# BACK TO WORK IN A NEW ECONOMY:

## Background Paper on the Saudi Labor Market

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*Produced by:*
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# Introduction

The Ministry of Labor (MoL) of the Kingdom of Saudi Arabia has, since the late 2000s, built a large and diverse portfolio of labor market policies that seek to address the Kingdom's socio-economic issues. To further this mission, MoL has recently formed a partnership with Evidence for Policy Design (EPoD) at Harvard Kennedy School. Representing the MoL, and serving as Harvard's main counterpart, is the Human Resources Development Fund (HRDF). The HRDF-Harvard partnership, a unique research-policy collaboration connecting researchers (based at Harvard and elsewhere) with Saudi policy makers, seeks to generate in-depth knowledge of the current constraints in the areas of employment and job creation. Together, they will evaluate and help inform the design of evidence-backed labor policies and use findings to improve outcomes for Saudi men, women, and youth.

The following document provides a foundation for this research-policy collaboration. It summarizes existing evidence and policies in Saudi Arabia and provides an economic framework. The document targets policy and academic audiences, and is organized around themes which emerged while conducting research: Human Capital Development and Job Creation; Employability and Unemployment; Saudization and Quotas; Women in the Labor Market; Youth Employment; and Matching in Markets.

The overarching aim is to initiate a unified discussion agenda for policy makers and researchers, allowing each to understand one another's concerns and constraints in order to better inform policy solutions. Such *Smart Policy Design* encourages a problem-driven, collaborative approach whereby parties utilize collective expertise to address salient labor issues. This document helps **identify** problems and start making headway into **diagnosing** underlying causes. A researcher-policymaker symposium in Riyadh in August 2014 (and subsequent such meetings) will provide a forum for informing the **design of** high-potential and feasible policy solutions that can be thoroughly **tested** and **refined** utilizing HRDF-Harvard research support and funding.

In addition to setting the stage for the overall research-policy collaboration, the document serves two specific purposes: (1) to identify the initial agenda for the August 2014 symposium and (2) to provide the policy and theoretical grounding for further work under the HRDF-Harvard collaboration. After the Executive Summary presents the economic framework through which the analysis was conducted, the document is divided into chapters that present a contextualized theme and discuss relevant current policy responses to constraints. The document also includes a detailed appendix of descriptions of each policy discussed in the chapters.

This is meant to be a living document; it will invariably improve with in-depth research and data access. Rather than being comprehensive, conclusive or binding, it presents policies and programs that are consistent with the economic framework and showcases policy snapshots.

The hope is that this document ultimately sparks a conceptual, empirically sound and practical discussion about critical Saudi labor market issues, thus laying the groundwork for future research-policy engagements in the Kingdom of Saudi Arabia.

# EXECUTIVE SUMMARY:

# ANALYTICAL FRAMEWORK AND LABOR MARKET TOPICS

We start by introducing a broad analytical framework to summarize the issues present in the Saudi labor market, evaluate existing polices, and inform the design of future ones. Using this framework, we then provide a topic-wise discussion of the constraints facing the Saudi Arabian labor market.

## Defining a Dual Market Framework

Our analytical framework is structured as follows. First, we define the two relevant markets – one for skills acquisition and one for employment. Second, we focus on key actors that determine how well these markets work: students/workers, employers and skill providers, and policymakers. This focus on markets – broadly defined as the rules and institutions that help facilitate exchange between actors – and the incentives and constraints faced by the actors themselves helps identify potential market failures and suggest policies that could feasibly address them.

### A Tale of Two Markets

To understand how the labor market functions and shed light on potential policy areas, it is important to recognize two important and distinct markets, or "exchanges."

The **first market** is that of **labor**. In this market, employers demand skilled workers, while individuals supply the skills demanded in the market.[1] To understand issues of wage setting, unemployment, and job progression we must identify the factors that promote supply- and demand-side forces and the factors that allow for effective exchange to occur.

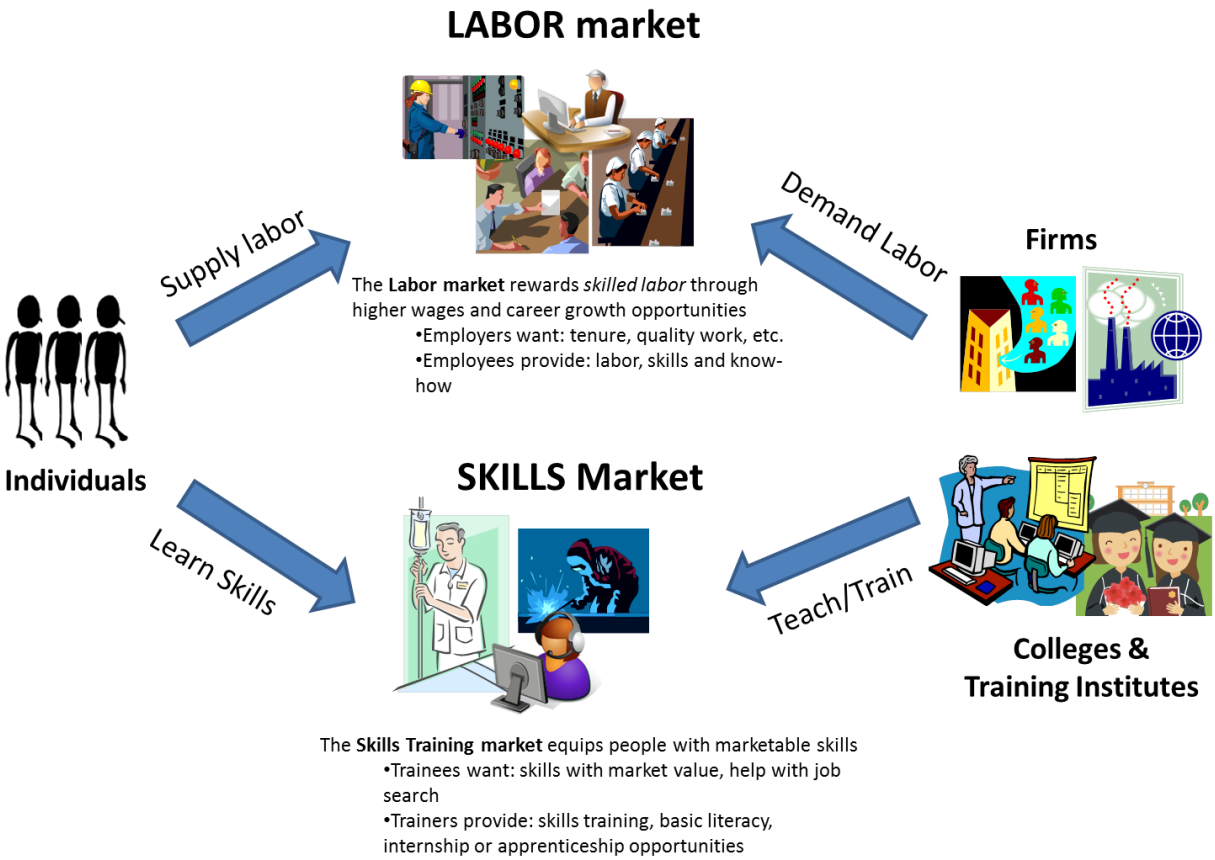
For example, an important question in many labor markets is how to promote labor force participation of underrepresented groups such as women and youth. While the problem is simple to identify, resolving it has proven vexing. Policy proposals are abundant, but the first step must be to better understand what causes women, young people, and other groups of potential workers to be excluded from the labor force. For an individual to go to work each day requires a series of mutually beneficial trades. The worker must be willing to work in a particular job, at a particular wage, and she must prefer her work arrangement to all possible alternatives. At the same time, the employer must be willing to pay that very same wage in exchange for the worker's efforts. Therefore, understanding how both the supply and demand side of this market works is critical to making headway.

The **second market** is that of **skills acquisition**. In this market, individuals and their households demand the skills/human capital that they would like to acquire, while training institutions (colleges, vocational trainers, employers) supply capacity building in those skill sets. Understanding factors at play on the demand and supply sides in this market help us understand the available distribution of skills and occupations in the labor force, a feature which has profound short- and long-term implications for the labor market.

Consider the previous example of employment of underrepresented groups. For firms to hire individuals from such groups they must be able to identify suitably trained workers. For such workers to exist,

[1] Self-employment or entrepreneurship is a specific instance where the same individual is employer and employee.

students and workers must choose to engage in the relevant educational and vocational opportunities, and schools, job training centers, or other institutions must provide the right mix of opportunities.




To summarize, workers and employers are matched via the interaction of dual markets - the market for labor and the market for skills acquisition. To understand the issues in any labor market, it is critical to understand how supply and demand forces equilibrate in each market and how these markets interact.

### Understanding the Incentives and Constraints of Actors

In addition to conceptualizing the labor and skills markets, it is important that an analytical framework identify incentives and constraints faced by actors who operate on the supply and demand side of these markets, and by those actors who help facilitate exchange as market intermediaries.

Individuals and the households they belong to play a key role in both markets – in the labor market they supply their labor while in the skills market they demand and acquire skills.

Firms primarily play a role in demanding labor in the labor market but often play an important role in supplying skills in the skills market through on-the-job training and apprenticeships. Training institutes and colleges are primary actors on the supply side of skills market. However, individuals, firms and trainers are seldom the only actors in a well-functioning marketplace. In most cases, a variety of public or private intermediaries help “make the market” by facilitating information flows, enforcing contracts,

or providing any one of countless services. This is also the context in which regulators can play a key role by defining the rules, institutions and market structure through which actors interact with one another.

A fundamental consideration for diagnosing what factors constrain effective markets or for evaluating successful policy solutions is to recognize the objectives and constraints of these actors and their resulting incentives. Insights from economic theory can both help model such "constrained optimization" situations and predict how policy interventions may play out as actors respond and react to policy.

An important implication of "agency theory" is that a solution that relies upon agents/actors acting against their own interests will have a low chance of success. For example, in the case of affirmative action programs, policies that require firms to hire underrepresented workers may have initial success but could later lead to firms finding ways to circumvent the program. In contrast, creating incentives for both firms and workers to mutually benefit from employment of underrepresented groups can create sustained change. Similarly, overly generous and non-time bound unemployment insurance or assistance programs may create undesirable incentives for workers to not seek jobs. However, realizing that workers ultimately do seek gainful employment can help design graduated and time-bound programs that achieve the intended policy aim.

More generally, while it is not always possible to design policy that improves the wellbeing of every relevant actor, recognizing the objectives and constraints of each actor (or group of actors) is critical for analyzing policy problems and designing successful and sustainable policy reforms.

### Identifying Market Failures

Well-functioning markets help facilitate exchange between participants. However, markets invariably face obstacles that hinder efficient exchange. A basic premise of successful policy interventions is that reform works best when it can rectify or at least ameliorate underlying market failures. In the following chapters, we examine potential market failures in detail and describe policy options to overcome them.

Well-functioning labor and skills markets require that certain necessary conditions are met. Healthy labor markets cannot exist without mobility (for workers and firms), information flows, effective contracting, and perfect competition. However, contemporary labor markets seldom exhibit all – or, in cases, any – of these features. Workers are often constrained from migrating in pursuit of the best job opportunities; they may not know where to look for jobs or how job training programs will actually affect their opportunities for employment; firms may not trust that their job candidates are adequately prepared – the list of potential sources of market failure goes on and on. In fact, often two or more sources of market failure interact.

Moreover, when agents do not share the same beliefs or preferences, and when coordination between agents is costly or impossible, it becomes easy to foresee multiple equilibrium scenarios where the market can get stuck in a "bad equilibrium." An example is labor market discrimination. Statistical and taste-based discrimination are well-documented sources of labor market failure. Taste-based discrimination can occur when employers are sufficiently prejudiced to drive down demand for minority workers. Statistical discrimination, on the other hand, can occur when otherwise-unprejudiced

employers observe that a quality like race or gender is correlated with relevant job skills. To the extent that this belief drives firms not to hire certain workers, and workers in turn internalize this, in equilibrium neither firms nor workers will learn to overcome their (statistical) prejudices. Even more worryingly, groups facing discrimination may choose to invest less in their human capital, thereby worsening the problem. In such cases quota-based policies can help foster learning and help move the economy to a "good" non-discriminatory equilibrium.

A successful policy approach, therefore, has to first identify potential and at times multiple sources of market failures, and then map out how the proposed policy reform will address them.

## Towards Smart(er) Policy

The framework of markets, relevant actors and market failures, and EPoD's approach to Smart Policy Design, provides a promising set of steps for informing the design of labor market policy interventions. The first step is to *identify* the problematic labor market feature. For example, the policy problem might be low female labor force participation. The second crucial step is to *diagnose* the causal source of the problem. The evidence may suggest that working-age women lack appropriate skills reflecting poor information or opportunities. Based upon the diagnosis, researchers and policymakers cooperate to inform the *design* of a policy solution that targets the underlying causes of the problem. Lastly, these solutions are implemented and *tested*, and are further *refined* based upon the evaluation findings.

In the following sections, we will take a starting step towards applying this framework to the pressing challenges for the Saudi labor market. In each case, we identify the problem, present evidence suggesting its underlying causes, and consider how existing policy responds to the diagnosis. In doing so, we will also suggest new avenues for policy and research, especially where rigorous evaluations can be most useful to Saudi policymakers and other stakeholders.

# I. Human Capital Development and Job Creation

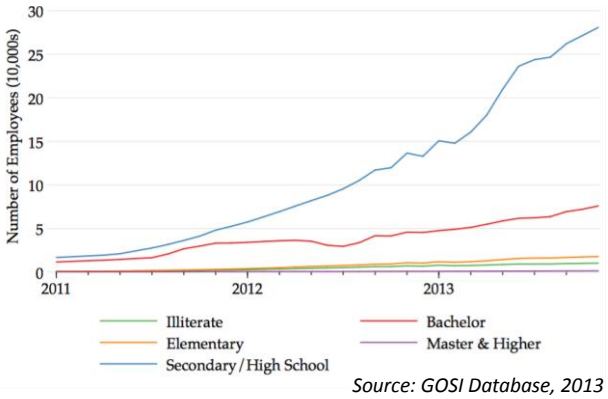
The first and perhaps most critical step towards a successful entry into the labor market is acquiring relevant and employable skills. Yet more often than not these decisions are made by individuals early on in their educational life and at a time when they may be inadequately informed about the longer term consequences of these decisions especially in terms of returns in the labor market. Understanding how these decisions are made and how they can be better aligned with both the individual's personal objectives and the needs of the market is therefore critical.

Five key stylized facts motivate our analysis of Saudi Arabia's human capital development:

1. **Educational attainment has grown rapidly:** Saudi Arabia is close to attaining universal literacy, and university enrollment has increased 60 percent since 2010. However, enrollment in technical colleges remains extremely low relative to the OECD average and there are limited opportunities for apprenticeship and on the job training.
2. **Current human capital investments are of low quality and concentrated in a few fields:** Saudi youth underperform by international standards. The labor market is saturated with graduates in the humanities and the social sciences with a limited supply of qualified graduates in the science, technology, engineering, and mathematics (STEM) fields.
3. **Current human capital investments are poorly matched with employer needs:** Skills provided do not match with what that the labor market is demanding - either the demand is for low-skilled jobs that Saudis are less willing to take, or for jobs that requires high-level skills that they lack.
4. **Saudi Arabia lacks economic and labor market diversity:** The petroleum industry accounts for 55 percent of GDP, and the non-petroleum manufacturing accounts for less than 6 percent of total employment. This translates into a more limited menu of skills that cater to this sectoral composition.
5. **Significant growth in employment opportunities for high school educated women:** The highest employment growth rate in the private sector is experienced by women with secondary levels of education.

The above facts lead us to diagnose five main failures in the markets for skills and labor, to which we now turn.

*Secondary school educated Saudi women experienced the fastest private sector employment growth.*




*Source: GOSI Database, 2013*

## Skills Market Failure: Schools Fail to Provide the Skills that Employers Demand

Skills provided by colleges and vocational institutions are effective when they reflect and respond to labor market needs. However, lacking any explicit linkages or means of transmitting these needs, there is a risk that the skills provided may not be readily employable. This is exacerbated by the pedagogic model in Saudi schools that has

often emphasized memorization over critical thinking, communication, and teamwork. Moreover, valuable skills like English proficiency, a ubiquitous requirement in the modern knowledge economy, are usually not taught until 4th grade.

The Saudi government has responded to these challenges through direct and indirect job training programs. The *Colleges of Excellence* (*CoE)*, for example, has improved access to high-quality vocational training in Saudi Arabia and was based on linking skills provided with the needs of employers. The *Saudi Skill Standard (SSS)* program has been another key component of the policy response. The *SSS* program provides vocational training institutes with curriculum guidelines that reflect the needs of private sector employers. New initiatives like online training platforms under *Doroob* also hope to provide skills that are directly relevant to employer needs.

### Skills Market Failure: Students Lack Adequate Information about Returns to Different Types of Training

Microeconomic theory predicts that students will make human capital investments whenever the *expected* private marginal benefit of those investments exceeds their private marginal costs. However, students tend to have more certainty about the costs of education than its benefits, which may not become evident until years after the initial investment. The fast pace of change in the Saudi labor market can exacerbate students' lack of information. Young people today — especially women — face many more career options than in previous generations.

Moreover, most students have extremely limited first-hand work experience, especially in the private sector. Without access to apprenticeships, internships, and other temporary work arrangements, young people are often forced to rely on second-hand information from family members and social networks. As a result, they may be led astray by outdated or incorrect information about their career opportunities and the skills those opportunities require. Imperfect information can at least partially explain the over-abundance of degrees in fields like education and the humanities.

In response, programs like *Career Education Development (CED)* provide young people with career and job search counseling services. These include online training, access to summer jobs and internships, and personalized mentoring, in addition to other services. This effort is made all the more challenging by cultural norms that tell students which careers are and are not socially acceptable. Informational campaigns should be especially sensitive to these cultural norms. In particular, information campaigns and career counselors should seek to counter the stigma associated with many private sector professions. Similarly, *SSS*, by standardizing the quality of vocational training can help lead the way for students to better evaluate the returns to specific skills.

Additional research will be necessary for policymakers to craft the best possible response to these challenges. A first question is whether informational campaigns have any quantifiable impact on the educational choices of students. A second is whether young workers (many of whom have already made substantial human capital investments) can be effectively retrained for different specialties.

### Skills Market Failure: Firms and Workers Lack Incentives to Invest in Mutually Beneficial On-the-job Training

In all skills markets, some of the most important human capital investments occur on the job. However, it can be costly for firms to invest in their workers' human capital. Firms are especially unlikely to make these investments if they don't trust that they will capture a portion of the returns, perhaps due to high turnover. High employee turnover can be especially discouraging to on-the-job investments.

Training subsidies for employers may help overcome these frictions. In addition to a bunch of programs that subsidize hiring Saudi workers, (*Nitaqat, Women's Employment in the Retail Sector* etc.), several other programs facilitate shorter duration apprenticeship and on-the-job training opportunities (*Mini-Jobs/Saifi, On-the-Job Training*). The *CED* program, for example, makes on-the-job training an important element of its multi-faceted strategy. Subsidized internship and apprenticeship programs can provide firms with an additional opportunity to train workers without bearing the full cost of employment.

Additional research can assist policymakers in understanding the private and social costs and benefits of on-the-job training. In particular, additional research might pinpoint barriers preventing mutually beneficial on-the-job investments. Researchers should ask how firms and workers respond to training subsidies. They should also assess where the private costs and benefits accrue.

### Labor Market Failure: Employers Lack High-Quality Signals of Worker Ability

While the primary responsibility of schools is to educate their students, they also perform the important function of signaling workers' ability to would-be employers. Unfortunately, schools often fail to signal the skills most valued by employers, and the signals they provide are often poorly differentiated or non-credible. Moreover, employers often value soft skills like professionalism, work ethic, and creativity; skills that are almost entirely absent from traditional school transcripts and diplomas.

The primary policy response has been to introduce national-level skills certification through programs like *SSS*. The *SSS* program not only reorients the vocational curriculum, but it also controls the quality of educational output, thereby improving quality of signal. Improved signaling is also achievable through programs that encourage internships and apprenticeships, since these programs allow firms to observe potential workers without committing to long-term employment contracts. The *CED* program is an example of such a program.

The signaling problem suggests several avenues for additional research. What is the effectiveness of national-level skills certification programs? Do employers find them to be useful and reliable? Further, how can employers evaluate applicants for soft skills like professionalism or work ethic, and how could the educational and vocational training system better signal these qualities?

### Labor Market Failure: Saudi Labor Market Lacks Diversity in the Public and Private Workforces

Economic growth and development are contingent upon a well-diversified economy. Unfortunately, nations lacking economic diversity can be stuck in a "bad" equilibrium where diversification of industry requires new kinds of knowledge, but the diversification of human capital is itself difficult to achieve without diversity in the demand side of the labor market. In other words, workers are unlikely to obtain

unique skills unless jobs requiring those skills await them, but new and diverse jobs are unlike to appear unless individuals possess the skills to grow those industries from the ground up.

MoL currently has no policies that are explicitly designed to diversify the Saudi production economy. In fact, most of Saudi Arabia's active labor market and human capital policies are tailored to the Kingdom's existing economic and industrial strengths. Any effort to simultaneously diversify human capital and the labor market must take into account the nation's strategic economic objectives. Efforts should therefore be coordinated between the Ministry of Economy and Planning and MoL as well as the Ministry of Education and the Ministry of Higher Education) in order to develop a diverse workforce while also promoting long-term, sustainable development that is compatible with the Kingdom's goal of shifting toward a knowledge-based economy. Policymakers should ensure that any potential labor market and human capital diversification policies are complemented by simultaneous policies aimed at promoting innovation and economic diversification.

Saudi Arabia's economic and labor market diversification can be aided by a rigorous and policy-minded research agenda. Researchers should assess the potential for human capital spillovers between industries in Saudi Arabia. Strategic human capital complementarities might suggest key areas in which Saudi Arabia should aggressively promote innovation. Similarly, technical or productive complementarities might suggest areas for human capital investment. Moreover, Saudi Arabia's existing labor market policies should be evaluated for their capacity to contribute to economic and human capital diversification.

## II. Employability and Unemployment

The lack of gainful employment, especially among youth and women, is increasingly recognized as an important social and policy problem and has brought about many policy responses in the Gulf Cooperation Council (GCC). Saudi Arabia is no exception to this trend, with unemployment in 2013 reaching 33 percent for women, 41 percent for youth, and 11.6 percent overall. In addition, there are growing concerns of a bifurcated labor market, where Saudi nationals are reluctant to take on private sector work: the majority of employed Saudi nationals are employed in the public sector, where they are paid higher wages, enjoy more comprehensive benefits, and have greater job security than they would with similar work in the private sector. Policies to address unemployment may have also independently distorted the labor market.

Four key stylized facts motivate our analysis of unemployment in the Kingdom:

1. **Saudi employment has historically been concentrated in the public sector:** Higher wages and job security make government jobs particularly attractive to Saudi citizens. Saudi nationals earn an average annual salary of Saudi Arabian Riyal (SAR) 4,800 in the private sector, versus SAR 7,000 in the public sector.
2. **Unemployment rates are highest among new labor market entrants:** Youth and women face the highest unemployment rates, and make up more than half of unemployed Saudis.
3. **New unemployment benefits are attracting citizens into the labor force:** The fact that the number of unemployment benefit recipients exceeds unemployment estimates suggests that citizens, particularly women, may be entering the labor market to access benefits, not to find employment.
4. **Most unemployment benefit recipients use their full entitlement period:** Only 20 percent of unemployment assistance (*Hafiz*) recipients left the program before the end of their entitlement period.

The above suggests that a diagnosis of current labor market problems also requires an understanding of the agency/incentive problems in the context of unemployment programs, to which we now turn.

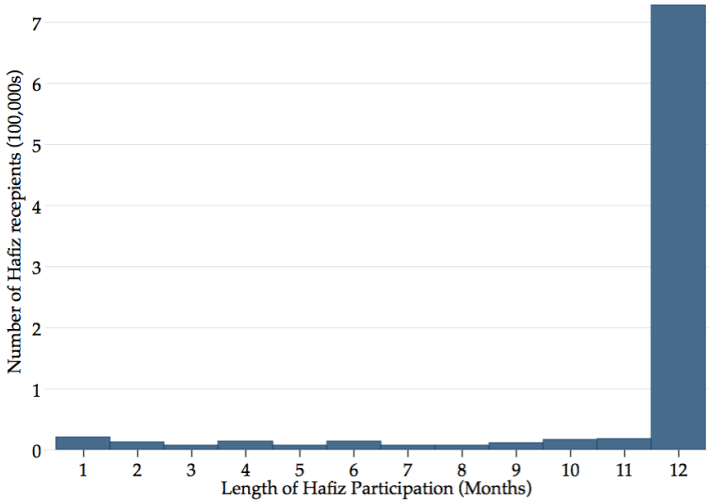
### Agency and Unemployment Programs

Unemployment benefits programs seek to enable households to smooth consumption between periods of employment and unemployment. However, in addition to direct costs and benefits, they also create incentives for workers and beneficiaries. In fact, risk-averse households would always choose full unemployment insurance (UI) – that is, a benefit level that equals their wages – if given the choice. UI benefits can also have a powerful effect on labor supply. Workers with UI coverage might be more willing to accept jobs in layoff-prone industries or firms, since the UI benefits soften the impact of a spell of unemployment. Moreover, the laid-off worker might spend more time searching for a better job match, since the UI benefits can help beneficiaries to finance the costs of their job search.

