered as ghost workers in several private companies and paid between SAR500 to SAR1,000 per month. The women confessed to their crime when caught while applying for social insurance with GOSI (Saudi Gazette, 2015).

In 2014, the MoL warned companies that they would be subject to punishment such as heavy financial penalties, the slashing of all services from the HRDF, and no hiring of new staff if caught hiring ghost workers. Any company found guilty of hiring ghost workers will be asked to pay between SAR3,000 to SAR10,000 in fine, while any Saudi who agrees to

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be registered as ghost worker will be denied support for a period of three years for the first offense and five years for the second (Naffee, 2015).

5. Conclusion

The objective of this paper is to call attention to the subjects of Saudization and Nitaqat programs not only for a general audience such as companies that plan to operate in Saudi Arabia but also for the Saudi government when it comes to the performance of these programs. The paper is the first to present data that shows evidence of the impact of the Nitaqat program on the Saudi labor market three years after its inception. The Nitaqat, as a Saudization re-enforcement program, has partially succeeded in meeting its goals but at significant costs to the labor market and the economy. More Saudis are now employed in the private sector as a result of the Nitaqat and more companies have moved to the safe zones of the program. However, a significant number of companies shut down since its introduction in 2011.

Furthermore, the Nitaqat was not also able to curtail Saudis' unemployment rate three years after its implementation. The third phase of the Nitaqat program is expected to bring in the much needed reform to the quota system that could help improve its outcomes. A change in culture concerning jobs considered as inferior by Saudis is also necessary if young unemployed Saudis are to consider applying for them. Otherwise, there will be jobs available but nobody to occupy them as companies are squeezed even more by the number of expatriates they can hire. It is, therefore, paramount that the MoL considers the reality of the Saudi labor market in its formulation of any new Saudization reform policies. There must be a synergy between labor policies and the need of the labor market. Otherwise, the Saudi economy will suffer as a result.

The findings of this study are, however, subject to some limitations. Indeed, even though the analysis shows that the Nitaqat had a very small impact on Saudis' unemployment rate and couldn't curb the number of expatriates employed in the private sector, it is to be taken with caution since the analysis is based only on three years of post-Nitaqat data. The introduction of the third phase of the Nitaqat could possibly lead to better results than the ones from this study. It is, hence, recommended for future research that the analysis be expanded to include data from post-third phase-Nitaqat.

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