However, UI benefits can be quite costly, and have a powerful undesirable "moral hazard" effect. UI beneficiaries can be discouraged from accepting paid work if the benefit level is sufficiently high and if benefits are contingent upon continued unemployment. Additionally, unemployed workers may be less

motivated to search for new work, which prolongs periods of unemployment and reduces the job-match quality for those who do find jobs. It is even possible that workers covered by UI become less productive while employed, since periods of unemployment are made less threatening, and workers are therefore less fearful of layoffs. UI programs can also create perverse incentives for employers. Absent unemployment insurance coverage, layoff-prone firms have to pay employees a compensating wage differential in exchange for low job security. UI programs reduce the compensating differential, which implies that firms can execute more layoffs without dramatically increasing their labor costs.

*More than 80 percent of Hafiz unemployment assistance recipients used the full 12-month entitlement period*




*Source: Hafiz Eligibility Database, 2013*

Given this background, we identify three key Saudi labor market frictions. These failures suggest that while unemployment insurance can be a strategic element of the overall policy response, it will be important to consider its complex effects on labor market incentives.

### Labor Market Failure: Potential job seekers lack sufficient resources to look for jobs that best match their skills and needs

Finding and keeping a job can be a costly endeavor. Job seekers frequently incur costs for items such as transportation, interview preparation and communication. Moreover, the job search can be time consuming, and applicants who are between jobs must often finance their current consumption through past savings or family support. As a result of the significant startup costs associated with job search, resource- and liquidity-constrained households might be unable to afford a long and costly job search. Such individuals may feel pressure to accept the first job available, rather than continue to search for a better match. It is important to recall that high-quality job matches are better for both the worker and the firm, since the worker receives higher utility from the nature of her work and its remuneration, and the employer enjoys a more productive worker. Women and youths are often among the most resource-constrained elements of society, a fact that provides a partial explanation for their differentially poor labor market outcomes.

Unemployment insurance and assistance programs are often proposed as solutions to the worker-firm matching problem. The Saudi *Hafiz* and *Sanid* benefit programs provide job seekers with temporary income with which to finance both job search costs and present consumption. Past research in the United States has found that as much as 60 percent of the increase in unemployment durations caused by unemployment insurance can be attributed to a "liquidity effect," rather than a pure moral hazard

effect.[2] Unlike the moral hazard effect, the liquidity effect is non-distortionary and welfare-improving. In concrete terms, this suggests that UI recipients frequently use their benefits to finance longer job searches, during which they might find jobs that are better suited to their skills and needs.

Our diagnosis – that resource-constrained individuals are prevented from finding quality job matches – suggests several important avenues for additional research. For example, our hypothesis suggests that *Hafiz* should entice new workers into the labor market by subsidizing their job-search costs. To what extent has that been the case? Similarly, past research has suggested that UI can help finance longer job searches, but to what extent does unemployment benefit receipt actually improve the quality of the eventual job match? It might instead be the case that beneficiaries are using the UI benefits as cash transfers programs with little or no effect on job attainment. Additional research might also illuminate the precise nature of the constraints faced by job seekers. Are job seekers stymied by practical concerns like the cost of transportation, or are they more deterred by behavioral constraints like inertia and self-perception? The latter might be well suited to small behavioral job-search nudges, whereas the former are likely to require traditional benefit transfers.

It is worth noting that job seekers' resource constraints are most problematic when private insurance and credit markets are absent or failing. Identification and diagnosis of these market failures is another important avenue for follow-on research.

### Labor Market Failure: Job seekers Avoid Private Sector Work due to Lower Job Security

Risk-averse workers place a high premium on job security. In Saudi Arabia, public sector employees often enjoy substantially higher wages than similarly qualified private sector workers. Recent rules for the private sector minimum wage have sought to reduce the public-private wage gap, but even where parity exists, greater job security in the public sector continues to drive many job seekers towards government jobs and away from the private sector.

One solution is to implement policies that increase private sector wages for Saudi nationals. Unfortunately, while such policies might mitigate the public-private employment disparity, they simultaneously exacerbate the gap between Saudi national and guest worker wages in the private sector. This presents a problem for firms, many of which already find it difficult to comply with quotas for Saudi nationals.

Unemployment insurance offers an alternative solution. *Sanid* mitigates the risk of taking a job in the private sector by promising income with which to maintain consumption during periods of unemployment. This effectively reduces the premium that workers place on public sector job security. However, additional research is required to validate our diagnosis. It will be especially important to understand whether the availability of UI entices workers into the private sector, conditional on prevailing public and private sector wages. The costs and benefits of UI should also be compared to other policies aimed at improving the public-private employment disparity.

[2] Chetty, 2008

### Labor Market Failure: Current Benefit of Unemployment Insurance Distorts Incentives for Job Search

Moral hazard situations - whereby the insurance provision creates disincentives to find and retain work - are well documented in unemployment insurance programs throughout the world, and Saudi Arabia's experience may be no exception. In particular, *Hafiz* and *Sanid* might encourage beneficiaries to decrease their job-search efforts. Since benefit receipt is contingent upon continued unemployment, job seekers face a powerful incentive to prolong spells of unemployment, and the quality of their eventual job match is also adversely affected. A related concern is that the current benefit structure might discourage beneficiaries from accepting any paid work whatsoever. This is particularly likely given the typical benefit level of SAR 2,000, is only slightly lower than expected wages for low-skill private sector jobs.

*Hafiz* job search requirements represent a possible solution to low search effort. The weekly check-ins required by *Hafiz* force beneficiaries to reveal something of their job search, which in turn allows for enforcement of a minimum level of job-search effort. However, even these requirements can only induce a minimum level of job search; the possibility remains for beneficiaries to reduce job search efforts below what they would expend in the absence of benefits.

Even where enforcement mechanisms fail, in-kind benefit transfers can be a powerful solution to the problems of moral hazard. For unemployment insurance and assistance programs, in-kind benefits can take the form of job-search assistance and employment-matching services. In Saudi Arabia, the *Taqat* program provides job placement and training services to *Hafiz* beneficiaries. Since job placement and training are non-fungible, these in-kind benefits do not distort job seekers' incentives to the same degree as traditional unemployment-contingent cash benefits.

Another policy solution with great potential is the *Job Seeker Intervention (Qarar 5)*, which seeks to encourage beneficiaries to accept paid work as soon as possible. *Job Seeker Intervention* dispenses remaining *Hafiz* benefits in a single lump sum to recipients who find employment before the entitlement period expires. This mitigates the problem of moral hazard while maintaining the beneficial consumption-smoothing and liquidity effects of UI.

Additional research is essential for better understanding the dynamics of moral hazard in Saudi UI programs and especially interactions across programs. Especially important will be studies that measure the magnitudes of moral hazard effects in *Sanid* and *Hafiz* - to what extent are recipients discouraged from accepting paid work, and to what degree is search effort eroded? It will also be important to study the effectiveness of existing policy interventions aimed at reducing moral hazard, including job-search requirements, incentives for early program exit, and in-kind benefit programs.

## III. Saudization and Quotas

Quotas and affirmative action policies are used in many countries to favor members of disadvantaged or underrepresented groups. Although they may improve employment outcomes among members of the targeted group, they can also impose costs on other workers and on firms. The net effect will depend on a variety of factors, including the specific market failures being addressed as well as the particular labor market context.

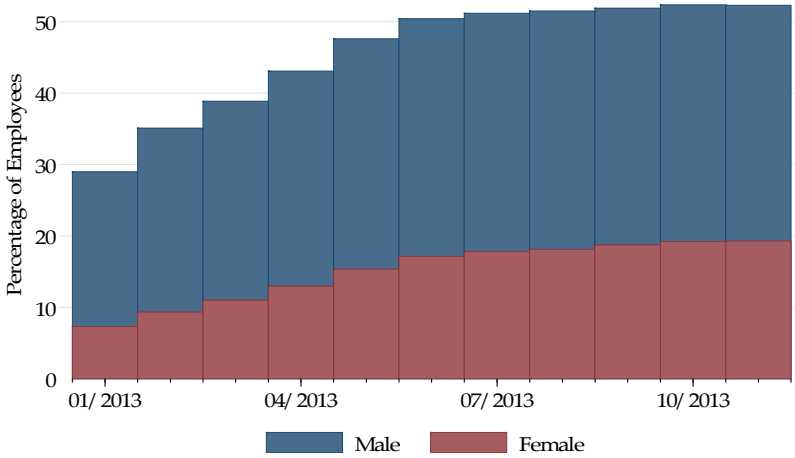
In 2011, Saudi Arabia responded to low levels of employment among Saudi nationals with the *Nitaqat* initiative, one of the world's largest quota-based labor market policies. *Nitaqat* is aimed at incentivizing the hiring of Saudi nationals by private sector firms.

Three key stylized facts motivate our analysis of Saudi Arabia's quota-based labor policies:

1. **The Saudi private sector is heavily and increasingly dependent on expatriate labor:** Saudi Arabia hosts one of the world's largest migrant populations. Eight million expatriates worked in the Kingdom in 2013. These expatriate workers made up 85 percent of the non-oil private sector workforce in the same year.
2. **Saudi nationals have low participation rates in the private sector:** Only 30 percent of the total Saudi workforce in 2013 worked in the non-oil private sector.
3. **Saudi workers are significantly more expensive than expatriate workers:** The minimum wage for Saudis is SAR 3,000 per month, versus SAR 1,500 per month for a comparably-skilled guest worker. Guest workers also have fewer employment protections than Saudi citizens, making them more attractive to private firms.

In general, quotas and affirmative action policies are used to address three labor market issues: statistical discrimination, taste-based discrimination, and path dependence. While statistical and taste-based discrimination can be used to describe prejudicial preferences or beliefs of either employers or workers, we will focus on the possibility for discrimination in the labor market demand side, where an employer's preferences or beliefs can affect his or her willingness to hire Saudi workers. Either tasted-based or statistical discrimination can overlap with problems of path dependence in either the labor or skills markets. There may be path dependence, for example, when firms choose specific technologies for recruiting and production, with high fixed costs for switching to new systems that would facilitate the hiring of more domestic labor. There may also be path

*Over 50 percent of Saudi nationals working in the private sector earn the minimum wage*




*Source: GOSI Database, 2013*

dependence in how workers choose to invest in their own human capital. Quota-based policies are likely to create different incentives with different long-run effects depending upon which underlying forces are driving the observed inequality. We consider each of the above labor market issues in turn.

### Labor Market Failure: Statistical Discrimination

Statistical discrimination reflects asymmetric or incomplete information: firms lack information about potential workers' individual skills and abilities. While firms seldom possess perfect information about job candidates, the problem may be especially severe for members of marginalized or underrepresented groups. For example, since the Saudi private sector is so heavily tilted toward expatriate labor, managers typically have extremely limited past experience with Saudi workers, and they will also lack a network of existing Saudi employees through which to gather referrals and vet potential hires.

Statistical discrimination arises when firms believe that a worker's productivity is determined by their group identity (e.g., gender or nationality), even after accounting for other differences (like education or experience). In fact, since Saudi workers are more expensive to employ than guest workers, statistical discrimination can prevail even when employers do not strictly believe that expatriates are more productive. Rather, employers may simply believe that Saudi workers' expected productivity is insufficient to offset their high wages. This is problematic if firms will not hire high-productivity Saudi workers because they are unable to distinguish high-productivity applicants from those of average productivity.

Can quota-based policies help? The Saudi *Nitaqat* initiative enforces strict quotas for Saudi workers in private sector firms. This may create an incentive for firms to invest in better tools for recruiting and vetting qualified Saudi workers; for example, they might implement new technical skills tests or conduct more extensive interviews with candidates. Such technologies can reduce informational asymmetry and incompleteness, which by allowing firms to identify Saudi workers with high enough productivity to offset higher costs can have the eventual effect of reducing statistical discrimination. However, these technologies will also tend to increase the firm's search costs. To reduce firms' incentives for non-compliance, it may be desirable to pair the quota-based policy with additional policies that subsidize or offset their increasing search costs. The *Nitaqat* policy can also be effective in reducing statistical discrimination insofar as quotas can help employers build networks of existing Saudi employees. These referral networks may serve as a low-cost way to improve information about the skills and productivity of Saudi job applicants. However, *quotas* could also worsen statistical discrimination if firms hire unqualified or unproductive Saudi workers simply to fill quotas, perpetuating beliefs about the productivity of Saudi labor.

The problem of statistical discrimination suggests several policy options currently not included in *Nitaqat*. For example, job training programs for Saudi nationals – which culminate in a certificate or diploma – would provide firms with direct signals of worker ability. Other policies, like apprenticeship programs, would allow employers to gather information on new workers without committing to long-term contracts. Any other policy that increases Saudi participation in the private sector – like wage

subsidies[3] or the *Women's Employment in the Retail Sector* – would also improve information and reduce statistical discrimination.

### Labor Market Failure: Taste-Based Discrimination

Whereas statistical discrimination refers to an employer's prejudicial beliefs about worker productivity, taste-based discrimination consists of an employer's prejudicial preferences regarding the worker's identity. In other words, firms may have a bias against Saudi workers that is not based on expected productivity or cost differences. This could be the case if a firm or its customers are biased against Saudi workers. In markets where taste-based discrimination is rare, non-discriminating firms will fill the void left by discriminating firms and the effects of bias will be eliminated. However, when taste-based discrimination is sufficiently widespread, its effects can be pervasive, with low demand and low equilibrium wages for members of the marginalized group. Taste-based discrimination tends to also create efficiency losses, since highly productive workers are often excluded from the labor market on the basis of group status alone.

*Nitaqat* and other quota-based policies can combat taste-based discrimination. In a mechanical sense, quotas can eliminate the efficiency losses from taste-based discrimination by forcing firms to hire members of the marginalized group. Moreover, the benefits of quotas can even be made permanent if the heightened exposure to Saudi workers causes employers to abandon their prejudices. In this sense, it may be useful to complement quotas and affirmative action policies with information campaigns to combat negative stereotypes.

### Labor Market Failure: Path Dependence, Multiple Equilibria, and Switching Costs

Although we typically only observe the labor market under a particular set of circumstances, markets are far from deterministic, and a single set of market conditions often allows for multiple plausible outcomes. Moreover, past conditions can strongly influence present circumstances, even when the past conditions no longer prevail. In other words, labor markets are often highly path-dependent, and they often feature multiple equilibria.

Path dependence and multiple equilibria are especially relevant to the problem of low private sector participation among Saudi nationals. Economies of scale and fixed cost considerations can lead firms to organize their recruitment and production processes around a very narrow type of worker (e.g., males instead of females, or guest workers instead of Saudi nationals). Regardless of the original motivation for hiring expatriates over Saudis, once a firm is organized to accommodate guest workers, it may be extremely costly to adjust to accommodate Saudi nationals. In this sense, the labor market allows for an equilibrium with high private sector participation among Saudis, but one-time costs for switching to this new equilibrium create incentives for firms to stick with the status quo. For example, firms that are accustomed to hiring guest workers will likely need to develop new recruitment tools for Saudi nationals. Moreover, physical investments in workplace facilities may be required to accommodate Saudi or female workers, and new capital investments may be required to accommodate new workers' varying skill types.

[3] Wage subsidies include Telework, Part-time Work, and Support Women's Jobs in Factories.

Scenarios such as this are good reminders that multiple sources of market failure often overlap in complex ways, and require a similarly complex and multifaceted policy response. For example, if the preference for guest workers reflects statistical or taste-based discrimination, it will be necessary to address both the discrimination *and* the switching costs in order to obtain the new equilibrium.

Quota policies are most successful when they induce firms to incur these one-time switching costs. Since most of the switching costs are fixed, the effects of the quota policy can persist even after the policy is no longer binding. However, in order to ensure compliance, it is often best to pair quota policies with additional programs to offset or decrease these switching costs. Further research would be useful to shed light on how have firms changed their hiring practices as a result of *Nitaqat*, and whether quotas are more effective in conjunction with programs that aim to improve information about job applicants? On a related note, for how long do the changes persist? In addition, it would be also important to understand the costs of imposing Saudi hiring quotas for firms. Some might be related to new recruitment and hiring practices; other costs might be associated with changes to workplace or the production process. Without accounting for these costs, firm compliance is likely to be a major challenge for policymakers.

### Skills Market Failure: Problems of Path Dependence and Multiple Equilibria

The market for skills acquisition may present another case of path dependence and multiple equilibria. If Saudi nationals perceive a low probability of finding private sector employment– perhaps due to employer discrimination – then it is rational for Saudis to forgo human capital investment that is specific to the private sector. However, if Saudis lack the necessary skills, private sector firms find it difficult to employ them. This is a classic example of multiple equilibria: under the prevailing equilibrium, private sector firms exclude Saudi workers, and Saudis workers lack requisite skills to work in the private sector. Under the alternative equilibrium, private sector firms actively seek Saudi workers, and Saudis invest in the appropriate skills.

Quota policies like *Nitaqat* can also be effective remedies to this type of path dependence. Quotas operate by requiring employers to hire the previously excluded workers. Once Saudis learn that private sector employment is achievable, they are thereafter more likely to invest in the skills most valued by private sector firms. Thus it would be worth examining whether Saudi students and job seekers have modified their human capital investments in response to *Nitaqat*. Of course, as mentioned above one must be sensitive to agency and incentive problems possibly created by the quota policy itself.

Of course, quotas are not the only policy option. While the *Nitaqat* targets the demand side of the labor market, a complementary policy could target the skills market by encouraging Saudi workers to acquire relevant skills, or by encouraging the supply side to make those skills readily available. Dual policies may stand the best chance of success, since problems of incentive compatibility would be alleviated on both sides of the labor market.

## IV. Women in the Labor Market

Throughout the world, gender disparities in labor market experiences are well documented. Men and women experience vastly different wages and levels of labor force participation and employment, and tend to concentrate in different industries and occupations. Despite recent improvement, female labor force participation In Saudi Arabia remains extremely low. Moreover, increases in participation have exacerbated female unemployment as the availability of jobs has failed to keep pace with higher female labor force participation. Saudi women who do find employment remain concentrated in a few fields.

The following stylized facts illustrate the challenges of Saudi female employment:

1. **Participation rates are low.** Labor force participation rates for working-age women are among the lowest in the world (16 percent), and Saudi women make up only 20 percent of the Saudi citizens' in the labor force.

2. **Unemployment rates are high and growing.** The growth in female labor force participation has outpaced the growth in women's employment. In 1999 the Saudi female unemployment rate stood at 16 percent; by 2013 that rate had grown to nearly 35 percent.

3. **Female employment is concentrated in education and public sector**. Public schools are the largest employer of women, with 74 percent of employed women working in girls' schools.

Our framework of the labor and skills markets, relevant actors and market failures points to three possible explanations. The first two represent failures in the labor market, whereas the third represents a failure in the market for skills.

### Labor Market Failure: Employers Face High Fixed and Marginal Costs of Hiring Women

Given the context, it is unsurprising that cultural norms and legal restrictions (on female mobility, employment, etc.) impose high costs for employing women, making Saudi men and expatriate workers more cost-effective alternatives. This diagnosis corresponds to a failure in the demand side of the market for labor. Specifically, the effective cost of hiring women exceeds their wage rate; this "cost wedge" lowers employment opportunities for women and in equilibrium fewer women are employed.

Both fixed costs (costs which are incurred regardless of the number of female employees a firm hires) and variable/marginal costs (which increase with each new female employee) are higher for female employees than for males. Fixed costs include requirements for separate office spaces and separate building entrances for male and female employees. For an employer considering hiring a first-ever cohort of female employees, such restrictions favor continued reliance on all-male labor. Even where gender segregation is not legally required, cultural norms and social stigma may lead women to prefer strictly segregated workspaces.

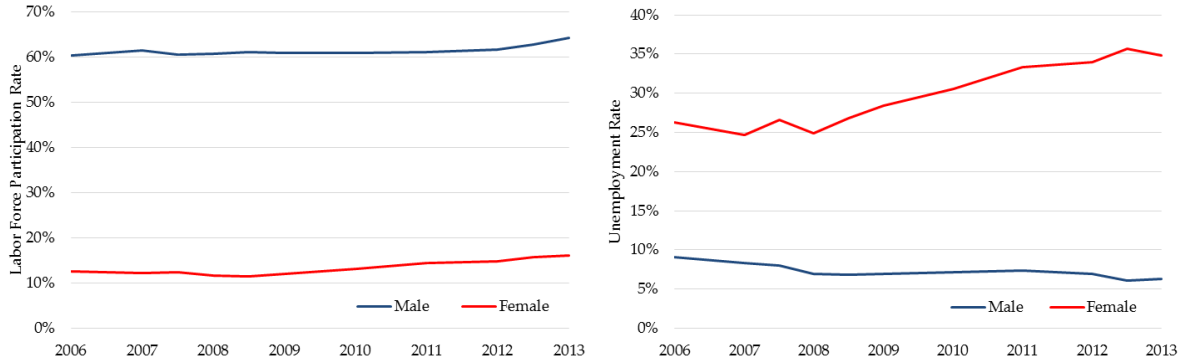
Government policies to promote work-life balance can be similarly distortionary, particularly when burden of compliance falls only on firms with female employees. Maternity leave entitlements and mandatory employer-provided childcare, for example, make a female candidate much costlier to employ

relative to an identically qualified male candidate. In contrast to workspace restrictions, work-life balance policies increase the variable/marginal cost associated with each additional female worker.

Transportation to and from work is also costlier for female employees. Since women are prohibited from driving cars in Saudi Arabia where public transportation is limited, they must either hire a driver or ask a male family member to drive them. The challenge of securing transportation could also contribute to the reluctance of employers to hire women. Moreover, with more than 70 percent of Saudi women employed in the private sector receiving the minimum wage (SAR 3,000), the cost for these employees to secure such transportation may either be prohibitive or represent too great a proportion of their salaries for employment to be worthwhile.

Similar costs may also manifest themselves on the supply side of the labor market. Women with strong sectoral job preferences, concerns about working in mixed-gender environments and/or unwillingness to take up jobs that require relocation, may find few acceptable work opportunities. In this regard, examining job seeking behavior through an unemployment assistance program like *Hafiz* can help shed light on how significant these concerns are.

*While men are entering the labor force at a faster rate than women, women are not being absorbed.*




*Source: CDSI Labour Force Survey, 2006 – 2013 Round 1*

A successful policy response will target both the excess fixed and marginal costs of female employment and directly treat potential supply-side concerns. Fixed costs can be reduced through so-called "big push" policies, which incentivize firms to make one-time investments with permanent long-term impacts. Examples of big push policies include the *Support Women's Jobs in Factories (SWJF)*, the *Women's Employment in the Retail Sector*, and *Nitaqat* quotas. Other policies seek to reduce the marginal costs associated with new female workers. The *Telework* program effectively reduces the high transportation costs of female employment, and wage subsidies and *Nitaqat* bonuses directly reduce the overall marginal cost of female employment. Moreover, training and job-matching programs can help alleviate women's concerns about the work environment. Recent research in behavioral economics suggests that often simple "nudges" can encourage individuals to take on new experiences.

The above diagnosis suggests multiple research avenues. First, are big push policies effective in inducing firms to make investments in hiring women, and moreover, are the up-front costs of such policies justified by their long-run impacts? Second, what is the magnitude of marginal costs associated with

hiring female workers and what is the effectiveness of policies designed to reduce those costs? Third, which policies best allay the concerns that potential female workers may have?

### Labor Market Failure: Employers and Potential Employees Face Incomplete and Asymmetric Information

The market for female labor likely suffers from informational failures (in economic terms "asymmetric information"). Due to their limited experience with employing female workers, and the fact that many women are entering the labor force for the first time, Saudi employers may have only weak signals of female worker ability. Whereas employers can access information regarding male candidates through existing employee networks, we anticipate more limited networks for female candidates.

Informational asymmetries distort the labor market in at least two ways. First, since firms lack a pool of well-vetted female candidates, they bear greater search costs in order to determine which candidates are most qualified. This increases the marginal cost of hiring women. Second, employers may resort to statistical discrimination if they believe that gender is correlated with expected worker ability. The problem can be exacerbated if women anticipate statistical discrimination and choose to invest less in human capital or only in a certain type of human capital (for example, learning to become teachers rather than engineers) due to a perception that their investments will not be fairly rewarded.

A diagnosis of asymmetric information can suggest multiple policy approaches. Job training programs which culminate in a certificate or diploma will provide firms improved signals of worker ability. Other policies, like apprenticeship programs and subsidizing longer trial periods for new hires, will allow employers to gather information on new workers without committing to long-term contracts. Similarly, job search portals like *Taqat*, can help mitigate search and informational costs for both employers and women job seekers. Lastly, policies that encourage female employment – including wage subsidies, *Nitaqat*, and the *Women's Employment in the Retail Sector* –add to a manager's history of experience with female workers and expand existing employee network.

The information asymmetry hypothesis suggests several research questions, some of which are also compatible with researching demand and supply side cost constraints. First, do "big push" policies yield positive spillover in the form of female hiring at non-target firms?[4] The reason to anticipate this is that these policies can positively affect information dissemination throughout the economy. Second, can the government provide useful, credible information about applicants to firms? Third, what is the magnitude of any excess search costs? If female hiring is found to be associated with high excess search costs, it may justify compensatory policies designed to help firms find qualified female candidates.

### Skills Market Failure: Skills Mismatch

In recent years, the Saudi labor market landscape has been rapidly changing, especially for women. Women now *potentially* have access to new occupational and educational opportunities. However, if networks of information dissemination fail to keep up with this rapid change, then women's information

[4] Targeted firms are those that operate in sectors that are subject to employment policies directed specifically at women, such as *Women's Employment in the Retail Sector* and *Support Women's Jobs in Factories.*

on the private costs and benefits of their educational choices may remain outdated. This is especially the case since such choices are often made at a fairly young age and with limited guidance on their longer-term impact on career trajectory. Even in developed economies, the general lack of women in high-paying professions such as science and technology and senior management is, at times, attributed to inadequately informed educational choices made early on in high school and college. The lack of quality information may lead women to choose fields of specialization with relatively poor employment prospects. Moreover, cultural norms can reinforce suboptimal educational choices, for example when women believe that a career in education is their only socially acceptable option. When such forces shape selection of educational and training investments by women, this can result in a mismatch between the skills offered by women and the skills demanded by employers.

Policy responses to skills mismatch generally take one of two forms. Job training programs, tailored to the most promising fields of employment, seek to directly improve preparedness of female workers. Information interventions, on the other hand, aim to educate students about their employment options and influence the prevailing cultural norms. Information interventions can persuade women that careers outside of education and the public sector can be lucrative and socially acceptable. A challenge for such policies, especially with regards to a labor ministry, is that they may need to be in place when the target is at a fairly early age, and that they involve and require coordination with the higher education and education ministries as well. By the time an individual has finished college, while (re)training programs can help, it may be too late to bring about a substantial change in career prospects. Thus, linking career choices with educational guidance in higher school and college is imperative.

Additional research is essential for a successful policy response to the skills mismatch. Impact evaluations will be necessary to understand the effectiveness of information interventions and job training programs. In particular, researchers should be careful to differentiate between the short-term and long-term impacts of various policy solutions. Additional research might also assess the potential for programs that retrain mid-career workers. For example, can women with education degrees be retrained and redeployed in other service sectors? These programs can be compared with ones which intervene at earlier stages.

Although we distinguish three separate sources of market failure in the labor and skills markets, it is important to emphasize that the underlying causes of market failure are most likely occurring simultaneously and interactively. A successful policy response will be multifaceted and similarly interactive.

## V. Youth Employment

Young people tend to have higher than average unemployment rates and lower than average labor force participation, and youth employment rate is particularly sensitive to labor market conditions. Youth unemployment is an especially pressing issue in the Middle East and in Saudi Arabia in particular. The integration of new labor market entrants into the private sector workforce is a key policy area for the Ministry of Labor, leading to a host of new policies focused on employment of young job seekers.

The following key stylized findings motivate our analysis of Saudi youth employment:

1. **Youth[5] unemployment rates are unusually high, especially among young women:** Saudi Arabia has one of the highest youth unemployment rates at 41 percent, compared to an overall unemployment rate of 12 percent. For young women the unemployment rate is 74 percent.
2. **Expanding youth population:** Given the current population demographics and trends, Saudi Youth are an important presence in the population with the national median age of 19.
3. **Limited work experience:** Saudi youth typically have limited work experience (internships etc.) by the time they enter the work force.
4. **Unrealistic expectations:** Having traditionally sought employment in the (better paying) public sector, Saudi youth likely have unrealistic wage expectations for private sector work. This coupled with inadequate educational skills and quality, is likely to lead to poor employment outcomes.

We have identified four key sources of market failure in the Saudi context; taken together, they help to explain the persistence of low labor force participation and low employment among Saudi youth. Our diagnosis owes much to J-PAL's 2013 report[6] on youth employment in developing labor markets.

### Labor Market Failure: Young People Lack Information about How to Find Jobs

Without work experience of their own, young people often lack information about where or how to search out and apply for jobs. Moreover, whereas adults frequently leverage existing social networks to gain information about jobs and obtain references, young people are less likely to have access to such networks. This knowledge gap tends to be especially pronounced with respect to private sector employment opportunities, where Saudi nationals are traditionally underrepresented.

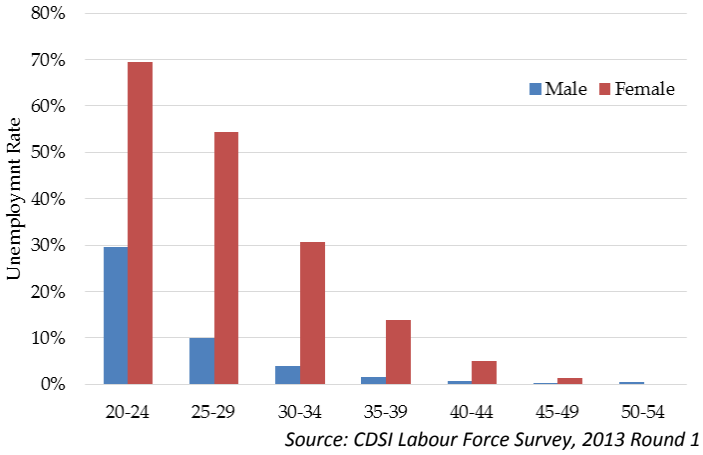
Incomplete information among young people suggests a key role for policies that offer career and job-search counseling. The *Career Education Development (CED)* program has established an institute to provide young people – including both first-time job applicants and those transitioning between jobs – with such services. The program includes online training, access to summer jobs and internship listings, and personalized mentoring, in addition to other services.

[5] The United Nations defines youth as individuals between 15 and 24 years of age; however, several of the nation's labor policies targeted toward youth apply to individuals up to age 34.
[6] J-PAL, 2013

Young Saudis are also offered access to the *Taqat* program, which helps to match job seekers with private sector employers. The *Taqat* program is available to those who are registered in the *Hafiz* unemployment assistance program.

The problem of informational incompleteness suggests several important avenues for additional research. In particular, more research is needed to understand which features of job counseling and job search assistance are most effective in meeting the needs of young people. Moreover, what are the short- and long-term effects of these types of interventions? Researchers might also study how young job seekers utilize their existing networks, as well as how referral networks can be improved for inexperienced job seekers.

*Unemployment is particularly severe for young women, reaching nearly 70% for those aged 20 to 24*




*Source: CDSI Labour Force Survey, 2013 Round 1*

## Labor Market Failure: Young People Have Unrealistic Expectations about Entry-Level Wages, Work Requirements, and Working Conditions

In the absence of accurate information about job opportunities and the job search process, young people may form biased beliefs. Even when young people gain information from reliable sources, a rapidly changing labor market may result in their subscribing to outdated information. Incorrect or outdated beliefs can result in unrealistic expectations about wages, job responsibilities, and appropriate workplace behavior. These biased expectations may lead to inefficient job searches and high turnover rates. Moreover, young people's expectations are likely to shape their pre-labor market behavior, including their demand for human capital.

Subjective beliefs can be especially resistant to policy interventions. However, policies that give job seekers first-hand exposure to the private sector may provide an indirect way of influencing young people's beliefs and expectations. Internship and apprenticeship programs, for example, give young people work experience while also giving employers an opportunity to evaluate candidates for permanent positions. Career fairs and school career days can also be effective in exposing job seekers to seasoned professionals. The *CED* and *Taqat* programs make several such services available to young Saudis. Direct job training programs like the *Colleges of Excellence (CoE)*, offered by the Saudi government's *Technical and Vocational Training Corporation (TVTC)*, can also assist indirectly by steering students toward the most promising college majors and vocational opportunities.

Young people may also hold biased beliefs about real-life working conditions, especially in private sector firms. The private sector has traditionally been unpopular among Saudi nationals, who often associate it with poor working conditions and low job security. *Nitaqat* quotas and several other MoL polices seek to address these issues, but even as private sector firms transition to employing more Saudis, actual

working conditions and reputations may be slow to adjust. Policies like *Nitaqat*, the *Women's Employment in the Retail Sector*, and internships through the *CED* program can improve this situation by increasing young people's exposure to the private sector. However, an effective policy response must also work to improve actual working conditions. *Wage Protection System* and workplace inspections are two important components of such a response.

Further study is essential for understanding unrealistic expectations among young people. For instance, can the government provide useful, credible information about firms to prospective workers, and if so, how? Additional research can help understand how young people form labor market beliefs and how role models and social networks are involved in belief formation. More evidence is also needed on how young people's reservation wages change in response to new information, and how new information affects the duration and outcome of a young person's job search.

### Labor Market Failure: Firms Have Poor Information about the Productivity of New Workers

Informational failures also exist on the demand side. With little in the way of previous work history, young job seekers have limited ability to signal their productivity to employers. This is especially true when the educational system does not provide credible signals of ability. Employers often place a premium on less tangible skills, such as professionalism or work ethics. These "soft" skills tend not to be reflected in the signaling devices most commonly available to young people – namely, school transcripts.

Unfortunately, general employment protections for Saudi workers may worsen the problem. Employment protections are intended to improve Saudi workers' perceptions of job security in the private sector by making it more costly to dismiss them. However, such policies make it especially risky to hire a young person with little previous work experience.

Effective policies will provide employers low-cost ways to gather information on new workers. Programs that support apprenticeships, internships, and other non-permanent employment arrangements (sometimes known as "mini-jobs") allow employers to evaluate workers' productivity without committing to a long-term employment contract. One such initiative is the *Saifi* summer work program.

Another policy approach seeks to directly improve information available to firms. *CoE* and other job training programs provide a high quality signal of worker ability, but they must ensure that students are held to a consistently high standard in order to maintain the quality of the signal.

Of course, informational asymmetries will persist until employers are well acquainted with the abilities and attitudes of Saudi young people. In this regard, any of the policies aimed at placing new job seekers into private sector jobs – these include *Nitaqat,* wage subsidies, and the *Women's Employment in the Retail Sector* – will improve the situation by helping firms to gather more accurate information about worker productivity.

Additional research can improve our understanding of how firms gather, utilize, and disseminate information regarding the productivity of young Saudi workers. For example, can "big push" programs like *Nitaqat* lead to spillovers of improved Saudi hiring at non-targeted firms? Also, can the government provide useful, credible information about applicants to firms?

### Skills Market Failure: Skills Mismatch

The Saudi labor market is a rapidly changing environment. No group is more affected by that change than young Saudis, who now have access to many more educational and occupational opportunities than in previous generations. However, combined with weak professional networks and limited previous work experience, young Saudis are still prone to unrealistic expectations about existing job opportunities. Without accurate and up-to-date information about the private costs and benefits of educational choices, Saudi youth are unlikely to acquire the skills that private sector employers require. The skills mismatch is readily observed in the data, where Saudi college students continue to favor fields with relatively poor job prospects, like education and the humanities. What begins as a skills market failure, due to imperfect information about the private costs and benefits of education, quickly blossoms into a labor market failure when firms are unable to find qualified workers and workers are unable to provide their labor.

The TVTC aims to bridge the skills gap directly through *CoE* and other job training programs. However, it is important to recognize that young people will continue to make suboptimal human capital investment decisions until they have access to high-quality information about their educational and occupational opportunities. Informational campaigns should seek to counter the stigma associated with private sector careers, which were once seen as less socially acceptable than careers in the public sector. The *CED* program is one among many programs designed to improve young people's access to career information, but these initiatives may come too late for many young people. The goal should be to reach youth before they have made important decisions about their future education – perhaps as early as middle school.

Despite the abundance of evidence regarding the Saudi skills mismatch, several important questions remain unanswered. First, can informational campaigns have an impact on young people's educational choices? Moreover, given that many young people have already made substantial investments in their human capital, can struggling workers be effectively retrained into different specialties. Also, what are the short- and long-term effects of job training and informational programs?

## VI. Matching in Markets

In the labor and skills markets, the selection of workers into jobs and students into degree programs presents a two-sided matching problem. Workers differ in ability and preferences, and jobs differ in their suitability for potential employees. The quality of labor market matches depends on how worker skills and abilities match the needs of the firm and how closely each job's characteristics match worker preferences. In the skills market, students select schools and degree programs according to their own abilities and potential as well as their preferences regarding schooling and future career options. Schools select among applicants based on beliefs about their current and potential skills.

In both cases, the socially optimal outcome occurs when students match with degree programs that complement their innate abilities and aspirations and workers match with jobs that correspond with their own preferences and put their skills and abilities to their most productive use. To the extent that society values certain match features, such as the representation of a disadvantaged group, matching algorithms for central allocation mechanisms may also be designed with these goals in mind.

The following key stylized facts motivate our analysis of matching between students and degree programs and between workers and firms in the Saudi skills and labor markets:

1. **Students, especially females, choice of skills may be mismatched to labor market returns:** Although women make up over half of college students, they are concentrated in the field of education; in technical fields, such as engineering, they remain a very small minority.
2. **Inexperienced market entrants:** The overwhelming majority of individuals are new entrants to the labor market likely seeking their first professional experience.
3. **High job turn-over due to quick and low-quality matches:** Pressure on firms to comply with *Nitaqat* regulations has been reflected in a quick rise in Saudi employment in minimum wage jobs. Worker turnover is extremely high, and average job tenure is brief; more than 81 percent of workers leave their jobs after less than a year.
4. **Increasing array of educational qualifications:** The rapid increase in the number of educated, both through domestic programs and generous international scholarships, generates challenges for employers in being able to differentiate between job applicants. This is exacerbated with firms having little experience recruiting Saudi workers (85 percent of the private sector workforce is recruited from overseas).
5. **Saudi workers often have strong preferences over job attributes:** Saudi youth have specific expectations, often driven by social status norms, about acceptable occupations. Similarly, many Saudi women are only willing to work in female-only workspaces.

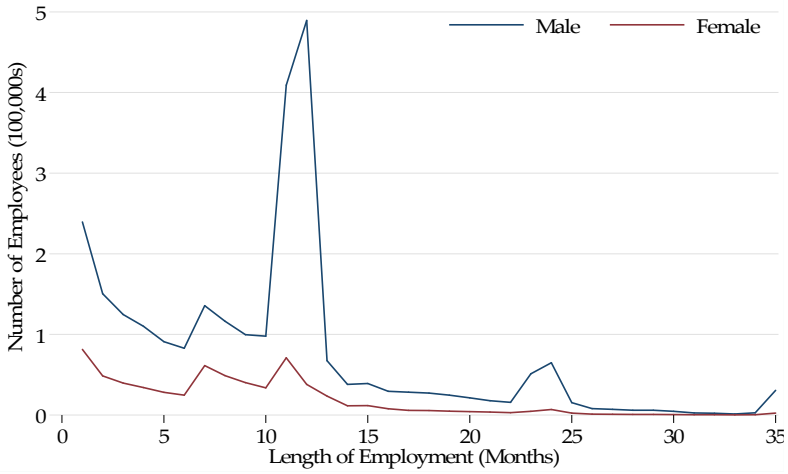
Matching works best when both parties have complete information about their own characteristics and those of the other party and when both sides are able to communicate their preferences accurately. The degree to which agents have common or idiosyncratic preferences over their match characteristics will also have implications for the quality of matches and the optimal design of matching systems. Our diagnosis is that the efficiency of labor market matches is adversely affected by incomplete information and an inherent incompatibility of worker and firm preferences. Incomplete information is also an important obstacle to efficient skills market matching.

## Obstacles to Skills Market Matching: Incomplete Information

In the skills market, the quality of a match between a student and an academic degree or vocational training program depends on student preferences over available programs, aptitude for the academic or vocational material, and program's preferences for its student body. For a match to be mutually beneficial, students must be able to choose a program aligned with their skills and career goals, and schools must be able to identify the most qualified students. As with the labor market, both the demand and supply side of the skills market must possess complete, accurate, and credible information about their own characteristics and preferences and the characteristics and preferences of their counterparts.

Saudi Arabia has introduced multiple policies to improve matching in the skills market. The *Saudi Skills Standards* (*SSS)* program, for example, is an important part of the effort to reduce informational constraints. The *SSS* program clearly communicates to students the skill requirements associated with different occupations. The program also standardizes credentialing, so that students can better assess their own strengths and weaknesses and subsequent educational institutions can better evaluate their applicants' past performance. The *SSS* can also reduce uncertainty regarding the value of a degree by reassuring students that the degree will provide employers with a credible signal. The *Career Educational Development* (*CED)* program represents another attempt to improve informational completeness. *CED* educates young people about their career alternatives and matches them with training programs that best complement their career goals.

*Worker turnover is extremely high; more than 81% of private sector workers leave their jobs within a year of joining.*




*Source: GOSI Database, 2013*

Additional research can assist policymakers in developing effective mechanisms for improving matches between students and training programs. In particular, researchers might evaluate whether a centralized training match system can improve the efficiency of training provision. Researchers should also seek to identify which types of information are most valuable in signaling the quality of a potential match. For example, how do prospective students utilize the information provided by programs (like the percentage of alumni finding employment upon graduation), and how do students and programs respond to information about the student (for example, the results of aptitude tests)?

## Obstacles to Labor Market Matching: Incomplete Information

To choose the right employees, employers require complete, accurate, and credible information about worker abilities, skills, and qualifications. Similarly, to find the right job, workers must be able to find relevant job postings and must have access to complete, accurate, and credible information about firms and available positions. Typically, however, access to information alone is not sufficient, especially if the

process of information-gathering and interviewing is costly. Workers must curtail their current work in order to search job postings, and interviews might entail expenditures for travel etc. Firms must reallocate personnel away from productive activities and toward interviewing and evaluating job candidates. When workers and firms lack complete information, or when information is costly to gather, the efficiency of labor market matching will generally suffer.

Matching mechanisms can be designed to improve match efficiency and quality in both the labor and skills market. In the labor market, for example, efficiency can be improved by establishing a centralized marketplace where job seekers can easily access postings and find information about firms and where employers have access to standardized, credible profiles of applicants. The *Taqat* program attempts to create such a marketplace for Saudi firms and job seekers. The *Taqat* marketplace generates its database of job seekers from the *Hafiz* (unemployment assistance) pool. In addition to a centralized database of jobs, the *Taqat* program also provides job candidates with "soft-skill" employability training, such as interview and CV preparation.

Importantly, a centralized market is only useful if the information it transmits is credible. In particular, firms must be able to interpret and trust an applicant's listed credentials. The *Saudi Skills Standards (SSS)* program represents one effort to standardize vocational training and credentialing. *SSS* develops standardized vocational skills curricula based upon the demands of employers, and vocational training institutions are subsequently held to these standards. However, while the *SSS* assists job seekers in credibly signaling their technical qualifications, it has no capacity to improve the signaling of soft skills like professionalism or work ethic.

The *Taqat* and *SSS* programs represent important steps toward improving matching efficiency in the Saudi labor market, but additional research will be crucial for making further progress. First, what is the quality of matches induced by the *Taqat* program? How do these jobs compare to average private sector jobs in terms of wages, hours, and worker tenure? Further, what alternative matching mechanisms might be suited to the Saudi context? Additional research is also required in order to understand which informational constraints are most binding. In particular, do firms struggle most to interpret technical qualifications or soft skills?

### Obstacles to Labor Market Matching: Incompatibility of Preferences

Even when information is complete and readily available, mutually-beneficial matches can be elusive when firms and workers have inherently incompatible preferences. In Saudi Arabia, firms have traditionally favored expatriate labor based on high reservation wages and the belief that Saudi workers' average productivity is insufficient to make up for the higher wage they must be paid. Saudi workers, on the other hand, have traditionally preferred public sector over private sector work due to beliefs about poor private sector working conditions and job security, mixed-gender workplaces, and social stigma. This suggests few potentially mutually-beneficial private sector matches. It is important to note that, given current preferences, this does not represent inefficient matching per se. However, there may be scope for welfare improvements if policymakers can somehow help adjust preferences and beliefs to increase the number and quality of potential matches.

At present, no policies have been designed to directly enhance the compatibility of worker and firm preferences. However, several policies stand to improve the situation, if only indirectly. Policies designed to increase interaction between Saudi workers and private sector firms – including *Nitaqat* and the *Women's Employment in the Retail Sector*, for example – might begin to reshape social norms regarding private sector work as well as employers' beliefs about the abilities of Saudi workers. Informational campaigns can also be effective. The *CED* program, for example, introduces young people to an array of private sector opportunities.

Preferences are difficult to observe, so additional research will be essential for determining the magnitude and scope of the problem. For example, by exploring how rules governing female-only workspaces affect private sector employment, researchers might begin to identify the roles that social norms and individual preferences play in determining the number of acceptable matches. Further, what is the evidence about the extent to which existing labor market policies like *Nitaqat* and the *Women's Employment in the Retail Sector* are indirectly affecting worker and firm preferences? For example, does the *Nitaqat* program affect the hiring of Saudi nationals at non-targeted peer firms? Evidence of a spillover effect might suggest that the *Nitaqat* program is shifting employers' preferences and beliefs throughout the private sector.

# CHAPTER I:

# HUMAN CAPITAL DEVELOPMENT AND JOB CREATION

The lack of appropriate and high-quality skills is often cited as a factor in poor employment outcomes. Skills decisions are typically made fairly early in one's educational life, often at the secondary-education level, and many students have limited information on career options. This can lead students and employees to invest in a less-profitable skillset which may later make it more difficult for them to find appropriate jobs.

The Saudi context poses its own unique set of challenges. As in more developed economies, an increasing number of Saudi nationals are pursuing university degrees. Thus, the age of entering the labor market is decreasing. Women are also very much a part of this increase in educational attainment, and like the youth, also have limited work experience. Moreover, women and youth have access to – and are utilizing – generous support programs for foreign education. The government is investing heavily in human capital in order to transform the nation into a knowledge-based economy, and it has allocated SAR 210 billion—nearly one quarter of Saudi Arabia's total budget for 2014—to educational development, including curriculum development, infrastructure for schools, universities and academic institutions, and scholarships abroad.[7]

At the same time, perhaps more fitting within a developing economy context, Saudi Arabian job seekers encounter a lack of information on the quality of educational options, limited guidance on which educational and career opportunities to pursue, and a lack of established means of gaining work experience during the skills- and educational-acquisition stage. University graduates typically complete degrees in humanities and social science fields, which do not cater to the demands of the private sector, and many lack the management skills needed for the public sector.

Perhaps as a result of these two factors – an increasing supply of the newly educated but limited information on the quality and employability of the human capital acquired – there is a high rate of unemployment and job-skills mismatch, particularly among Saudi youth, and many new entrants experience difficulty transitioning from education to job placements in both the private and public sectors. There is a risk that the increased investment in human capital, while creating a welcome increase in the supply of skilled workers, may lead to a situation where the labor market in both private and public sectors is not able to cater to this supply, especially if the human capital investment is not targeted effectively to the needs of the current and potential market.

## A. Context and Diagnosis: Linking Education to Labor Market Outcomes

The following sections will use existing data and information on human capital development in Saudi Arabia, starting with an overview of its education n system, to highlight some of the factors that impact the acquisition and effective deployment of human capital.

### Educational System in Saudi Arabia: An Overview

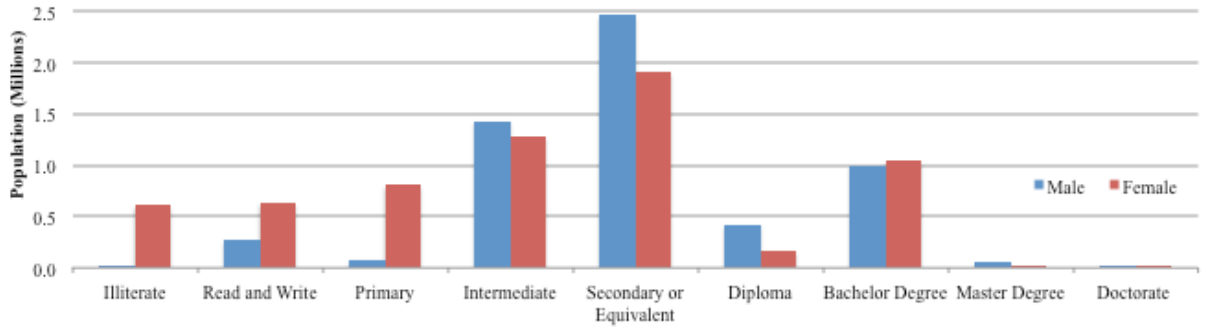
Education is primarily overseen by the Ministry of Education, which deals with primary and secondary schooling, the Ministry of Higher Education, which handles tertiary studies, and the *Technical and*

[7] Saudi Arabia Ministry of Economy and Planning, 2013

*Vocational Training (TVTC)*, which oversees vocational training. 70 percent of Saudi students choose the former paths, leaving enrollment in technical and vocational degree programs relatively low.[8]

Population-wide, the literacy rate is estimated to reach 99 percent by 2015.[9] Figure 1 shows that most of the population is educated up to the secondary-school level, while women are making significant inroads into higher education as compared with past years.

*Figure 1: Educational Status of Saudi Nationals by Gender, 2013*




*Source: CDSI Labour Force Survey, 2013 Round 1*

## Pre-primary Education

Pre-primary education in Saudi Arabia is offered for children between the ages of 3 and 5 years, but is not mandatory. Kindergarten education is provided through private schools under the supervision of the Ministry of Education. Unlike other educational levels, pre-primary education for boys and girls is offered as part of women's primary and secondary campuses or in separate buildings. As of 2014, there were 11,689 pre-primary teachers in the Kingdom, all of them Saudi women.[10]

According to Ministry of Education estimates, 112,514 girls were enrolled in pre-primary education for the academic year 2013/14.[11] According to the United Nations Educational, Scientific, and Cultural Organization (UNESCO), the rate of enrollment for boys and girls at this level was 11 percent as of 2008.[12]

## Primary and Secondary Education

Saudi primary and secondary education lasts 12 years in total, secondary education including 10$^{th}$ to 12$^{th}$ grade. In the 11$^{th}$ grade, students are given a choice between "science" and "literature" paths. The former focuses on subjects such as math, biology, chemistry, and physics; the latter focuses on social science, geography, history, rhetoric, and literature. English as foreign language was introduced in public schools in the 4$^{th}$ grade in 2011, before which it was taught only in secondary school.

[8] World Bank, 2008
[9] AlMunajjed & Sabbagh, 2011
[10] Ministry of Education, 2014
[11] Ibid.
[12] UNESCO, 2010/11

During their senior year in high school, students complete the General Aptitude Test (GAT), which is administered by the National Center for Assessment in Higher Education (Qiyas). The purpose of the test is to measure high school students' acquired skills as a criterion for higher education admission. Some universities in Saudi Arabia require completion of the Standard Achievement Admission Test (SAAT), which is both used for admissions purposes and to determine the level of courses in which students should enroll in his or her chosen field.

### Tertiary Education

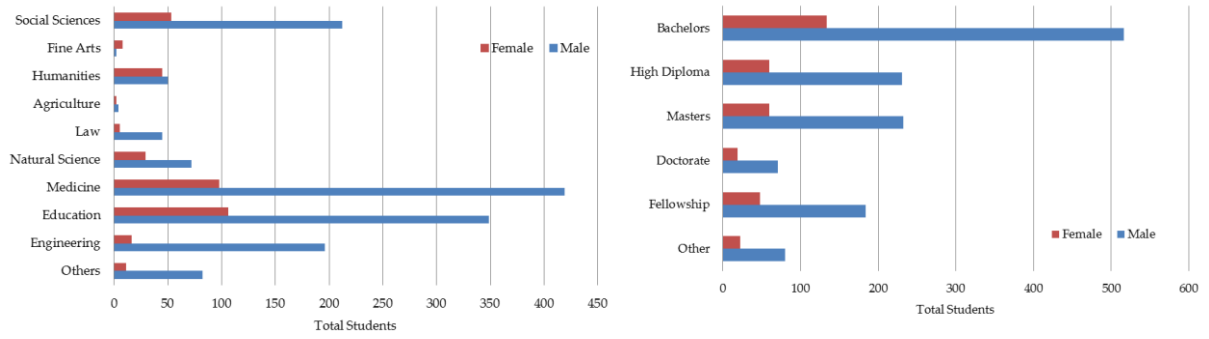
Higher-educational attainment is rapidly growing in Saudi Arabia, particularly for women, and the number of institutions available to accommodate this trend is growing in response. For the academic year beginning in 2010, Saudi Arabia's 68 colleges, universities, and academic institutions had a total enrollment of 757,770 Saudi students (414,433 females and 343,337 males) with 33,273 (16,441 females and 16,832 males) enrolled in private colleges.[13] By 2012, the figure had increased to 1.2 million (Saudi Arabian Monetary Agency, 2013). In that year, 141,200 students graduated from higher education, with women constituting more than half of the total (72,100).

Students enrolled in public education colleges and universities receive a monthly stipend for the first four years of their enrollment. For Bachelor's degree candidates, the stipend is SAR 850 for students enrolled in arts and humanities degrees and SAR 1,000 for those enrolled in science. For Master's and doctoral students, a monthly stipend of SAR 900 (regardless of major) is provided for four and six terms, respectively.

In addition, Saudi students are also provided scholarships to pursue degrees at higher education institutes abroad through the *King Abdullah Scholarship Program* (*KASP*). The aim of the program is to provide students with the background and skills needed for work in the private sector. The program was introduced in 2005, and more than 30 counties have hosted *KASP* students, with most attending programs in the United States (35 percent), Canada (11 percent), the United Kingdom (15 percent), and Australia (8 percent) (2010 figures).[14] The program sponsors bachelors, masters, and doctoral degree students, as well as providing medical fellowships. The program also funds students for one year of intensive English language proficiency training, with the option of undertaking a postgraduate preparatory program relevant to their intended field of study prior to enrollment in the undergraduate or postgraduate degree program. In addition to covering course tuitions, the government provides the students with medical coverage and with a monthly stipend that varies depending on country in which they studies are undertaken. For students studying in the United States, for example, the stipend is approximately USD 1,800.

[13] These may include non-Saudi students in private colleges. Non-Saudi students, with the exception of GCC nationals, may not enroll in public colleges or universities.
[14] Ministry of Higher Education, 2010

*Figure 2: KASP graduates, by gender, field of study, and degree type, 2010*




*Source: Ministry of Higher Education, 2010*

## Technical and Vocational Training

At age 12, Saudi students choose between enrolling in intermediate school and entering technical and vocational training. The *TVTC* oversees programs in this area, which include degrees up to the tertiary level. Students enrolled in post-secondary technical and vocational path also receive a SAR 1,000 monthly stipend during their training.

Despite high private sector demand for technical jobs (see the section on trends in employment below), there is low enrollment among Saudi nationals. In 2012, only 81,300 students were enrolled in 112 Saudi technical and vocational institutes, including 15 technical colleges, 14 female-only institutions, and 63 industrial institutions. While women's participation in tertiary education is high, it remains low in terms of enrollment in technical colleges, totaling only 6,800 students in 2012[15]. The total of male participation in these colleges for the same year was 15,200, which is relatively low (9 percent) in comparison to the average for OECD countries (40 percent). Meanwhile, in the academic year 2011-2012, a total of 6.5 million students were enrolled in primary, intermediate, and secondary education in Saudi Arabia (see more on *TVTC* in the Policy Appendix).

## On-the-Job Training

In the skills market, some of the most important human capital investments occur through on-the-job training. Presently, there are fairly limited on the job-training or apprenticeship opportunities in Saudi Arabia. Moreover, firms are also unlikely to make investments in skilling and human capital development if they feel that the returns will not accrue to them. This is exacerbated by high turnover rates in the labor market. Only 59 percent of 37,931 *Hafiz* beneficiaries who received pre-job training were able to retain their jobs even during the first three-month period.[16]

**To summarize, while overall there is an impressive and rapid increase in educational attainments, this is less the case for technical and vocational degrees and for skills imparted through apprenticeships and on-the-job training.**

[15] Saudi Arabian Monetary Agency, 2013
[16] Job Placement Centers, 2013.

## Educational Quality & Diversity

Saudi youth generally perform low on cognitive and non-cognitive skill tests. Education performance, particularly in the fields of mathematics, science, reading, and language are lower than the international average.[17] In 2011, Saudi fourth grade students scored the lowest among GCC counties ranking 37th out of 42 countries in the *Trends in International Mathematics and Science Study* (TIMSS), and 42nd out of 45 in the *Progress in International Reading Literacy Study* (PIRLS). Notably, Saudi girls scored better than their male peers on both tests.

Saudis students are also facing challenges in their English language skills. It was only in 2011 that English was introduced in the fourth grade, which may have reduced students' capacity to acquire and use the language effectively when they entered the labor market or pursued degrees abroad. This may explain the reason why 35,000 out of 71,000 of *KASP* recipients in the US enrolled in English language training prior to commencing higher degrees in U.S. universities.

Difficult-to-measure, non-cognitive skills are also not fully developed in the educational system. Researchers believe that the pedagogical style employed at almost all levels of Saudi education, which focuses on memorization and does not foster skills like critical thinking, teamwork, and communication, is underserving current market needs.[18]

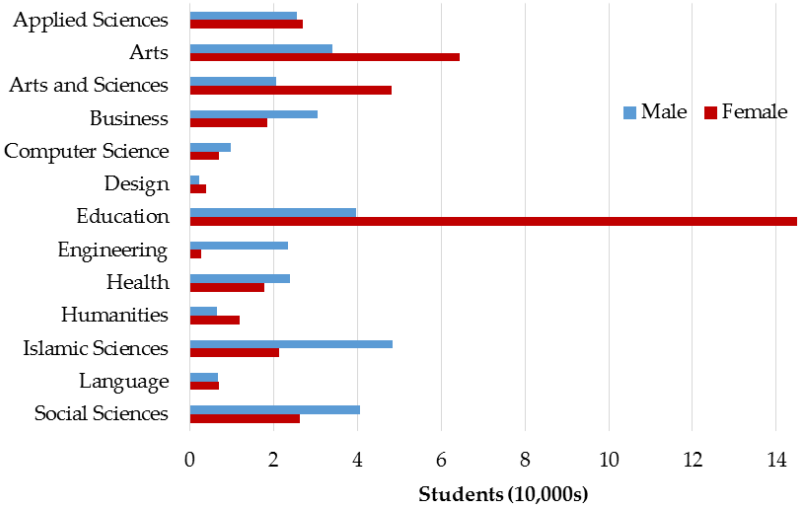
The education system seems to provide a low quality of signaling with respect to skills and abilities. Schools provide poor or non-credible credentialing; if grades and degrees are not a good signal of worker ability, then the educational system is not performing an important function.

### Training Diversity

The Saudi labor market is continuously and rapidly evolving. There is concern, however, that Saudi nationals may not be acquiring the relevant human capital to catch up with this change. There is a high concentration of Saudi bachelor's candidates in fields such as social science and humanities, as demonstrated in Figure 3. Women and men tend to focus on fields such as education and Islamic sciences, respectively, both of which are relevant to career options in the public sector but may have more limited opportunities in the private sector. Similar trends are found among *KASP* recipients (see Figure 2 above).

[17] Mullis et al., 2012a, 2012b
[18] AlMunajjed & Sabbagh, 2011

*Figure 3: Saudi Public University Students by Faculty and Gender, 2011*




Source: Ministry of Higher Education, 2011

Moreover, degrees in politics, architecture, law, and engineering – which were provided by private higher-education institutions – became available to women in 2010. This development did not factor in the demand of the labor market, as public and private sector jobs in these fields only recently became available to women. 65 percent of students registered in higher degrees in science in 2010 were women, and their pursuit of degrees in science, technology, engineering, and mathematics (STEM) is increasing; however, only a limited number pursue careers in these fields due to a lack of relevant jobs.[19]

Both the public and private sectors are open to the wider global market, and thus highly-competitive and characterized by a constant demand for linguistic, technical, and vocational skills. The private sector relies heavily on English as a communication and transaction language, and the challenges that many graduates face in this regard have led the Ministry of Labor to include English-language training in several of its training initiatives.[20]

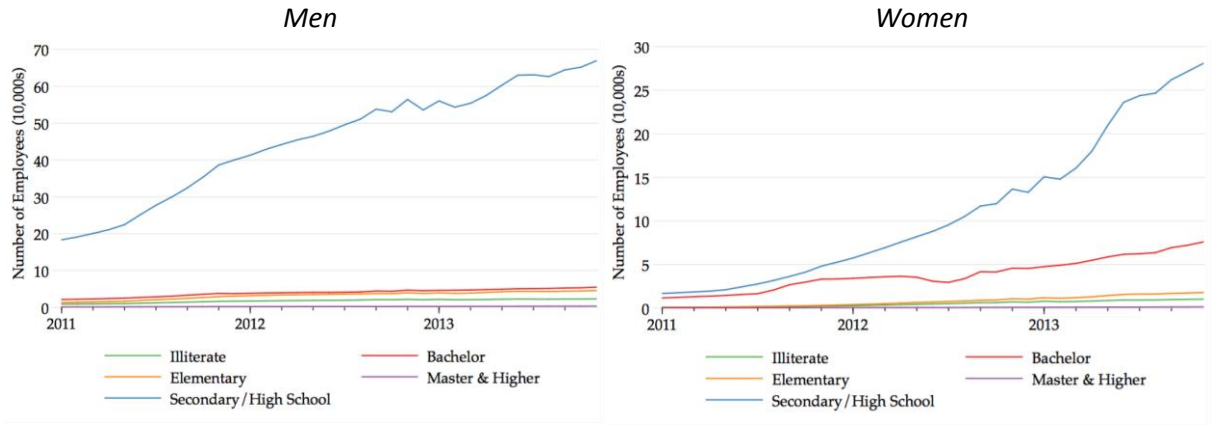
**Although educational attainment is on the rise, there are potential concerns about the quality, range and appropriateness of the education being imparted.**

## Skill-Based Employment Trends

The latest employment data from GOSI shows that the growth in employment for both men and women who have completed tertiary education has been slow and has been outpaced by the rate of employment for high school graduates (Figure 4). Of unemployed Saudi women, 78.3 percent have bachelor's degrees, compared to 14.9 percent of males[21]. Thus those with higher degrees, especially women, are paradoxically seeing less employment growth in the private sector.

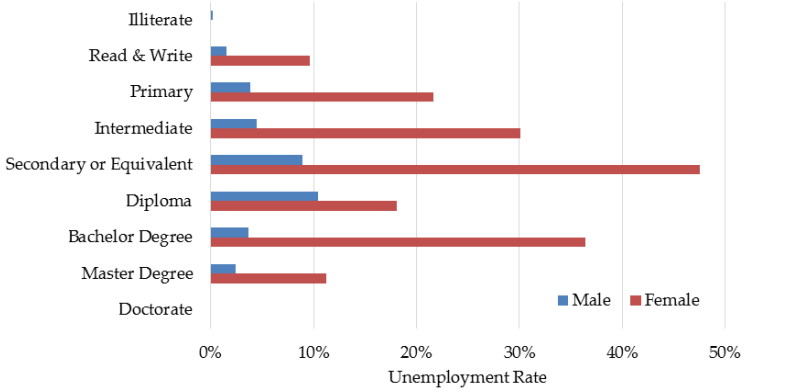
[19] Economist Intelligence Unit, 2012
[20] Jamjoom, 2012
[21] Ministry of Economy and Planning, 2014

*Figure 4: Saudi private sector employment by education, Jan. 2011 – Nov. 2013*




*Source: GOSI Database, 2013*

*Figure 5: Unemployment rates for Saudi nationals by gender and education*



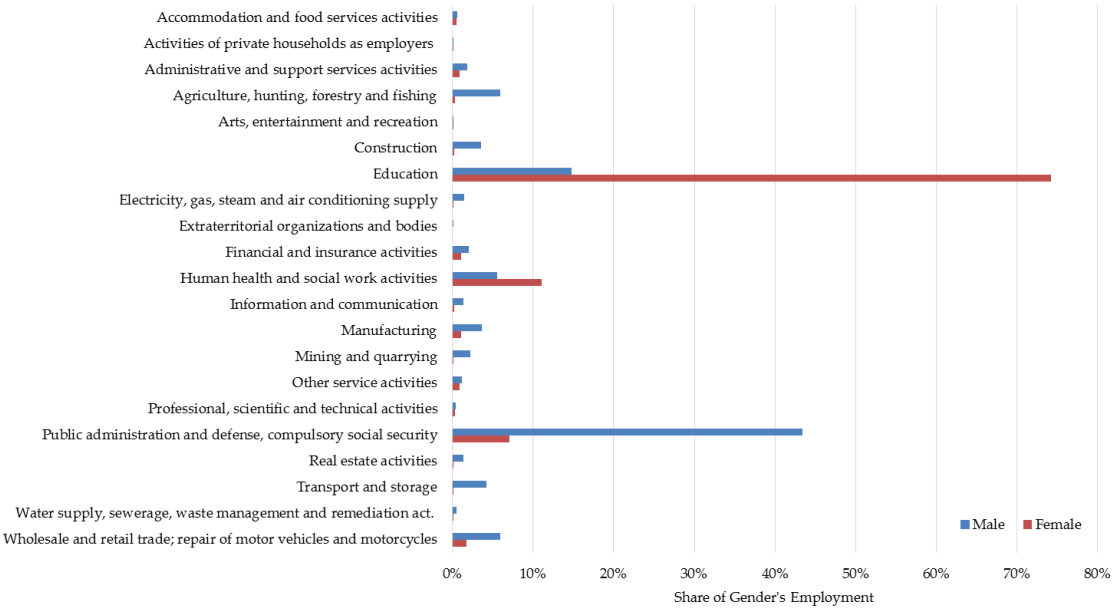

*Source: CDSI Labour Force Survey, 2013 Round 1*

One explanation for the unemployment rate for job seekers with high academic qualifications (especially women) may be that the same period coincided with the introduction of *Hafiz* (see Chapter II). It is also likely that this is due to the lack of adequate information regarding the costs and benefits of various educational choices and potentially mismatched salary and work expectations. This lack of credible information may reduce the demand for the pursuit of functional skills relevant to the current state of the labor market. With guest workers dominating the private sector and Saudi nationals concentrated in the public sector, it is not surprising that the latter may not be as informed about the employability of their skills.

More generally, there may also be shortcomings in how well the labor market is able to signal the required skills needed by employers. Although the government hopes to shift toward a knowledge-based economy, the labor market is currently demonstrating a demand for more employees in low-skilled positions (see figures 6 and 7). Indeed, non-oil exports are primarily still for low- and medium-skill intensity jobs, with declining production in high-skill intensity exports (figure 8).[22]

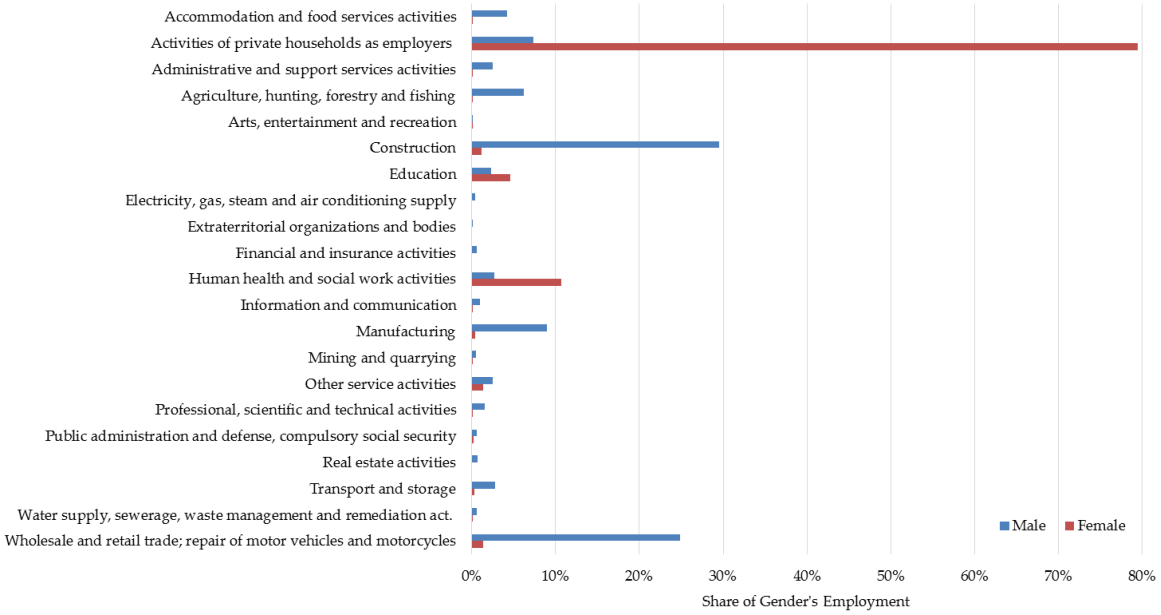
[22] UN UNCTAD Trade Database.

*Figure 6: Total share of Saudi Male/Female employment by economic activity, 2013*



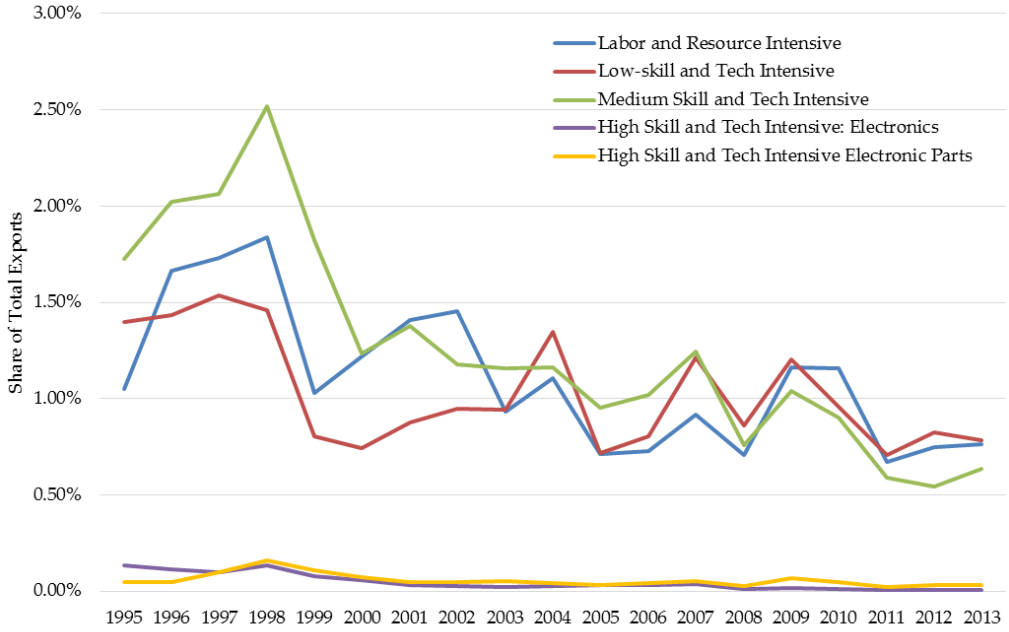

*Source: CDSI Labour Force Survey, 2013 Round 1*

*Figure 7: Total share of expatriate Male/Female employment by economic activity, 2013*




*Source: CDSI Labour Force Survey, 2013 Round 1*

*Figure 8: Percentage of total exports by skill intensiveness, 1995 – 2013*




Note: Excludes "high-skill, other goods" which includes petroleum based chemicals.

*Source: CDSI Labour Force Survey, 2013 Round 1*

In addition, of the total of over 1.5 million new visas issued in 2012, over 930,000 visas were issued for workers in the building and construction industry, followed by 160,000 in agriculture, forestry, and fishery, and 147,000 in retail.[23] With 47 percent of private sector jobs in construction (and Saudi nationals representing only nine percent of the workers in that industry), the available jobs may simply not match the aspirations and educational backgrounds of Saudi citizens.

**There is a constant demand for low-skilled labor that is not compatible with the aspirations, skills and incentives of Saudi job seekers.**

## Product Diversity and Job Creation

One of the challenges faced by any nation is to have an economy that creates a wide array of products. This outcome demands an array of skills that can cater to the diversity of human capital capabilities and aspirations its population offers.

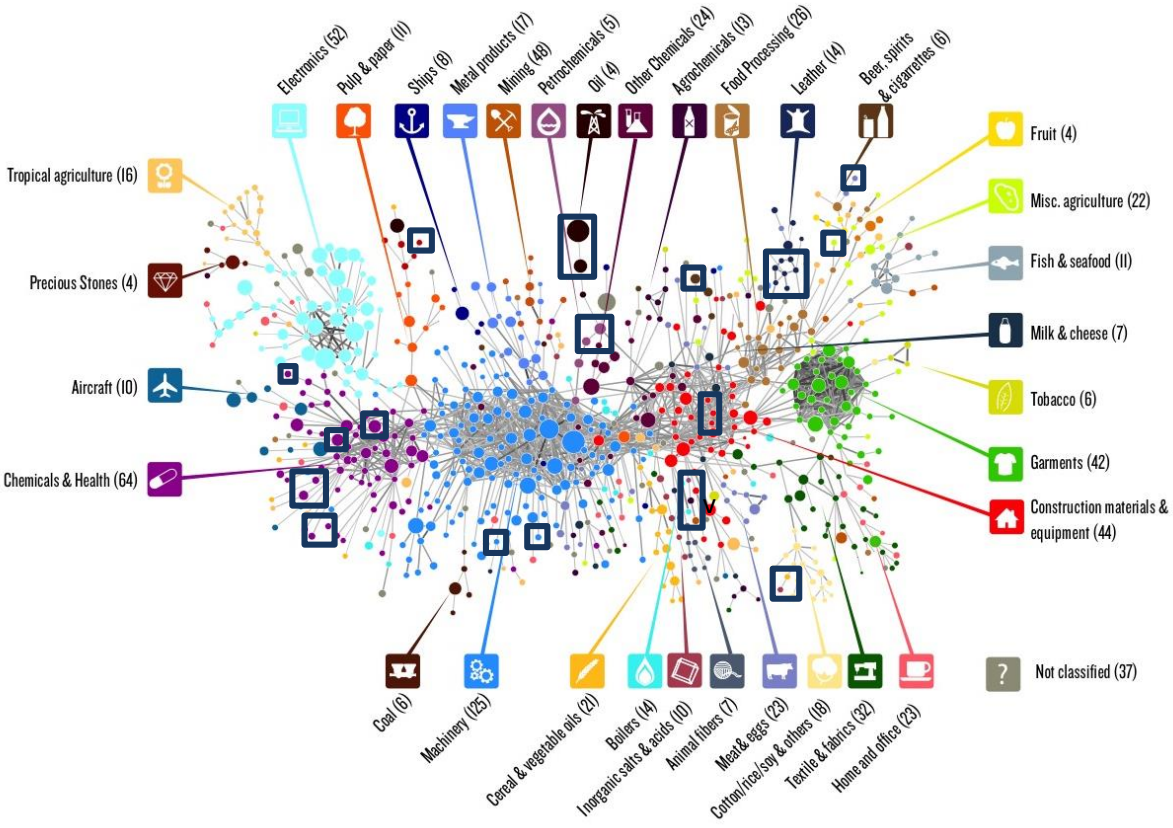
The Saudi economy, with its heavy reliance on natural resource-based products, is particularly limited to a few sectors. Moreover, the sectors it is prevalent in also happen to be the ones that are likely to have fewer "nearby" sectors that would naturally arise through a process of growth of the existing sector. This is perhaps best illustrated through a map that can effectively capture co-production synergies across sectors. Following the work of Hausmann et al. [24], one can classify these synergies or similarities between industries and products by looking at how likely it is that they are both exported in the same

[23] Ministry of Labor, 2012
[24] Hausmann et al., 2014

country/region. The idea considered here is that if two products require very similar productive knowledge, the countries making one will more likely to be making the other. Figure 9 depicts the global "Product Space" and illustrates where Saudi Arabia is in this space. Here, the products are represented by circles and they are colored according to their classification. Two products are connected if they are often co-exported by many countries, and circle size represents the products share of world trade. The squares represent where Saudi Arabia produces in the Product Space.

One important and striking feature of the Product Space is the core-periphery structure. Products in the periphery are weakly connected to other products; hence, providing limited diversification possibilities. Natural resource based products, including petroleum, agricultural and animal-based products are among the peripheral products. Tellingly, this is also precisely where Saudi Arabia is more dominant. If a country is capable of producing products in the central and denser part of the product space, like the products in the machinery cluster, the process of diversification is easier, as there are many other products nearby using similar productive knowledge. In contrast, if a country is mostly specialized in peripheral products (for instance, petroleum) the country faces daunting challenges to diversify.

*Figure 9: Visual representation of the Product Space*




**Saudi employment is concentrated in certain sectors; unfortunately, these sectors have few nearby sectors. This is likely to lead not only to a fairly limited set of employment opportunities and corresponding skill requirements, but to limited prospects for expanding these opportunities.**

Using existing skills in the economy used in the production of chemicals and construction materials, for example, can help Saudi Arabia traverse the Product Space to produce other goods using the same or similar sets of skills.

### Synthesizing Market Failures

The above discussion has pointed to a number of challenges faced in acquiring and effectively deploying human capital in the Saudi context. In particular, the following should be reiterated:

1. Despite an increase in human capital provision, educational providers are not adequately able to provide the skills that the labor market is demanding. Either the demand is for low-skilled jobs that Saudis are less willing to take, or for jobs that requires high-level skills that they lack.
2. Students likely lack adequate information about the returns to various skills and occupations, exacerbating the potential for mismatch.
3. Both firms and workers lack the incentives to invest in on-the-job skills upgrading, likely due to high job turn-over and mismatched job expectations.
4. Educational quality levels are hard to determine and employers likely have limited information in being able to determine potential employee quality.
5. The relative concentration of production in the Saudi economy may lead to a limited set of job opportunities with a narrower range of skills needed.

## B. Policy Responses: Training and Accreditation

We now discuss Saudi policy responses in light of the market failures introduced above and offer preliminary suggestions for potential research areas to pursue. A detailed description of the policies discussed can be found in the Appendix. Table 1 shows the market failures in question along with the policies that will be discussed in connection with each.

While we have discussed *KASP* earlier, it is important to evaluate whether such an extensive international educational subsidy program will help achieve some of the market failures identified here. While there are reasons to be hopeful that such a program can offer high quality education, by itself this program is unlikely to provide skills that are demanded by the market or help students make better informed educational decisions. Therefore, one needs to complement it with other initiatives, several of which are detailed below.

*Table 2: Market failures and related policies*

| | Policies | | | | | | |
|---|---|---|---|---|---|---|---|
| | Wage and training subsidies | TVTC /CoE | CED | OJT | Mini-jobs/Saifi | SSS | Doroob |
| Schools not providing in-demand skills | | ✓ | | ✓ | ✓ | ✓ | ✓ |
| Students lack information on training returns | | | ✓ | | | ✓ | |
| Firms and workers lack incentives to invest in skills | ✓ | | | ✓ | ✓ | | |
| Education system provides inadequate quality signals | | | | ✓ | ✓ | ✓ | |
| Lack of market diversity | | | | | | | |

**Wage and training subsidies include: Support Women's Jobs in Factories, Women's Employment in the Retail Sector, Telework, and Part-time Work.**

### Skills Market Failure: Schools Fail to Provide the Skills That Employers Demand

*TVTC* is the main vocational training institution offering a range of class-based secondary and tertiary education programs. *Colleges of Excellence (CoE)* is one of the largest programs under the *TVTC* umbrella focusing mainly on tertiary education for technical and vocational studies. Since these programs focus on technical and vocational skills, they are more amenable to linking the skills provided to employer demands.

In addition, *SSS*, discussed in detail in chapter VI, can also help improve the quality of training in vocational training institutes by designing and accrediting curricula to meet the needs of the private sector. By gauging the needs of employers in major industries, *SSS* provides guidelines to institutions like *CoE* to teach relevant skills. Programs like *SSS* help ensure that programs like *CoE* are relevant by basing private sector needs on surveys of employer skill needs. These accreditation interventions can help further strengthen and regularize the links between the private sector and the skills market.

On the other hand, the *On-the-Job Training (OJT)* and *Mini-jobs/Saifi* programs provide practical training for young job seekers. These training programs aim to expose candidates to relevant, real life experiences in order to improve their skills and help them transition into permanent employment. To the extent that simply providing work opportunities while one is studying can help enhance the link to employers' demands, these programs can be effective. However, this linkage can be further strengthened if schools can utilize these opportunities to help inform their curricula as well.

Finally, *Doroob* is a new policy that was introduced by the MoL in December 2014 to provide online training (mainly in classrooms supplied by *TVTC*) in order to offer practical general and sector-specific skills that can increase the employability of Saudi citizens. While still in the pilot stages, this initiative can also provide opportunities to link educational offerings to employer demands, and the online platform can allow for real-time linkages.

### Skills Market Failure: Students Lack Adequate Information about Returns to Different Types of Training

*Career Education Development (CED)* explicitly provides job counseling and support for prospective job changers in making career decisions. However, one concern is that the program may be less effective since it comes at a later stage in one's career. Given that many of its beneficiaries have already made their educational choices, they may be unable or unwilling to alter their career trajectories toward areas that are more relevant to the labor market. Therefore, extending such programs to earlier stages in one's educational acquisition can be beneficial. *SSS* can also help improve the quality of information for students in making their educational choices. This will be the case especially if skills accreditation can then help reveal the returns of the training for various skills. **A challenge in all such programs, however, is deciding which form of information is most effective and relevant to students in impacting their career choices. Varying this information and measuring the impact on career choices can enlighten the**

### Skills Market Failure: Firms and Workers Lack Incentives to Invest in Mutually Beneficial On-the-job Training

As a result of the introduction of the *Nitaqat* program, private sector firms are mandated to hire more Saudi workers (and, in the case of the retail shops serving women, to employ only Saudi women). To make such steps more practicable, the MoL has introduced various training and wage-subsidy programs to improve the job-relevant skills and increase the employability of Saudi workers, especially women. These programs include *Support Women's Jobs in Factories (SWJF), Female Employment in the Retail Sector (FERS), Telework,* and *Part-time Work*, all of which seek to improve the supply of labor by subsidizing training for up to 12 months of wages for two years. The rationale for these policies is the assumption that the training subsidies provided by the government will incentivize private sector firms to continue investing in the capacity development of these workers beyond the subsidized period.

Similarly, the *Mini-jobs/Saifi* and *OJT* programs provide short-term subsidized work experience for young male and female job seekers, regardless of their skill level. Unlike the majority of the policies discussed above, these programs are not limited to specific jobs. Private sector firms are incentivized to hire Saudis because HRDF subsidizes the wages and training costs for these workers, who are then counted toward the *Nitaqat* quotas. Moreover, since training occurs on the job, firms are incentivized to target the training to the skills that are beneficial to the firm and can assess the employability of the worker when he or she has completed the six-month training period.

A broader challenge in programs that encourage firms to hire Saudi workers on a short-term basis is whether the firms will provide opportunities that will actually enhance the skill levels of the workers. To the extent that simply working in such firms builds skills, this may not be a major issue. But if the firms need to make extra investments to facilitate this skill upgrade, then these programs may want to link the subsidies to the firms to the quality of the skills given, especially in terms of future employability. **Designing such quality-based incentives can offer promising areas for further work.**

### Labor Market Failure: Education System Provides Low Quality Signals of Skills and Ability

The *SSS* program is a credentials program aimed at improving the quality of the vocational skills signaled by job seekers to the labor market. However, there are no similar accreditation programs for difficult-to-

measure non-cognitive skills, acquired through standard secondary and tertiary educational paths, to improve job matching and the transition of job seekers from education to the labor market. In this regards, *OJT* and *Mini-jobs/Saifi* can help provide such non-cognitive skills signals. While these programs are relatively short in duration, they may nevertheless provide the firm with a sense of the individual's non-cognitive skills, especially if these skills are noted on a certificate that the individual receives at the end of the experience. **An exploration of the types of skills, and corresponding forms of certification, that employers looking for presents a promising area of further work.**

### Labor Market Failure: Saudi Labor Market Lacks Diversity in the Public and Private Workforce

A long-term issue is that the Saudi economy needs to provide individuals with a more diverse array of job opportunities, but this is not just limited to the purvey of the MoL. There are no current MoL policies designed to diversify the labor market; rather, most of the current policies, particularly those that target women, constrain beneficiaries to particular jobs or job categories. Human capital efforts and investments, so far, have assumed that these skills are transferrable to the private and public sectors. Moreover, the current efforts of the Ministry are based on the premise that human capital development will lead naturally to economic development, even in the absence of strategic development mechanisms. There may, therefore, be a need to synergize efforts between the Ministry of Economy and Planning and the Ministry of Labor to develop policies that contribute effectively to diversifying the job market while promoting long-term, sustainable development that is compatible with the Kingdom's goal of shifting toward a knowledge-based economy. This goal, in turn, calls for policies that increase innovation and promote the production of a variety of goods and services.

# CHAPTER II:

# EMPLOYABILITY AND UNEMPLOYMENT

Taking into account both Saudi citizens and guest workers, the Saudi labor market employs roughly half the working-age population (approximately 10.6 million individuals). However, as non-Saudis need to be employed to obtain a visa for stay, unemployment is primarily a problem for Saudi citizens – there are 26,818 unemployed non-Saudis compared to the 588,431 unemployed Saudi citizens. This is also reflected in employment with only one third of the 13 million Saudi citizens of working age employed. Moreover, Saudi employment is concentrated in the public sector – in 2009, approximately 2.6 million Saudi citizens were employed by the civil service, compared to 1.17 million who were employed in the private sector.[25]

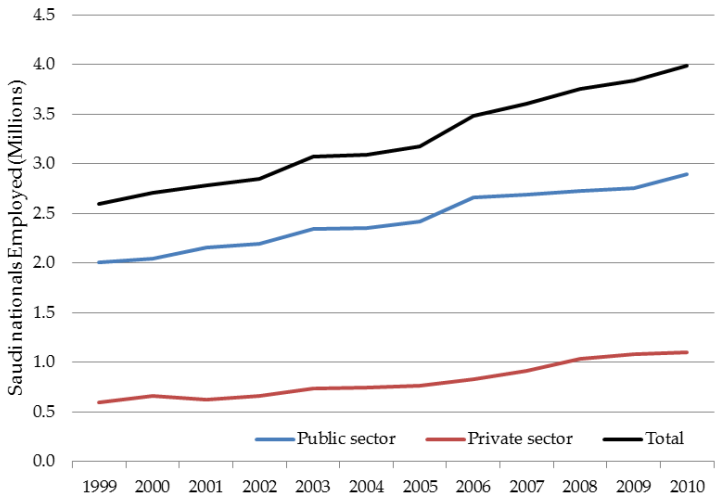
Saudi unemployment is recognized as an important social and policy problem. Rising unemployment is a particular concern among women (see Chapter IV), as is persistent youth unemployment (see Chapter V). This has led to the Kingdom introducing several policies. Important initiatives include unemployment assistance via *Hafiz*, incentivizing nationals to work in the private sector with *Nitaqat*, and providing employability-training opportunities through several educational initiatives.

Below, we first describe unemployment trends and use this to provide context for identifying the problem and making an initial diagnosis of policy issues within the framework of labor market failures. Next, we describe current policy interventions in light of the market failures discussed. We conclude the chapter by providing preliminary ideas on potential research areas.

## A. Context and Diagnosis: Increased Entry into Labor Market

Employment of Saudi citizens is primarily driven by the public sector. Having said that, the number of employed Saudis in the public and private sector has nearly doubled, increasing from 2.6 million to 4.6 million between 1999 and 2013. Although the increase in the number of employed is a welcome sign, public sector jobs continued to grow (see Figure 1)

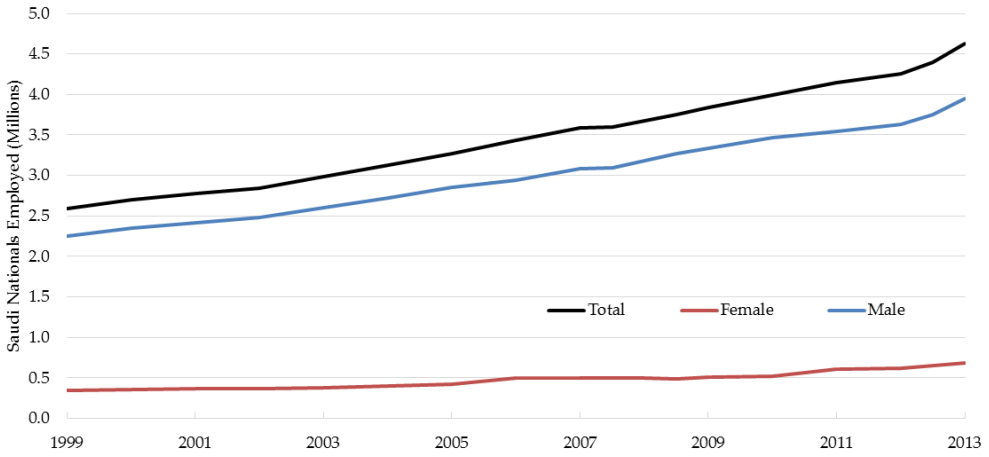
*Figure 1: Number of Saudi nationals employed by sector, 1999–2010*




[25] Central Department of Statistics and Information, 2013a

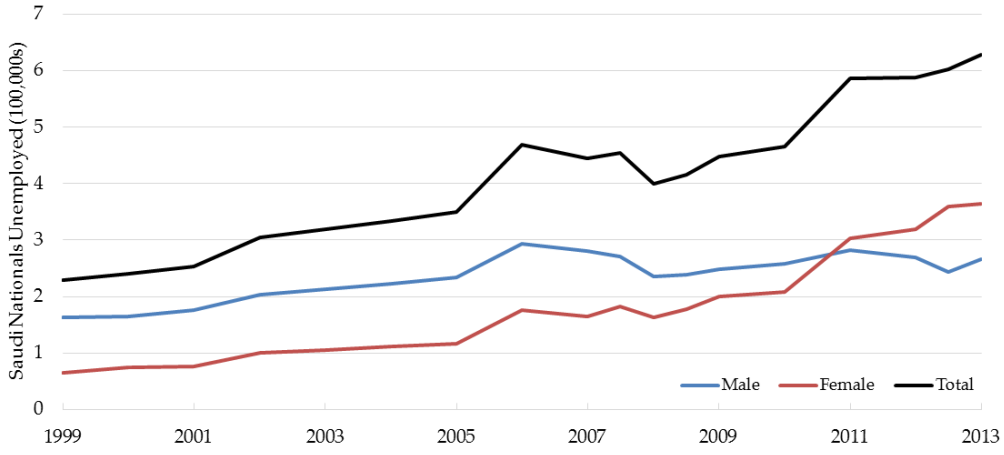
Despite a significant increase of women in the labor force, employment increases have primarily been driven by increases in Saudi male employment. Female employment has increased but only by approximately 300,000 employees over a span of 14 years (see Figure 2). As a result, while the number of unemployed Saudi males has only increased by approximately 100,000 to 265,000 between 1999 and 2013, the number of Saudi women unemployed has increased six-fold in the same time period, surpassing male unemployment for the first time in 2011 (see Figure 3).

*Figure 2: Number of Saudi nationals employed by gender, 1999–2013*




*Source: CDSI Labour Force Survey, 1999-2013 Round 1*

*Figure 3: Number of Saudi nationals unemployed, 1999-2013*

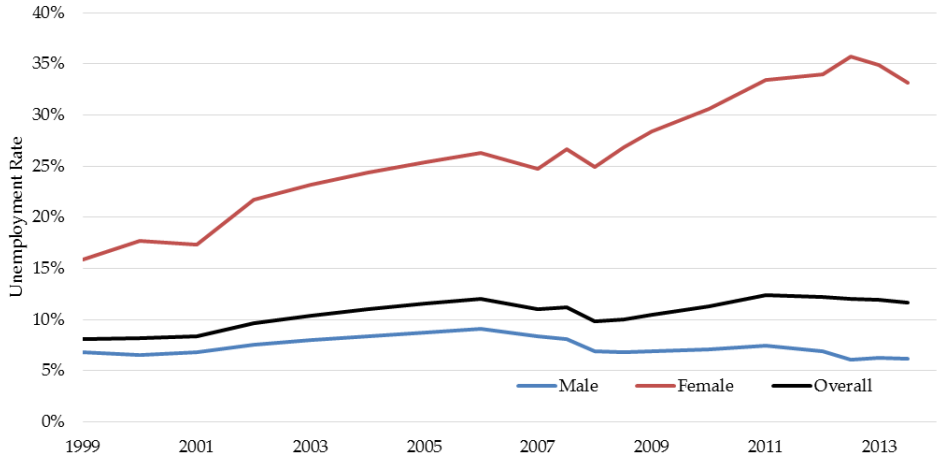



*Source: CDSI Labour Force Survey, 1999-2013 Round 1*

It is worth noting that the jump in female unemployment in 2011 coincided with the introduction of the unemployment assistance program, *Hafiz*. Since *Hafiz* provides monthly payments but requires an individual to be actively seeking work, it may have driven some women to enter the labor market. It is an open question why this increase should be concentrated among women. Labor force participation among working age women is low by international standards (16 percent), it is worth looking into whether' *Hafiz* has had the unintended effect of inspiring women who were not seeking employment (i.e., "inactive", in economic terms) to claim to be doing so to receive benefits. This may inflate unemployment figures (which only count "active" job seekers).Absolute increases in the number of

unemployed are to be expected when a country's population is growing. For that reason, we now turn to the unemployment rate, or the percentage of active job seekers who are unable to find work. This allows us to gauge the capacity of the labor market to absorb the population wanting to work in the public or private sector.

*Figure 4: Unemployment rates of Saudi nationals, 1999-2013*



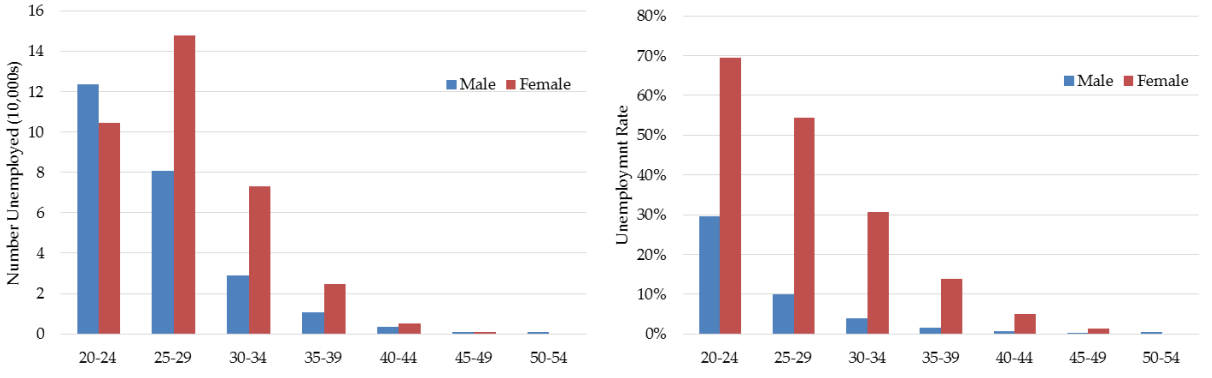

*Source: CDSI Labour Force Survey, 1999-2013 Round 1*

We see a relatively constant male unemployment rate (6 percent), but an expanding rate for women (33 percent), bringing the overall unemployment level to 11.6 percent. This reemphasizes the fact that the labor market is unable to absorb the increasing number of women entering the labor force.

## Age and Educational Distribution of Unemployment

Unemployment is largely an issue of the young, as shown by Figure 5 below. The absolute number of unemployed individuals shows that the overwhelming majority of unemployed (72 percent) are between the ages of 20 and 29.

*Figure 5: Number of unemployed Saudi citizens and unemployment rates by age, 2013*

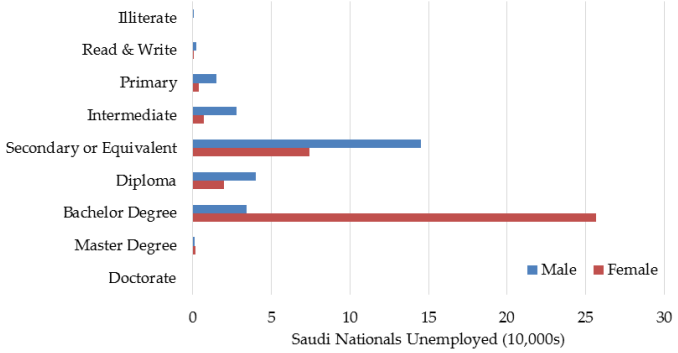



*Source: CDSI Labour Force Survey, 2013 Round 1*

Turning to education, secondary school graduates and bachelor's degree holders make up most of the unemployed (35 and 46 percent of total unemployed, respectively). By gender, we see that female unemployment is highly skewed toward educated women (especially bachelor's degree holders), but

more uniformly distributed among education levels for men. This points to a need for separate gender and education-based targeting mechanisms for policies aiming to address unemployment problems.

*Figure 6: Saudi unemployment by educational level, 2013*




*Source: CDSI Labour Force Survey, 2013 Round 1*

We can see a predominance of youth and women entering the labor force for the first time, which suggests that unemployment is highest among those with significant start-up and search costs, namely, new labor market entrants. Finding and maintaining a job may impose start-up costs on these new entrants in such areas as transportation, interview attire, telecommunications (mobile phone), and internet access. Furthermore, certain issues specific to Saudi Arabia – lack of suitable public transportation, lack of information about the availability of jobs, and the weak professional networks for youth and female employees – make it costly and time-consuming for job seekers to hunt out jobs that match their skills, and difficult for firms to find qualified candidates.

**Potential job seekers may lack the sufficient resources to search for employment that best matches their skills and needs, leading to suboptimal labor market outcomes.**

Such resource constraints may also pressure job seekers to take the first job they find; this suggests that there may also be significant mismatch in the labor market, particularly in the case of new entrants.

### Public versus Private Employment Benefits

More than 65 percent of Saudis are employed in the public sector. Historic stability of public sector work has created an environment of governmental work that is well-paid and relatively less risky, compared to the private sector where the likelihood of losing one's job is greater. Saudi nationals may also be reluctant to pursue certain private sector occupations for fear of degrading their social status.[26]

This reluctance, together with the high wages of Saudis, has meant that historically the Saudi private sector has relied on low-cost foreign labor to fill the skills gap, which exerts a downward pressure on wages. Private sector wages have been declining since 2004 for both Saudi and guest workers (see Table 1), with an upward spike in 2011. This spike coincided with policy changes in both the private and public sector. The SAR 3,000 minimum wage in the private sector was introduced as was the *Nitaqat* quota program, which mandated that private sector firms hire Saudis. In the public sector, a USD 130 billion

[26] Ramady, 2013

public sector subsidy was announced in March 2011, which provided for a 15 percent increase in public sector salaries and for housing subsidies.

Overall, it remains fair to say that new Saudi entrants to the job market largely seek employment in the public sector.[27]

*Table 1: Average monthly wages in the Saudi private sector in SAR (adjusted for inflation), 2004-2012*

| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **Saudi** | 4,701 | 4,152 | 3,777 | 3,624 | 3,394 | 2,839 | 3,031 | 4,495 | 3,922 |
| **Non-Saudi** | 1,116 | 1,101 | 1,113 | 1,011 | 950 | 1,220 | 907 | 797 | 768 |

*Source: Ministry of Labor annual statistical yearbooks 2007–2012, Hertog, 2012*

Some reasons for this preference may be due to public sector employment demanding lower levels of education and skills while providing better benefits and fewer working hours relative to the wages earned, plus an annual bonus worth two-months of the worker's salary. Civil servants earn on average SAR 7,000 per month, a much higher sum relative to average private sector wages.[28] The reforms in 2011 were intended to address private sector employers' reluctance to hire Saudis due to their higher wage expectations.[29]

**The current Saudi job-search process is primarily focused on public sector employment, given the greater job security, wider range of benefits, and higher wages that the sector provides.**

This friction in the labor market may also lead to statistical discrimination where firms are unwilling to hire Saudis given candidates' perceived preferences, and candidates may not invest in skills needed for private sector jobs.

### Voluntary Unemployment in the Labor Market?

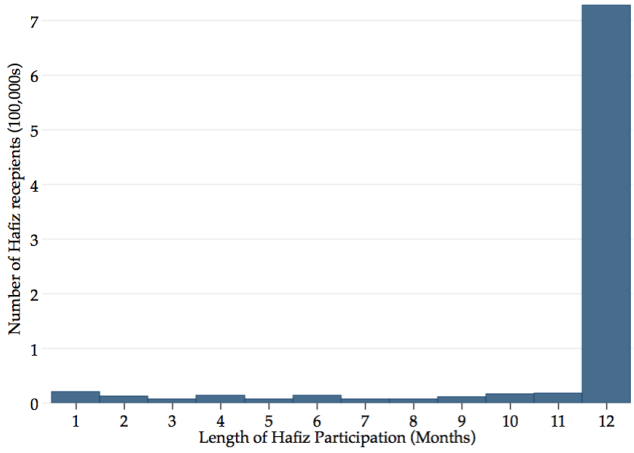
The last several years have seen the introduction of unemployment assistance and insurance programs like *Hafiz* and *Sanid***.** Their arrival has been accompanied by changing trends in the labor market – for instance, a rise in female unemployment. This raises the question of whether current labor market programs have encouraged entry into the labor market and/or voluntary unemployment (whereby beneficiaries do not accept paid jobs in order to continue receiving benefits). Due to information asymmetry, policymakers may be unable to observe whether an individual is staying in the unemployment program longer than necessary to take advantage of the pecuniary or other benefits, or if they are actively searching for work and hoping to get out of the program as soon as possible. In other words, such programs may create a moral hazard, or induce suboptimal behavioral responses in candidates (in this case, prolonging unemployment) because risks are now borne by another party (in this case, the government).

For *Hafiz*, the unemployment assistance program that provides monthly payments to participants as long as they prove that they are looking for work, there is some preliminary evidence that moral hazard

[27] Hertog, 2012
[28] Hertog, 2013.
[29] Kawar & Jaafar, 2013

problems are significant. Over 79 percent of *Hafiz* recipients[30] who became eligible before February 2012 stayed in the program for the maximum eligibility duration of 12 months (Figure 6).[31]

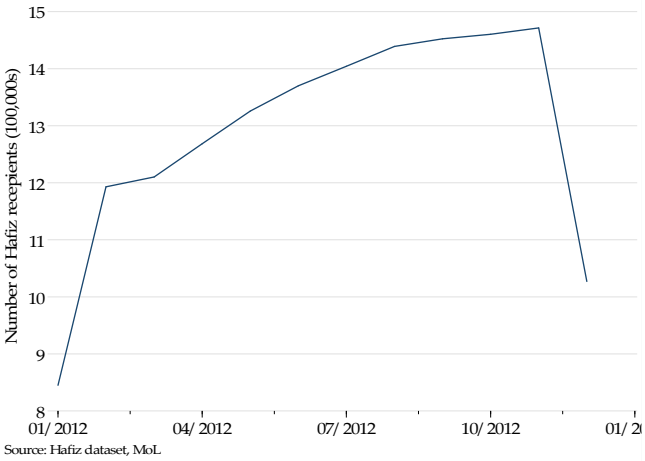
*Figure 6: Number of Hafiz Recipients by length of program participation, eligibility before February 2012*




*Source: Hafiz Eligibility Dataset, MoL*

The number of enrollees who took full advantage of the entitlement period was more than double (1.4 million) the approximately 602,000 unemployed Saudis counted in the 2012 Saudi labor market survey, raising concerns about whether those who are out of the labor force are also enrolling in *Hafiz*.

*Figure 7: Number of Hafiz recipients, 2012*




*Source: Hafiz Eligibility Dataset, MoL*

If the unemployment assistance monthly benefits are high, then the expected return from private sector jobs (adjusted for effort, search costs, etc.) appear relatively low and can create voluntary unemployment. The maximum SAR 2,000 month benefit provided by *Hafiz*, for example, is only slightly lower than the minimum wage in the private sector (SAR 3,000). This may also contribute to

[30] Hafiz, 2013

[31] Some participants were eligible for the *Hafiz* program for more than the maximum of 12 months. It is unclear why this may be, and would need to be cross-checked with our MoL partners.

dependency and belief formation in the population, where job seekers may be discouraged from looking for work given the government's willingness to subsidize periods of unemployment.

**The current structure of unemployment assistance and unemployment insurance benefits may encourage beneficiaries to decrease job search efforts and/or to reject some offers of paid work in favor of voluntary unemployment.**

This is a critical consideration in designing policy that balances offering protection from job loss and incentivizing unemployment. A number of initiatives have been proposed to complement unemployment insurance programs that might increase the cost-efficiency of the program, such as monitoring and job search assistance, skills training, and bonuses paid when employment is found.

### Synthesizing Market Failures

The above discussions suggest multiple labor market frictions and a few policy distortions that contribute to the suboptimal allocation of female labor in the private sector:

1. Search costs are high for new labor market entrants who lack resources to look for jobs.
2. Job seekers avoid private sector work due to a perception of lower job security.
3. Moral hazard is present, as well as the distortion of incentives due to unemployment programs.

While many other market failures may exist, leading to unemployment, the listed market frictions provide an initial framework to discuss and evaluate labor market policy.

It is important to emphasize that unemployment is defined as the number of individuals looking for work but unable to find a suitable job in the period of interest, and does not include those who have stopped looking for work (discouraged workers). The current lack of data on discouraged workers limits discussion on this issue, but it is an important issue to consider when targeting policy interventions.

## B. Policy Responses: Unemployment Assistance and Insurance

We now discuss policy responses in light of the market frictions and failures. Detailed description of relevant policies can be found in the Appendix. Table 2 shows the market failures and the policies that will be discussed with each failure below.

*Table 2 Market failures and related policies*

| | Policies | | | |
|---|---|---|---|---|
| | Hafiz 1 | Hafiz 2 | Sanid | Job Seeker Intervention (Qarar 5) |
| Insufficient Resources | ✓ | ✓ | | |
| Lower Job Security | | | ✓ | |
| Moral Hazard | | | | ✓ |

### Labor Market Failure: Insufficient Resources for Job Search

Policy responses addressing the lack of financial resources for Saudi nationals are focused on providing monthly unemployment assistance benefits for active job seekers and for those who have lost their jobs. The aim is to subsidize costs associated with job searches.

The primary unemployment assistance program is *Hafiz***,** which provides monetary support for low-income job seekers in the private sector. *Hafiz 1***,** targets young job seekers aged 20 to 35 with up to 12 months of monetary benefits, and aims to cover the costs associated with job searches such as transportation, interview attire, phone use, and other related costs. *Hafiz 2*, a complementary program launched in 2014, extends eligible beneficiaries to those aged 35 to 60, and also allows *Hafiz 1* beneficiaries who were unable to find employment in the initial period to receive monetary benefits for an additional 12 months. *Sanid* also provides monthly financial benefits for those who were previously employed but lost their jobs. All initiatives include mandatory training programs related to employability in addition to job placement services. Benefit payments are ceased once the individual finds a job, or they have received payments for the full entitlement period.

An assumption behind the *Hafiz* programs is that costs associated with finding a job are so great that unless they are counterbalanced by subsidies, they will lead to low participation in the labor market. It is unclear, however, whether job search costs are actually inhibiting potential job seekers, or whether job seekers actually face liquidity constraints (such as the inability to access credit markets) that would make them incapable of covering such search costs themselves*. Research measuring the extent of job search costs and liquidity constrains may shed light on how much of an impediment to employment they may be.*

Unemployment assistance policies may beneficially lengthen the job search period and facilitate more efficient matches between workers and firms (liquidity effect). At the same time, the *Hafiz* and *Sanid* payments may encourage individuals to take advantage of the maximum entitlement amount (moral hazard). As noted in the previous section, over 79 percent of *Hafiz 1* recipients take advantage of the entire entitlement period, calling into question whether individuals voluntarily extend their unemployment to access additional payments. *Research is needed on whether tying benefits to job search requirements affects job search outcomes and unemployment durations.*

The concerns surrounding *Hafiz 1* and moral hazard extend naturally to *Hafiz 2***,** which essentially extends the entitlement period for *Hafiz 1* participants**.** A key factor is whether such extensions of the program lead to belief formation by individuals that the government will continue to provide such unemployment assistance benefits. *Future research can shed light on how the introduction of Hafiz 2 affected belief formation among existing Hafiz recipients.*

### Labor Market Failure: Perceived Lower Job Security in the Private Sector

Lower job security in the private sector may drive individuals to pursue public sector jobs. There is therefore a potential role for policy to address such beliefs, whether real or perceived, to encourage greater participation and promote job security in the private sector.

One program that attempts to address such beliefs is *Sanid*, an unemployment insurance program which aims to address job security concerns by providing monthly payments to smooth consumption in case of job loss. *Sanid* provides a percentage of the worker's previous earnings as a monthly payment – in addition to providing training and job-search assistance – conditional upon employment for 24 consecutive months prior to enrolling in the program. Once the program begins in September 2014, enrollment will be mandatory for all private sector employees. The employer will cover one percent of the cost of the financial benefits, and the employee will cover a further one percent.

The *Sanid* program assumes that unemployment insurance will mitigate the perceived or actual risks of losing a job in the private sector, thereby shifting preferences away from public sector jobs. The evidence that unemployment insurance will entice individuals in the private sector is unclear. Moreover, evidence is lacking on whether job security is the reason why the private sector is not preferred. *Further research is needed on candidate preferences for job characteristics and matching those preferences to positions and sectors.*

### Labor Market Failure: Benefits Distorting Job Search Length

A primary drawback to unemployment assistance and unemployment insurance programs is the possibility of creating a moral hazard situation, where individuals take on riskier behavior (prolonging unemployment) since some of the risk is borne by the government. Policy responses to address such behavior range from job-search requirements to receive unemployment assistance, to incentivizing finding jobs through lump sum payments.

The abovementioned *Hafiz* programs require weekly check-in meetings and training to ensure that participants are in fact searching for a job. This, however, only enforces a minimum level of job-search effort, leaving open the possibility that beneficiaries do less actual seeking than they would in the absence of benefits. *Research can shed light on how enforcement mechanisms like required check-ins change job-search behavior on program participation.*

The recently launched *Job Seeker Intervention (JSI)* modifies the terms of *Hafiz 1* and *Hafiz 2* by dispensing the remaining benefits of *Hafiz* as a lump sum for those who find and maintain employment in the private sector before their entitlement period expires. Those who do so are given their remaining payments and a bonus over the span of two years if they maintain a job in the same company during this period. The program intends to incentivize *Hafiz* recipients to work in the private sector, rather than extending their unemployment to receive *Hafiz* benefits.

The JSI program assumes that lump sum payments at various predetermined intervals will shorten the job-search process, and that this will lead to the most efficient worker/firm allocations. But this may not necessarily be the case. An individual may seek work that minimizes the risk of being fired from the position primarily to take advantage of the benefits, or, more generally, may choose work that doesn't match well with their core skills. *Additional research on continued versus lump sum transfers may provide insight on what best impacts matching to jobs.*

# CHAPTER III:

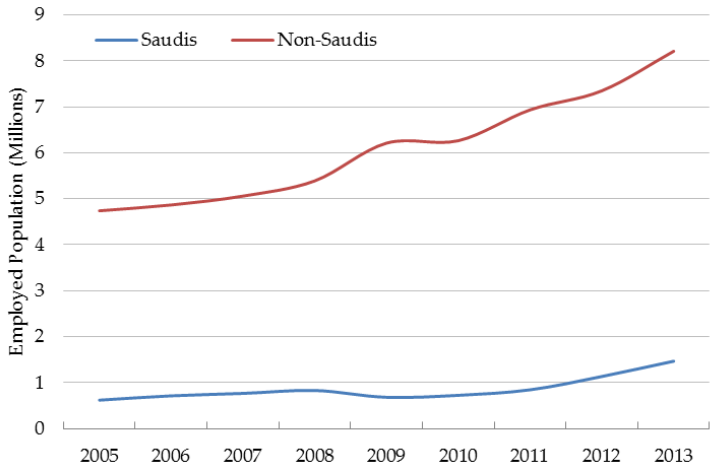
# SAUDIZATION AND QUOTAS

In this chapter we examine the phenomena of labor market segmentation and low employment of Saudis in the private sector within the context of discrimination-related labor market failures and path dependence. We also discuss current quota-based policy interventions in this context, and provide preliminary feedback regarding research areas that might be pursued in order to further understand these phenomena and fine-tune policy responses.

## A. Context and Diagnosis: Market Segmentation and Guest Workers

Many oil-exporting countries have a highly-segmented labor force, characterized by a high percentage of national employees in the public sector and a heavy dependence on foreign workers in the private sector. Saudi Arabia is no exception: only a third of the Saudi workforce was employed in the private sector in 2013. Saudi Arabia also hosts one of the world's largest migrant populations, with over eight million expatriates working in the Kingdom as of 2013. These guest workers currently make up 85 percent of the non-oil private sector workforce. This expatriate workforce has grown rapidly in recent years, far outpacing the growth in Saudi employment in the private sector (Figure 1). Between 2005 and 2013, guest worker employment in the private sector grew from 4.7 to 7.3 million. In comparison, the growth of Saudi employment in the private sector was considerably slower, from 620,000 in 2006 to just over 1.5 million in 2013.[32]

*Figure 1: Private Sector Employment by Nationality, millions of workers, 2005-2013*




Source: SAMA Annual Statistics Book, 2013

Guest workers became the majority in the private sector during the oil boom era. They tend to be more cost-effective to employ (see Table 1), since they are willing to work longer hours and enjoy fewer employment protections than Saudi workers. Moreover, the recent introduction of the minimum wage for Saudi private sector employees (SAR 3,000 per month) has further widened the gap between wage costs for Saudis and expatriate workers.

[32] SAMA Annual Statistics Book, 2013

*Table 1: Average monthly wages in the Saudi private sector in SAR, 2004-2012 (adjusted for inflation)*

| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **Saudi** | 4,701 | 4,152 | 3,777 | 3,624 | 3,394 | 2,839 | 3,031 | 4,495 | 3,922 |
| **Non-Saudi** | 1,116 | 1,101 | 1,113 | 1,011 | 950 | 1,220 | 907 | 797 | 768 |

*Source: Ministry of Labor annual statistical yearbooks 2007–2012, Hertog 2012*

In addition to the cost differences for Saudi and foreign workers in the private sector, there is also a broad preference among male and female Saudi job seekers to work in the public sector. Reasons for this preference include higher wages, greater job security, and shorter working hours in the civil service. The focus on public sector employment is also a legacy of the previous rapid expansion of the civil service; job seekers were left with the impression that they could rely on the government for employment[33]. In 2012, for example, the IMF reported that the public sector provided more new jobs for Saudis than the private sector, as new jobs available in the private sector were mainly occupied by expatriate workers[34]. Thus, while the availability of public sector jobs does not *create* unemployment, it does "crowd out" private sector employment both directly and through its diversion of job-search efforts.

There are also differences in the types of occupation held by Saudi nationals and expatriates, perhaps reflecting strong job and sectoral preferences among nationals. Most expatriate workers occupy mechanical, technical, and retail sector jobs, while Saudi workers (37.7 percent) are concentrated in public administration, defense, and social services[35]. Within the public sector, a high percentage of Saudis (23.9 percent) work in the educational sector; 71.7 percent of employed women work in this field. One reason for this sectoral preference may be the shorter work hours in the educational sector (35.1 average working hours per week) compared to those in sectors in which guest workers predominate[36]. For the latter, average working hours are 59.9 per week. This is high in comparison to the overall mean for workers in Saudi Arabia (49.1 hours per week), which is almost identical to the 48 hours-per-week maximum for the public sector.

Although private sector work tends to come with a lower status and lower wages than those usually enjoyed by Saudi workers, there is reason to think that these low engagement rates may still reflect a disadvantage for Saudi job seekers in the private sector. First, the Saudi labor market is characterized by high unemployment, particularly among women (34.8 percent) and youth (40.1 percent for those aged 20-24), as seen in Figure 2 below; and low labor force participation among young women (25 percent for those aged 20-34), as seen in Figure 3 below. Second, although wages are higher for Saudis, this may partially reflect the fact that Saudis (but not guest workers) are subject to minimum wage regulations. There is also evidence that the share of Saudi employees earning minimum wage has increased to 50 percent over the past year (Figure 4).

[33] Behar & Mok, 2013
[34] Ibid.
[35] CDSI, Labour Force Survey, 2013 Round 1
[36] Ministry of Civil Service, 2013

*Figure 2: Number of unemployed Saudi citizens & unemployment rates by age, 2013*

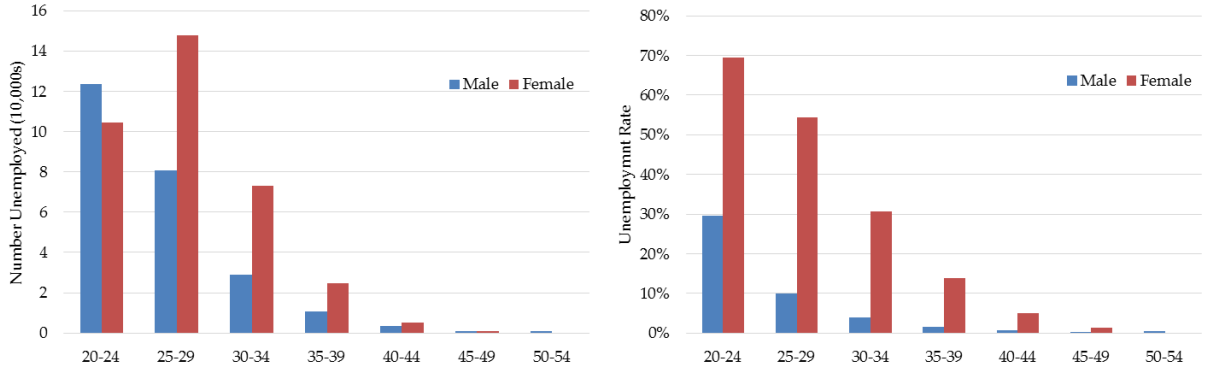
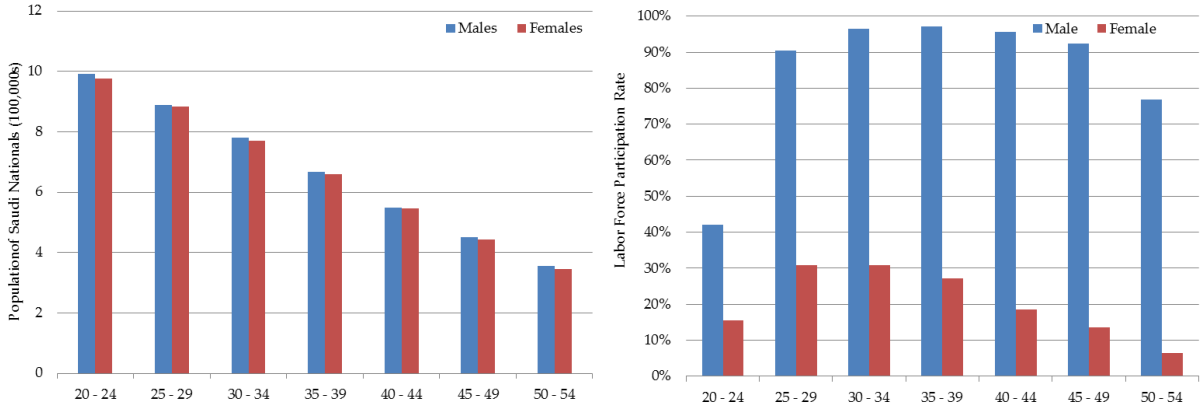
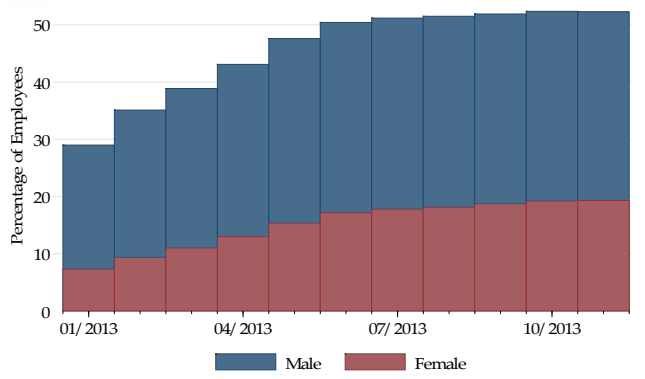



*Figure 3: Number of working-age Saudi citizens and labor force participation rates by age, 2013*




*Source: CDSI Labour Force Survey, 2013 Round 1*

*Figure 4: Percentage of private sector employees paid the minimum wage January – November 2013*




*Source: GOSI Database, 2013*

Because of this, Saudi Arabia and other GCC countries have recently introduced quota-based nationalization policies to alleviate unemployment problems among nationals. These policies have become increasingly popular since 2011, as youth unemployment has become widely regarded as one of the main factors contributing to instability in the region. Indeed, quota-based policies are often used in

situations where a particular group is observed to be underrepresented or disadvantaged in the labor market. The effects of these types of policies will depend on the underlying market failures responsible for this underrepresentation. In this chapter, we focus our analysis around the Saudi *Nitaqat* policy, a broad, quota-based policy instituted in 2011 to increase Saudi employment in the private sector.

In the following sections we begin by describing the three main types of market failures that may explain the low employment of Saudis in the private sector: informational failures leading to statistical discrimination, employer bias causing taste-based discrimination, and path dependence leading to an equilibrium where Saudis are not employed by the private sector due to switching costs or lack of worker skill acquisition. We then discuss the potential effects of *Nitaqat* quotas and companion policies in light of these potential explanations.

### Information Constraints to Hiring

Underrepresented or minority groups in the labor market often lack networks that can help them to disseminate information about their skills and abilities; this phenomenon particularly impacts new labor market entrants, such as Saudi youth. In addition to problems with limited networks for Saudi job seekers, firms that have incomplete or asymmetric information about potential employees often rely on easily-observable characteristics such as gender, race, and general positive or negative stereotypes about a particular group to form expectations regarding productivity. When productivity levels are deduced from group status or existing networks in this way, employers are less likely to invest in searching for other skills or employee characteristics beyond what is easily observable. In the Saudi case, this means that firms will evaluate a Saudi job applicant based on their perception of average productivity among Saudi workers, rather that incurring additional search costs to assess the applicant's individual potential.

Informational problems may be a particular problem for women's employment in Saudi Arabia, where female labor force participation in recent years has been as low as 16 percent. Women in Saudi Arabia, moreover, are particularly likely to suffer statistical discrimination because their preference for work in fields such as education and non-profit, as well as for working in segregated spaces, further reduces their exposure and exacerbates information asymmetries about their skills and prospects. For example, employers may have limited information about the quality of different types of degree programs at women's universities.

**Lack of reliable signaling of future productivity leads to a statistically-discriminatory situation, where firms hire based on perceived average productivity of a group.**

### Employer Bias

Taste-based discrimination in the labor market occurs when an employer has negative beliefs about minority groups that are not based on expected productivity or cost differences. Such discrimination often leads to employers being reluctant to hire from a particular group, and hence to low employment for its members.

One of the consequences for markets that engage in taste-based discrimination is low equilibrium in wages, with marginalized workers in these markets often receiving lower wages than non-marginalized

workers. In the Saudi case, where minimum wages are relatively high, taste-based discrimination may be reflected in lower labor demand rather than low equilibrium wages. Indeed, Saudi workers tend to receive significantly higher wages than guest workers even though their employment level is relatively low. The effects may even be understated by the unemployment rate if discrimination deters Saudi labor force participation.

Unlike statistical discrimination, taste-based discrimination creates efficiency losses for firms. In Saudi Arabia, this is particularly likely in the case of women's employment within the private sector. Saudi females – who represent nearly half of the working age population at approximately 6.5 million – are marginalized in private sector employment, with employment rates as low as 16 percent for working-age women despite their high educational attainment (see chapter IV). If firms are biased against hiring Saudi women on a large scale, the resulting underemployment of skilled women will lead to firm-level as well as economy-wide efficiency losses.

**Firms may be engaging in taste-based discrimination, preferring not to hire Saudis out of preference for the nationality or gender of the worker rather than a belief about productivity.**

### Fixed Costs of Switching to Saudi labor

The oil-boom era of the 1970s increased labor demand and led to large inflows of low-wage guest workers. This has led to a structuring of the private sector that favors accommodating guest workers – despite a more highly-educated pool of local Saudi labor – while Saudi workers are clustered in the public sector and tend to acquire skills that are not relevant to the private sector.

Even if the labor market would accommodate a situation where Saudis had high participation rates and earned higher wages in the private sector, the large fixed costs of switching production technologies may prevent incremental progress toward this equilibrium. Attempting to shift toward employing Saudis in the private sector requires incurring a high fixed cost in the way the firms do business; it would also require Saudis to invest in acquiring new skills. Such high-fixed costs are prevalent when employing women, given that Saudi labor codes for women's employment have strict requirements in terms of physical segregation, spatial arrangements, minimum wages, limited working hours, among other requirements that firms may not be equipped to accommodate. This path dependence, or situation when past conditions in the labor market influence current conditions despite past conditions no longer prevailing, are likely in cases like this when switching costs are high. In this situation, the market may become stuck in an undesirable equilibrium even though more desirable potential labor market equilibria exist.

Moreover, with hiring heavily dependent on existing networks for recruitments and referrals, firms face an additional cost when searching for suitable Saudi workers to fill the jobs previously occupied by guest workers. Firms will need to develop new recruiting methods to attract and identify suitable Saudi job candidates. Additionally, with the majority of Saudi workers possessing skills that are more suitable to the public sector (and hence lacking the relevant skills to replace guest workers), this additional fixed cost can disincentivize firms to hire Saudi workers, for whom they may also have to make an additional investment in reskilling.

**The costs associated with switching to a Saudi work force may lead to reluctance by firms to invest in their accommodation, leading to path dependency with high levels of expatriate employment.**

### Skills Acquisition and Path Dependence

Under the existing equilibrium in the Saudi labor market, the private sector employs predominantly guest workers, while Saudi workers are concentrated in the public sector. Additionally, most of the guest workers in the private sector occupy low-paid technical and vocation jobs. Saudis typically have low enrollment in technical and vocational training and hence lack the relevant skills necessary to replace expatriate workers.

In other words, private sector firms may require skills that Saudis have not invested in given their low probability of finding jobs in the private sector; moreover, private sector jobs are not compatible with the demands of Saudi workers in terms of wages, work hours, and job security. Therefore, the current equilibrium is one in which firms do not try to hire Saudis and Saudis do not acquire the skills needed for private sector work.

Another potential equilibrium is one in which firms actively seek Saudi workers and Saudis invest in acquiring the appropriate skills for these jobs. Switching to this equilibrium may be accelerated by means of quota policies that increase the demand for Saudi labor. Quota policies help push the demand-side of the labor market to hire marginalized workers, which in turn demonstrates to Saudi workers that jobs in the private sector are achievable, giving them the incentive to invest in obtaining the skills necessary to succeed there. Firms, in turn, continue to invest in their capacity to employ Saudis, who now bring the appropriate skills and attitudes to private sector jobs. Because of this interdependence, policies that focus on investment in human capital development within the private sector market may also be valuable adjuncts to Saudization quotas. Policies like this can help facilitate the transition to a new equilibrium by providing support to both sides of the labor market.

**Saudis perceive low demand for their labor from the private sector and do not invest in the skills needed for employment at private firms. This lack of relevant skills in the Saudi workforce reinforces private sector reliance on imported labor.**

### Synthesizing Market Failures

The above discussion has pointed to a number of imperfections and shortcomings in the labor market that are currently contributing to the underrepresentation of Saudi nationals in private sector work. In particular, the following should be reiterated:

1. Saudi workers are more expensive to hire than expatriate workers, and firms are likely to have less information about their expected productivity.
2. Firms may have inaccurate beliefs about Saudi workers due to limited experience employing these workers.
3. Firms face high fixed costs in switching from an expatriate-only to a Saudi workforce.
4. Limited perceived demand for Saudi labor in the private sector may mean that Saudis do not pursue skills relevant to private sector work.

## B. Policy Responses: Hiring Quotas

We now address the policy responses that have been enacted to address the market failures discussed above. In particular, quotas are often used to address discrimination in various areas – mainly education, politics, and labor markets – targeting underrepresented groups such as women and ethnic minorities. Quotas in labor markets are often used to address the core issues discussed above: statistical discrimination, taste-based discrimination, and path dependence.

The *Nitaqat* quota policy is one of the most important and far-reaching policies developed by the MoL to increase the employment of Saudis in the private sector. This section discusses how *Nitaqat* may be used to address these issues. Although quotas can be effective in all of these scenarios, the effects of quotas and the choice of complementary policies differ depending on the specific market failure. With this framework in mind, we move to discussing quota and complementary policies below.

A detailed description of the policies discussed can be found in the Appendix. Table 2 shows the relevant market failures and the policies that are discussed in connection with each.

*Table 2: Market failures and related policies*

| | Policies | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Nitaqat* | *Payroll Rebate* | SAR 2,400 Fee | WERS | SWJF | *Part-time Work* | Tele-work | CoE | CED | OJT | Mini-jobs/Saifi |
| **Statistical Discrimination** | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Taste-based Discrimination** | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | | | | |
| **Switching Costs** | ✓ | | | ✓ | ✓ | ✓ | ✓ | | | | |
| **Skills Acquisition** | ✓ | | | | | | | ✓ | ✓ | ✓ | ✓ |

### Labor Market Failure: Statistical Discrimination

Like other quota-based policies, the Saudi *Nitaqat* program may mitigate the effects of statistical discrimination by pushing firms to invest in the infrastructure needed to hire Saudi workers. As described in the appendix, the *Nitaqat* initiative enforces strict quotas for Saudi workers in private sector firms. This provides a strong incentive for firms to invest in their ability to recruit Saudi workers and gather the relevant information about job applicants. This may include conducting more detailed interviews, implementing tests for relevant skills, or improving their knowledge of degree programs at Saudi universities. This will allow firms to better select Saudi employees who are likely to have high enough productivity to offset the cost of their higher wages. Like other policies aimed at increasing the number of Saudi workers at private sector firms, *Nitaqat* may also have the effect of improving hiring and referral networks among Saudis. As firms further develop these networks, the search costs of hiring qualified Saudis should decrease. *It is therefore important to further investigate whether quota policies lead to permanent changes once firms have invested in obtaining better information about worker productivity and developing Saudi hiring capabilities.*

Because *Nitaqat* raises search costs for firms, it is important to find a way to offset these costs in order to avoid noncompliance. For example, other programs to improve information about job seekers can make information-gathering less costly for firms. Short-employment opportunities such as temporary jobs and apprenticeships can function as trial periods, allowing the employer time to gather relevant information about the worker. Coupling quota-based policies with certification and capacity-building initiatives for job seekers can help leverage quotas to improve long-term success in reducing unemployment and promoting labor market growth. The *Payroll Rebate* serves as complement to *Nitaqat* by rewarding firms for hiring more Saudi workers by subsidizing a portion of their monthly wages, depending on firm size and *Nitaqat* band (the higher the number of *Nitaqat* employees hired, the higher the band, and the bigger the reward). In conjunction with the *Nitaqat* policy, the *Payroll Rebate* can incentivize firms to seek more information about Saudi job seekers and invest in tools to acquire more information and replace expatriate workers. The subsidy also offsets some of the increased search costs imposed on firms as they increase Saudi hiring. The policy assumes that the wage subsidy will incentivize firms to hire more Saudis and replace them with expatriate workers; however, the more Saudi workers the firms hire, the more latitude they are granted to hire expatriate workers. *This leads to an important question: to what extent do Nitaqat and the Payroll Rebate improve employment rates for Saudi workers/nationalization?*

Conversely, the *2,400 SAR* policy penalizes private sector firms SAR 200 per month (SAR 2,400 per year) for every expatriate worker exceeding the number of allowable expatriate workers per firm as per the *Nitaqat* manual. The idea behind the policy is to further disincentivize firms from hiring guest workers (particularly low-paid, low-skilled expatriates) in hopes of triggering the hire of Saudi workers. It is notable that the SAR 2,400 annual penalty per guest worker is lower than the SAR 3,000 minimum wage required for private sector firms to count Saudi workers towards *Nitaqat* quotas*. It may be useful, therefore, to further study how this policy augments both the benefits and costs of Nitaqat to Saudi workers and firms.*

As previously discussed, short-term benefits of quota policies include a positive effect in reducing statistical discrimination, particularly among marginalized groups such as women in Saudi Arabia, in addition to improving information about potential employees. The MoL has introduced parallel policies that aim to increase women's participation throughout the private sector. These policies may also have an effect in improving the available information about women and thus in reducing statistical discrimination.

The various wage subsidies (*Part-time Work, Telework*, and *Support Women's Jobs in Factories* (*SWJF*)) are programs that do not solely target women, although women are their main focus. They are big push programs aimed at hiring as many women as possible in as little time as possible. Therefore, they have the potential of improving information about potential workers through expanding networks of existing employees. By expanding the number of Saudi employees per firm, there exists the potential for a positive spillover effect on prospective employees through a widening of the network of Saudi employees and an increase in the dissemination of information about them (i.e., an improvement in information gathering).

The *Women's Employment in the Retail Sector* (*WERS*) is a 100% gender-based quota policy that aims to fully staff all retail shops that sell merchandise of primary interest to women with female employees. Women in the aforementioned policies are fully counted towards the *Nitaqat* program (with the exception of *Part-time Work*, in which two female employees—like two part-time male employees—are factored as one full Saudi in the *Nitaqat* quotas). *More research needs to be conducted to investigate whether discrimination against Saudi women plays a role in their low LFP. Do these policies have positive spillover effects in improving information about women in general to other industries?*

The *On-the-job Training (OJT)* and *Mini-jobs/Saifi* programs target the supply side of the skills market by providing job seekers with practical temporary work experience. These programs not only providing training opportunities; they are also useful in providing job seekers with the necessary skills for the private sector. Such training opportunities increase information about Saudis in the private sector and signal to potential employers that the Saudi employee is equipped with the skills necessary for the private sector. They also allow candidates to explore various career opportunities within the private sector as opposed to focusing on skills that are relevant solely to the public sector.

Finally, the *Career Education Development (CED)* and *Colleges of Excellence (CoE)* programs have the potential to improve information about job seekers by signaling the suitability of job seekers who have acquired skills that are relevant to the market to potential employers. Some research topics to explore include: *Are Nitaqat quotas more effective in conjunction with programs that improve information about applicants? Do quotas lead to permanent changes once firms have invested in obtaining better information about worker productivity?*

### Labor Market Failure: Taste-Based Discrimination

Unlike statistical discrimination, wherein the employer lacks the relevant information about the worker needed to make an informed decision about employability, taste-based discrimination is based on prejudicial preferences about hiring certain workers, especially from marginalized groups. In this situation, quotas can enforce the employment of marginalized groups, and therefore increase their exposure, potentially reducing discriminatory attitudes in the long run. In this way, quota policies such as *Nitaqat* can be useful in eliminating such prejudices by increasing the information available to employers about Saudi workers. The effects of these types of programs will be permanent if the exposure to Saudi employees causes employers to overcome their prejudices, particularly if quotas improve efficiency by countering taste-based discrimination.

The *Nitaqat* quota policy, which requires firms to fulfill certain quotas depending on firm size and industry, may thus be useful in eliminating prejudicial preferences against hiring Saudi workers in the long term. If bias is a result of low productivity assumptions, then training subsidies such as *Part-time Work*, *Telework*, and *SWJF* offer a policy counterbalance in order to mitigate these assumptions while also up-skilling workers to meet market expectations. Training subsidies for these policies are offered for up to 12 months. Such policies also address the productivity challenge of marginalized groups. In the case of women's employment in Saudi Arabia, wherein women reportedly do not have the relevant skills for the private sector, such policies – through extended subsidized training periods – can raise the productivity level of these workers to overcome bias against them. This is particularly important for the

case of the *SWJF* and *WERS* programs, through which entire production lines and an entire industry (women's retail) are switching to employing solely Saudi women.

These mass employment programs also help reduce efficiency losses that result from taste-based discrimination. As the working age population of women in Saudi Arabia almost equals that of men, such policies also help reduce efficiency losses and can increase total productivity. In addition to firm-level effects of employing more productive workers, the policy also facilitates the inclusion of a highly-educated cohort that was previously excluded as a result of this form of discrimination.

As previously discussed, taste-based discrimination often results in low equilibrium in wages for discriminated employees. In the Saudi case, binding minimum wages may cause this to manifest as increased unemployment. The recently introduced *Payroll Rebate* policy aims to incentivize firms to increase wages for Saudi workers by rewarding companies in the Yellow, Green, and Platinum bands for increasing the salaries of the workers. It may lead to an increase in the supply (and demand) of Saudi workers by encouraging Saudis to seek employment in the private sector with the possibility of progressive wage increases. Like statistical discrimination, financial incentives for firms such as the *Payroll Rebate* have the potential to offset and eliminate various forms of discrimination and increase the demand for previously marginalized labor.

The *Payroll Rebate* program serves three main purposes: 1) to encourage firms to hire more Saudis; 2) to encourage firms to raise salaries for Saudis which will evidently encourage Saudis to seek employment in the private sector; and 3) to incentivize firms to increase to higher quota levels. Private sector firms receive a percentage return for raising the wages of Saudi employees, and the higher the wage, the higher the *Payroll Rebate*. Moreover, firms in higher *Nitaqat* bands receive higher *Payroll Rebates*.

### Problems of Path Dependence and Multiple Equilibria: Switching Costs

In Saudi Arabia, the *Nitaqat* quota policy may have a positive effect in moving to a new equilibrium by incentivizing firms to incur one-time switching costs in their hiring and production methods. Reaching this new equilibrium, however, comes at a cost for a highly segmented market, wherein the physical and non-physical firm structures have been designed to accommodate for one type of worker (i.e., expatriate male workers). Gender-related hiring costs have been discussed in Chapter IV, but costs for compliance with quota policies affect the hiring of both male and female Saudis. Moreover, fixed costs for reaching a new equilibrium may require developing the capability of the recruitment process to be able to reach to a wider network of Saudis, which may also require investment in building these networks or developing new recruitment methods.

Because of these potentially large fixed costs, such a policy may be cumbersome for private sector firms. Successful initiatives will take account of these fixed costs by coupling quota policies with other policies to up-skill Saudi workers in order to generate a positive return on investment and justify the fixed costs. Such up-skilling of policies should aim to foster a long-term positive impact. *SWJF, Part-time Work***,** *Telework***,** and *WERS* offer wage and training subsidies, ranging from 1-3 years, intended to offset the cost of hiring and training female workers to work in the private sector. However, these policies do not

factor other high fixed costs, such as the requirement for the firms to reorganize their physical structure to accommodate Saudi women. *SWJF* and *WERS,* in particular, have a high switch cost for firms to accommodate female workers by modifying (in various degrees) the physical infrastructure to allow women to work in segregated environments. Similarly, firms that offer *Part-time Work* have to adjust their physical spaces to accommodate female workers, who are often considered less productive than full-time workers. There is also a minimum wage requirement for workers, which adds to the overall switch cost. Moreover, *Telework* options have an additional infrastructure cost to accommodate both male and female Teleworkers. Although the policies subsidize wages for up to two years, it is still unclear whether they are effective in convincing firms to retain Saudi workers in the long run. *How effective are the quota policies in incentivizing firms to continue to hire Saudi female workers beyond the subsidized years?*

### Problems of Path Dependence and Multiple Equilibria: Skills Acquisition

The *Nitaqat* quota policy might be useful in helping the private sector market to shift to a new equilibrium by increasing the demand for Saudi workers in the private sector. Saudis may respond to the new opportunities to work in the private sector by acquiring skills that they expect to be more valuable to private sector careers.

In addition to indirectly affecting skills acquisition through quotas, complementary programs to encourage Saudis to acquire relevant skills may also facilitate the switch to a new equilibrium. These programs may target both the demand and supply sides of the skills market by encouraging students to select more useful courses of study and by making the relevant training programs readily available.

Policies such as the *Colleges of Excellence (CoE), CED, On-the-Job Training (OJT),* and *Mini-jobs/Saifi* (for both men and women) all target the supply side of the skills market to increase the employability of Saudi job seekers. These programs provide a wide range of re-skilling opportunities of various durations, primarily targeting youth. *CoE* offers a three-year diploma program targeting technical and vocational skills to provide Saudis with the necessary skills to replace expatriate workers in the private sector. Such training opportunities signal to the potential employer that the Saudi is equipped with the skills necessary for the private sector.

Similarly, *CED* offers the option of classroom training coupled with real work experience. The program helps beneficiaries engage in early work experience and plan and develop their careers in order to improve their job prospects and increase job retention. *OJT* and *Mini-jobs/Saifi* focus on providing shorter real-life work experiences, and mainly target the youth cohort. These programs help youth to transition into the labor market, especially if they come from an educational background that is not self-evidently relevant in the private sector, if they are changing careers, or if they require up-skilling. Beneficiaries of *OJT* are counted toward the *Nitaqat* quotas during their posting. These programs are based on the assumption that exposing Saudi nationals to early job opportunities will improve the quality and availability of information and, therefore, increase their likelihood of obtaining employment. *Do Saudi students and job seekers make different investments in skills as a result of increased private sector opportunities?*

# CHAPTER IV:

# WOMEN IN THE LABOR MARKET

Studies conducted around the world have documented substantial differences between the genders in employment opportunities, wages, job mobility, and the types of occupations held. In Saudi Arabia, female labor force participation (FLFP) has long been low but is now growing rapidly. However, female employment opportunities have failed to keep pace, resulting in very high unemployment rates among women, especially those new to the workforce.

In addition, cultural and economic considerations in Saudi Arabia raise unique challenges for female employment, and also influence the type of implementable policy interventions. Nonetheless, an important policy trend has been significant investment by the Kingdom in women's education and, more recently, in programs designed to promote economic growth by increasing the ability of women to participate in the nation's skilled labor force.

This chapter is structured as follows. In Section A we use existing data to diagnose and provide context for the problems associated with women's employment in the Kingdom. Then, in Section B we describe current policy interventions in light of the market failures discussed, and provide preliminary ideas on potential research areas to pursue.

## A. Context and Diagnosis: Rising Female Unemployment

A key feature of the Saudi labor market is segmentation of the labor force between migrant workers and Saudi nationals. Of 11.3 million active labor force participants, 43 percent are Saudi nationals. Saudi women constitute only 9.5 percent of the total labor force.[37] Although Saudi FLFP increased from 12.5 percent in 2006 to 16 percent in 2013, Saudi women's unemployment rate also increased, from 26.3 to 34.9 percent during the same period (see Figure 1). The number of Saudi women in the labor force increased by 373,000 between 2006 and 2013, and the number of unemployed increased by 199,000: for every three women entering the labor market, two were unable to find work. For Saudi men, the unemployment rate decreased during this period from 9 to 6.3 percent (see Figure 1), while the labor market participation rate stayed approximately constant around 62 percent. The growth of employment opportunities for women has

*Table 1: Labor Market Statistics, 2013*

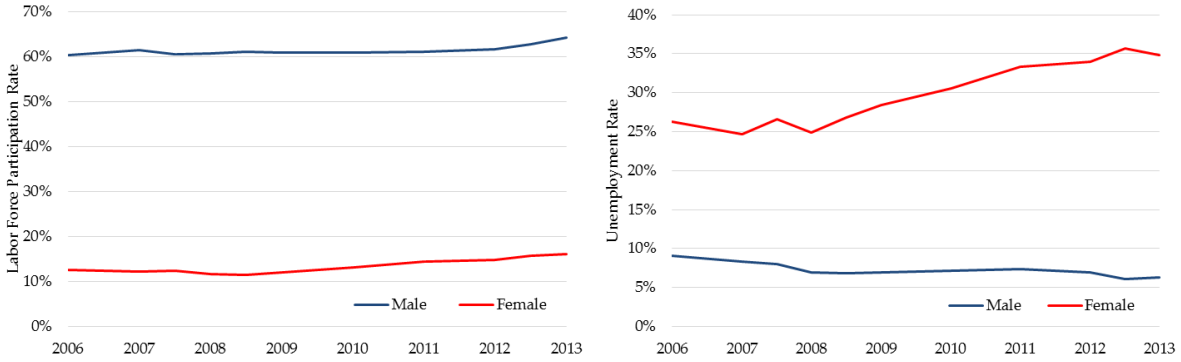
| | Saudi | Non-Saudi | Total |
|---|---|---|---|
| Population | 19,838,448 | 9,357,447 | 29,195,895 |
| Male | 9,962,431 | 6,591,296 | 16,553,727 |
| Female | 9,876,017 | 2,766,151 | 12,642,168 |
| Work Age Pop. | 13,038,299 | 7,702,318 | 20,740,617 |
| Male | 6,569,143 | 5,713,631 | 12,282,774 |
| Female | 6,469,156 | 1,988,687 | 8,457,843 |
| Labor Force | 5,260,161 | 6,026,583 | 11,286,744 |
| Male | 4,216,680 | 5,374,312 | 9,590,992 |
| Female | 1,043,481 | 652,271 | 1,695,752 |
| Participation | 40.3% | 78.2% | 54.4% |
| Male | 64.2% | 94.1% | 78.1% |
| Female | 16.1% | 32.8% | 20.0% |
| Unemployment | 12.0% | 0.4% | 5.8% |
| Male | 6.3% | 0.2% | 2.9% |
| Female | 34.8% | 1.7% | 22.1% |

*Source: CDSI Manpower Survey, 2013 Round I*

[37] Central Department of Statistics and Information, 2013 Round 1

therefore been unable to keep up with the growing female labor force. This trend, however, is not new, as unemployment has been increasing from at least as far back as 1999 when it was 15.8 percent.[38]

*Figure 1: Saudi labor force participation and unemployment 2006 – 2013*




*Source: CDSI Labour Force Survey, 2006 - 2013 Round I*

It follows that working women are also a small fraction of the total female population: 16 percent of the 6.5 million working-age Saudi women are active in the labor market. For Saudi men, this figure is four times higher at 64 percent.[39]

Below, we argue that this suggests a self-perpetuating challenge: small numbers of women in the labor force make companies unwilling to invest in the necessary resources to create a comfortable working environment for women, further perpetuating unemployment. In addition, women may be less willing to enter the labor market in the absence of a suitable work environment. Rising unemployment suggests that for women the job search is hard, and the costs may be higher for new entrants to the job market.

## Sectoral and Occupational Preferences

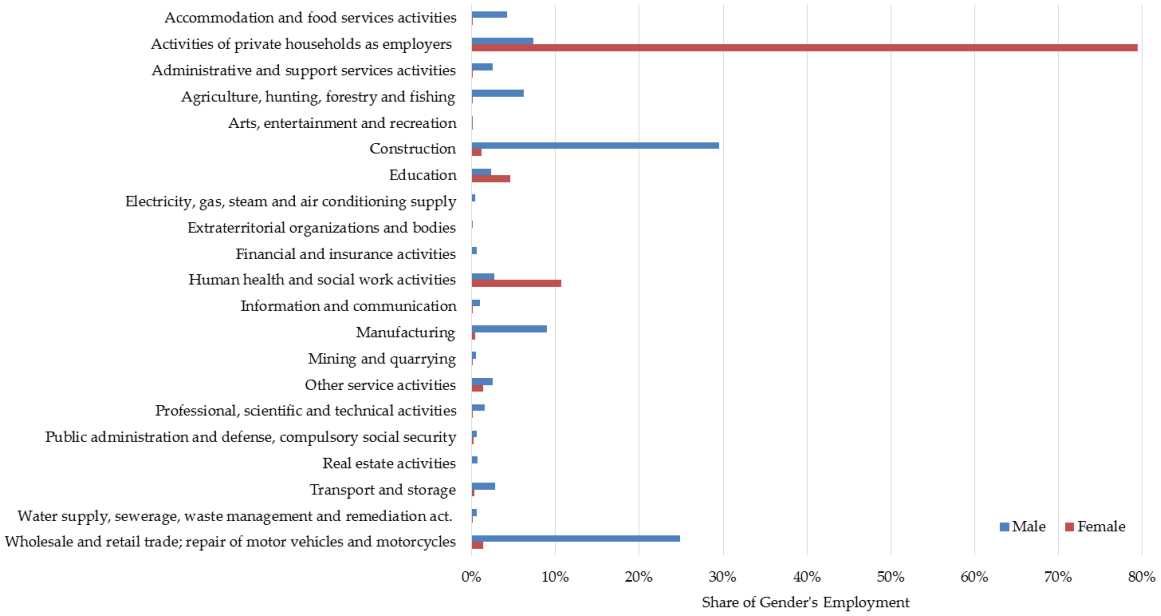
We now turn to sector-specific trends. The public sector is a significant source of employment for both men and women in the Kingdom. Indeed, with approximately 2.6 million Saudi employees, the public sector employs more than one-fifth of the Saudi labor force, or one-fourth of those presently employed.[40] It is also the main employer of Saudi women, with more than 62 percent of employed Saudi women on the government's payroll. A large portion of that number appears to be due to the concentration of women in the field of education. In the economy as a whole, 74 percent of the 679,000 employed Saudi women are in the education sector, and of the women working in the public sector, more than 65 percent are in education (see Figure 2). By contrast, 79.5 percent of the 6.4 million female expatriate household employees, and nearly 11 percent (68,707) work in healthcare (see Figure 3).[41] While cultural considerations, including social stigma, make household labor an unlikely option for most Saudi women, there is a strong potential for Saudi females to replace many expatriate workers in other sectors such as healthcare.

[38] Gulf Labor Force Migration, 2014b
[39] CDSI, Labour Force Survey Round 1
[40] Gulf Labor Force Migration, 2014c
[41] Ibid.

*Figure 2: Total Share of Saudi Male/Female Employment by Economic Activity, 2013*

*Source: CDSI Labour Force Survey, 2013 Round 1*

*Figure 3: Total Share of Expatriate Male/Female Employment by Economic Activity, 2013*




*Source: CDSI Labour Force Survey, 2013 Round 1*

In addition to employing the majority of working Saudi women, the education field also employs the most highly educated women in the labor market. This sector was also one of the first sectors targeted by the Saudization policies of the seventh Development Plan (2000 – 2004) developed by the Ministry of Economy and Planning (MoEP).[42] Of the 505,000 Saudi women in the education field, 78 percent hold bachelor's degrees or higher;[43] as of the 2013-2014 academic year, 99 percent of the Kingdom's 28,247 female teachers were Saudi, and 90 percent of the 242,306 male teachers[44] Combined with the fact that 64 percent of employed Saudi women hold bachelors' degrees, this fact points to either a significant preference toward the education field by Saudi women or high barriers to female employment in other fields, as well as a challenge for those who do not hold university degrees and face limited opportunities in other fields.

The private sector, on the other hand, is primarily a source of low-skilled jobs for women. The top 10 occupations in the private sector (see Table 2) for Saudi women are primarily low-skilled positions.[45]

*Table 2: Top 10 Private Sector Occupations for Saudi women, Nov. 2013*

[42] The Development Plans of MoEP are five-year national strategies that map out the future outlook of the Kingdom and the direction of the government's economic development for future implementation plans and investment.
[43] No data was available on number of boys in pre-primary education.
[44] Ministry of Education.
[45] While there are a substantial number of women employed as the Director of financial and accounting affairs, we assume that such positions are the equivalent of accountants, given the trends in other occupations.

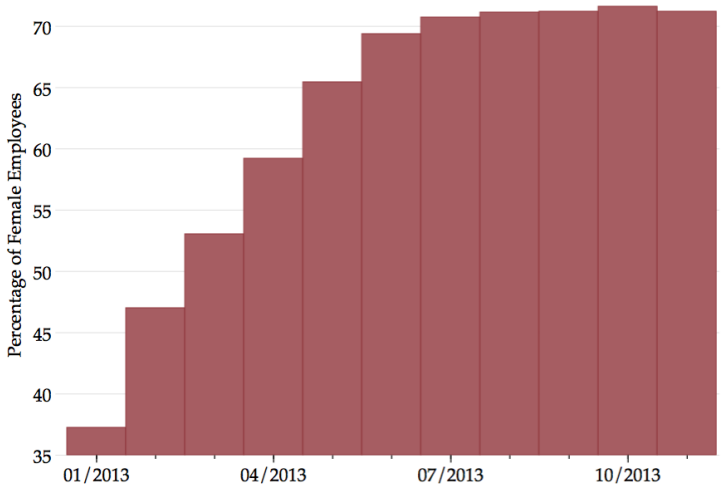
| Occupation | Employees |
|---|---|
| Sales representative | 41,069 |
| Data input clerk | 24,181 |
| Administrative clerk (general) | 22,176 |
| Wages clerk | 20,570 |
| Children governess (nanny) | 15,433 |
| Secretary | 14,454 |
| Director, financial and accounting affairs | 12,088 |
| Primary stage teacher | 11,431 |
| Purchasing representative | 10,104 |
| Reception clerk, general | 9,622 |

Note: Only includes social insurance (GOSI) eligible formal employees

Source: GOSI dataset, 2013

The above 10 occupations consist of 45 percent of total female private sector employment in November 2013, meaning that much of the work available for women is low-skilled.[46] This is also reflected in the wages that women are paid – more than 70 percent of women in the private sector were paid the minimum wage of SAR 3,000 per month (see Figure 4).

*Figure 4: Share of Saudi female employees paid minimum wage (SAR 3,000/month), Jan. - Nov. 2013*



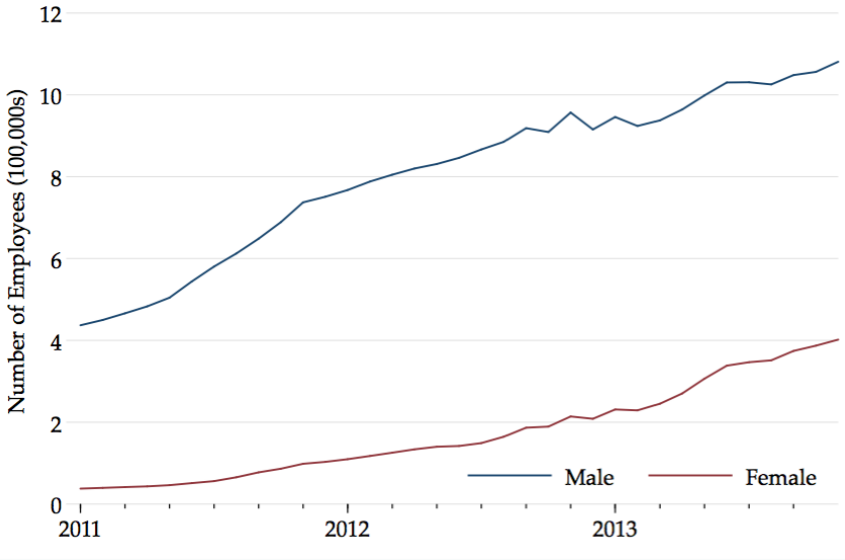

*Source: GOSI dataset, 2013*

Men earning the minimum wage, on the other hand, made up 45 percent of the male employees in the private sector in November, 2013. This therefore raises the question of why women are more likely to be making the minimum wage than men, potential reasons being their productivity levels, wage discrimination, etc.

[46] General Organization for Social Insurance, 2013.

Having said that, Saudi female presence in the private sector has increased significantly between January 2011 and November 2013, growing more than 10 times from approximately 37 thousand employees to 401 thousand (see Figure 5).[47]

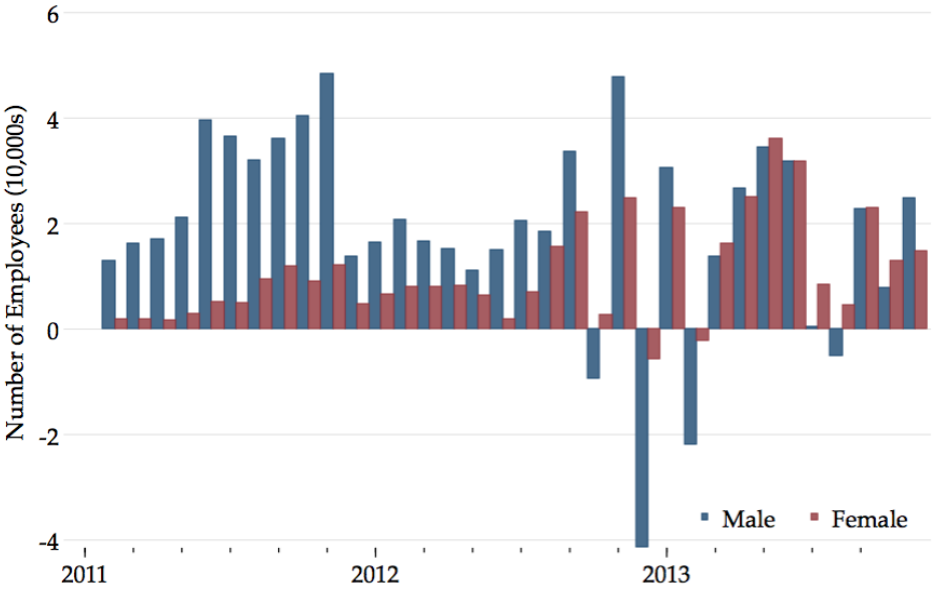
*Figure 5: Private sector employees for Saudi nationals by gender, Jan. 2011 – Nov. 2013*




*Source: GOSI dataset, 2013*

The fact that the absolute number of female employees in the private sector is growing at an increasing rate (Figure 6), perhaps signals a growing acceptability of private sector work.

*Figure 6: Private sector employee growth for Saudi nationals by gender, Jan. 2011 – Nov. 2013*




*Source: GOSI dataset, 2013*

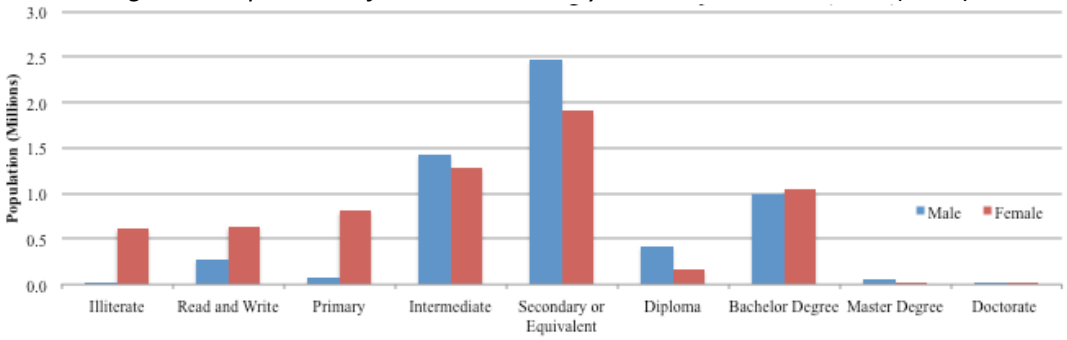
[47] There is reason to believe that early information (pre-2012) from GOSI datasets may be artificially low due to gradual compliance with the program. We would need further information from our MoL partners to discern whether this is the case.

The concentration of women's employment in the civil service, primarily as educators, and in the private sector as low-skill workers presents a unique challenge for the Kingdom. While population growth and corresponding investments in education have absorbed many Saudi women, the growth of education-related positions is unlikely to continue. Rather, the sector may be expected to begin to contract as the boom in youth in the nation's population subsides. Hence, women's dependence on this sector for employment may ultimately exacerbate the female unemployment problem, and, to the extent that information on employment opportunities is not immediately available, may lead to overinvestment in education targeted at meeting the requirements of these jobs. In addition, the availability of primarily low-skilled work for women in the private sector may also make women shy away from the private sector or invest less in education.

## Educational Attainment

In addition to stark gender gaps in labor force participation and unemployment, the educational profile of working-age (ages 15 and over) Saudi women differs from men. Women outnumber men at both ends of the educational spectrum: there are more women than men with a primary education level or less, and women are more likely to finish a bachelor's degree (see Figure 7).[48]

*Figure 7: Population of Saudi nationals by educational attainment (2013)*

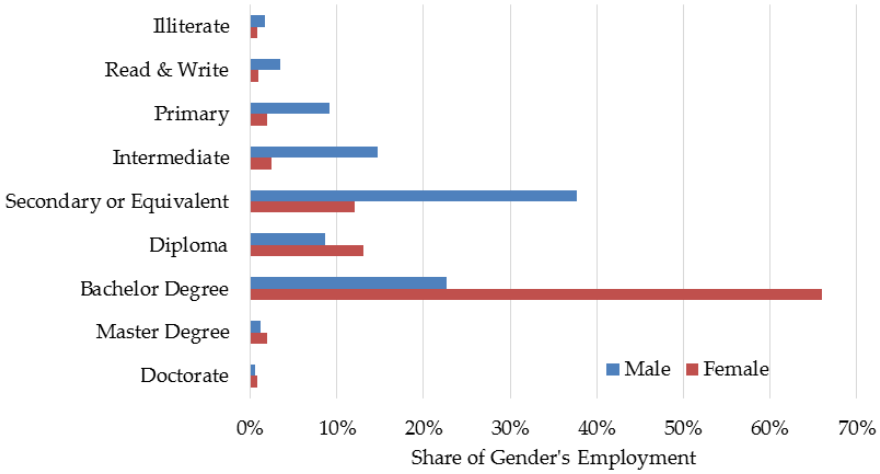



*Source: CDSI Labour Force Survey, 2013 Round 1*

Saudi women also experience variation in employment rates according to their educational backgrounds. Among employed Saudi women, 64 percent have a bachelor's degree. In other words, the majority of positions filled by Saudi women require a college degree. In contrast, the greatest proportion of employed Saudi men have secondary education backgrounds (35 percent), while only 22 percent holding a bachelor's degree.[49]

[48] There are approximately 965,000 more working-age Saudi women than men who are uneducated. For higher levels of education, the difference in men and women's attainment decreases but still favors men, except for those who hold a bachelor's degree. In fact, Saudi women outnumber the approximately 1 million men with bachelor's degrees by 40,000.
[49] CDSI Labour Force Survey, 2013 Round 1

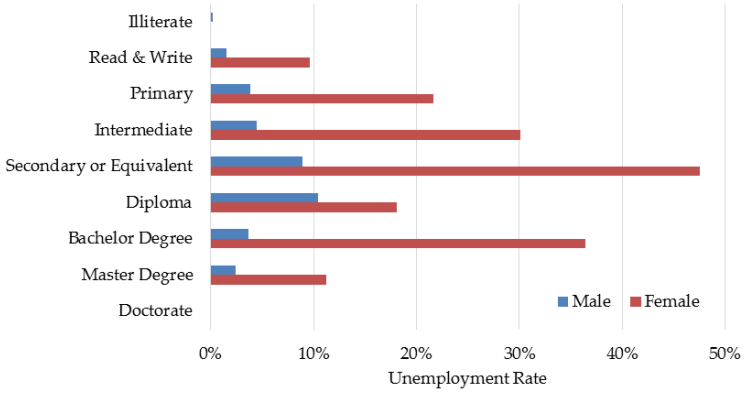
*Figure 8: Share of male/female Saudi employment by education, 2013*




*Source: CDSI Labour Force Survey, 2013 Round 1*

Having a bachelor's degree, however, does not protect against unemployment. While the highest unemployment rates are experienced by women with secondary education levels (47.5 percent), unemployment rates are more than 35 percent for women with bachelor's degree.[50]

*Figure 9: Unemployment rates by gender and education*

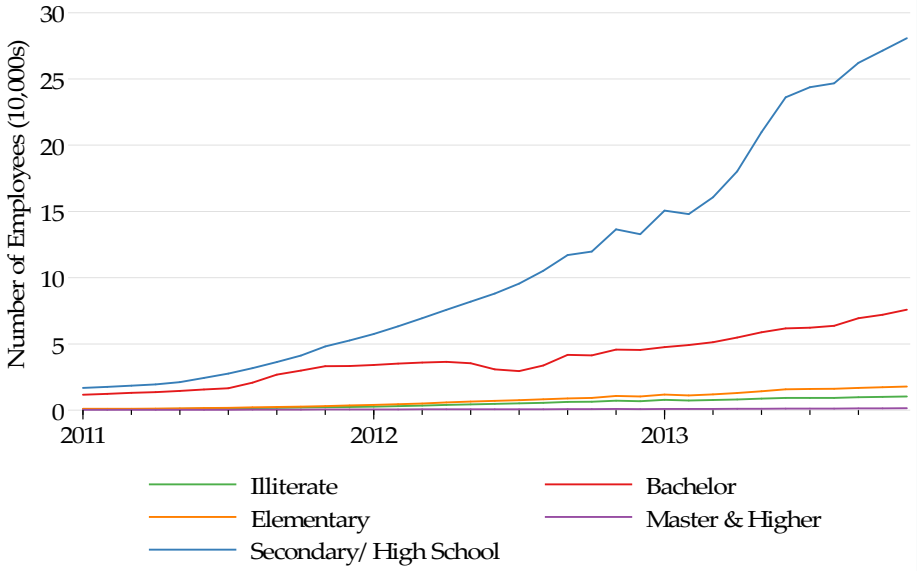



*Source: CDSI Labour Force Survey, 2013 Round 1*

While bachelor's degree holders make up the majority of total employment, in the private sector there is a striking increase between 2011 and 2013 in the number of jobs held by high school graduates (Figure 10).

[50] Ibid.

*Figure 10: Saudi female private sector employment by education*




*Source: GOSI dataset, 2013*

This trend is especially striking given that the employment growth of female secondary school graduates is also the fastest among all levels of education. The same trend also exists for men. This increase, however, occurs during and after the *Nitaqat* program was established (June 2011). The striking increase in high school graduates in the private sector suggests that the trend may reflect firms hiring Saudi nationals primarily to fill quotas rather than for their labor.

## Costs of Hiring Female Labor

Legal and cultural factors increase the costs of hiring Saudi women in the private sector. Such increases in costs are marginal or variable costs, or costs that are incurred with *each* woman hired, as well as fixed costs, or lump sum costs that incur if a firm hires *any* women. These costs can act as a barrier to hiring women for a private sector that has little exposure to female labor. We discuss the nature of these costs.

### Mandated Segregation

The MoL requires[51] firms to provide separate workspaces for women, including separate office areas and separate building entrances.[52] Women are also required to conform to "proper Islamic attire" in the workplace, and work uniforms must similarly maintain modesty. These policies accord with wider Saudi cultural demands and government rules, and are intended to protect women from sexual harassment. However, Ministry policy does not ban mixed-gender interaction. The Women's Employment in the Private Sector Labor Code requires that meetings between male and female colleagues take place in

[51] Ministry of Labor Female in the Private Sector Guidelines, Chapter 1, Section 1.1, Article 6.
[52] Although this is a legal requirement, not all companies comply with these rules.

open spaces or in spaces that are visible to outsiders, and compliance with this provision can require additional investment on the part of firms.[53]

Gender segregation is also enforced in the public sector and many such offices maintain separate buildings for men and women. The public sector therefore provides better infrastructure for complying with segregation policies and employing women. Given the existing infrastructure for hiring women in the public sector, many of the gender-specific labor market policies are specifically targeted at expanding the female presence in the private sector.

In parallel with the legal requirements for segregated workspaces, women also have a strong preference for working in fully segregated environments, and there is often social stigma associated with working in mixed-gender environments or in spaces that do not provide ample privacy from men. In addition to the stigma, Saudi women defy traditional social norms simply by working outside of the household. In Saudi Arabia, as in many countries, men are traditionally seen as the income-earners, and women are often expected to leave work when they start families. However, opposition to the idea of women working is diminishing in Saudi Arabia today: a 2011 public opinion survey found that 75 percent of Saudi men and 89 percent of Saudi women did not oppose married women working outside the home. These findings contrast with the results of surveys conducted in the post-oil boom era (1973–1981), when segregated workspaces were not commonly available, a fact that may have contributed to the prevailing negative attitude toward the labor force participation of married Saudi women.[54] The rising cost of living may have also contributed to the shift in attitude toward female labor. There has also been a significant increase in study-abroad opportunities for Saudi students, many of whom return to Saudi Arabia influenced by values and practices in countries where FLFP is greater and the image of the working woman is more widely embraced as a cultural norm.

Alongside cultural barriers, Saudi women also face limited opportunities for advancement and wage equality. It was not until March 2014, for example, that the first female chief executive was appointed in the banking and finance sector. In addition, women are promoted to upper-level positions in the civil service less frequently than men. In 2011–2012, for example, women represented only 5.3 percent of public sector employees promoted to higher positions. This may reflect a perception that women are less suited for leadership roles,[55] a feature of the social landscape that has been slow to change in Saudi Arabia. The Ministry has implemented a policy of wage equality[56] between genders, stating that "any discrimination in wages shall be prohibited between male and female workers for work of equal value."[57] The Ministry also implemented a *Wage Protection System*, which requires all private sector firms to submit monthly data on the wages, gender and occupations of their employees, as well as the

[53] Ministry of Labor Female in the Private Sector Guidelines, Chapter 2, Section 1.2, Article 2.
[54] For example, a recent study found that most male guardians surveyed cited the availability of a suitable work environment – i.e., one isolated from men – as the determining factor in allowing women to work outside the home (DNA Research and Consultancy, 2013).
[55] Scott-Jackson et al., 2012
[56] Ministerial Decision no. 2370/1 (August 2010).
[57] International Labor Organization, 2012

sector in which they are employed. The program does not monitor gender gaps in wages but does monitor whether employees are paid fully and fairly per their labor contracts.

### Maintaining a work-life balance

Another source of higher costs in hiring women is related to policies designed to maintain a balance between professional and familial responsibilities. In contrast to the public sector, which features a seven-hour work day and substantial vacation time, private sector working hours have traditionally been longer, and this sector has been dominated by low-skilled, low-paid guest workers committed to long working hours. In order to incentivize Saudi men and women to work in the private sector, the Ministry limited work hours for all employees to eight hours per day, 48 hours per week throughout the year and to six hours per day, 36 hours per week during Ramadan.[58]

The Ministry has also issued maternity leave policies that protect pregnant women from losing their jobs when they go on maternity leave, and also provide medical insurance in addition to mandated nurseries and caregivers after a certain number of employees. These policies are directed at private firms in order to make the private sector more attractive for Saudi women.[59] While these regulations certainly provide a safety net for female labor, they undoubtedly have an impact on the costs, whether real or perceived, associated with hiring women.

### Transaction costs

Transactions costs such as transportation also create difficulties for Saudi women's LFP. Women are prohibited from driving in Saudi Arabia and must either find a male family member to take them to work or hire a driver at significant expense. Saudi Arabia has no viable public transportation options, even in the largest cities, and most urban spaces lack pedestrian pathways. The lack of public transportation can delay a female worker's arrival to work or inhibit it entirely.

In addition to transportation-related transaction costs, there are also cultural considerations that lead to frictions in hiring. In a patriarchal society where women need the consent of a male guardian in many transactions, [60] the male guardian may interfere in the employment process. Even if a firm has located a suitable female candidate, her male guardian has the right to interfere and influence her decision. In 2011, the Ministry removed regulations that required women to provide consent from their male guardians, usually their husband or father, when applying for jobs in private sector firms (guardian consent is still required for working in the public sector). Some private sector firms, however, still require female applicants to provide their guardians' consent for employment to avoid opposition from

[58] Labor code, Part VI, Chapter Two, Article 98, adopted since 1947.

[59] Currently, Saudi women are entitled to a total of ten weeks maternity leave, four prior to the anticipated delivery date and six after giving birth. Additionally, a woman is entitled to receive 50 percent of her salary while on maternity leave if she has been employed for over one year in the same firm, and entitled to receive her full salary if she has been working for three or more years. Private employers are also required to provide female employees with full medical insurance coverage. After maternity leave, female employees are entitled to breaks totaling no more than one hour per day (in addition to the standard one hour meal break) in order to tend to their infants. Moreover, firms employing more than 50 women are required to provide caregivers to attend to employees' children under the age of six, if there are more than ten such children. A firm employing more than 100 female employees is required to establish a nursery for children under the age of six, which can be done jointly with other firms.

[60] Women's Employment Guideline for the Private Sector, Chapter 1, Section 1.1: General Guidelines.

guardians when they have failed to do so.[61] The Ministry does not therefore interfere with employers' requests for guardian consent. While not mandating consent may remove pressure from firms and advance FLFP, the lukewarm reception to similar policies intended to promote greater autonomy or agency for Saudi women may, in practice, fall short.[62]

**The above discussion points to a key friction in the labor market for women: higher fixed and marginal costs of hiring Saudi women appear to be acting as a barrier to their employment in the private sector.**

Firms are therefore faced with disproportionately higher costs when hiring Saudi women than Saudi males or migrant workers. While making the initial investment to cover the fixed costs to hire women may make it easier to hire further female employees, given the low number of women in the labor force currently, the typical firm may find it prohibitively expensive to internalize the fixed cost of hiring its first female employee. This functions similarly to a lump sum tax on hiring women, where the demand for female labor drops to lower quantity at a lower wage to clear the market (i.e., for the quantity supplied to equal quantity demanded).

### Informational Constraints

While we have discussed the increased costs associated with hiring women, our argument assumes that both the supply of labor (women) and the demand for labor (firms) have perfect information about wages and productivity. It is likely, however, that the market for labor suffers from informational failures, especially regarding Saudi women. Given the limited experience of firms with hiring female labor, signals for female worker ability are likely to be weak.

Similarly, women may also face limited information on suitable positions that are available in the private sector. Given that women are predominantly employed in the public sector, they are likely to have limited information about other fields in the private sector that can use their skills while meeting other preferences such as a suitable work-life balance.

#### Search Costs

One such component of the market failure arising from incomplete information is search costs. Without preexisting networks or a clear pool of suitably skilled women, firms will face search costs to find a suitable female candidate. This is also problematic at the other end, for women looking for those jobs. Limited experience with the private sector may mean women are likely to face search costs in finding work that fits within their preferences and skills.

First, prospective market entrants often do not know what skills are necessary for the labor market. Moreover, employers generally seek candidates with previous job experience, and this creates an

[61] Alhudaib, 2014

[62] Similarly, the Ministry of Commerce removed the requirement for a male *wakeel* (legal intermediary) for women wishing to set up businesses. Yet, many female business owners have reported that many government bodies still require the presence of the *wakeel* in order to complete such business transactions as registering a business, obtaining licenses, and managing certain aspects of the business that require visiting government offices.

additional challenge for new labor market entrants. Moreover, female potential market entrants may not yet have the skills needed to communicate their qualifications to employers. Indeed, a candidate may have relevant skills but firms may not understand the description of diplomas and qualifications provided by the candidate or by the degree-granting institution, particularly in the case of degrees obtained abroad.

### Statistical Discrimination

In the absence of reliable information, firms may resort to statistical discrimination if they believe that gender is correlated with worker skills or ability. This discrimination may not necessarily be due to taste-based discrimination against women in the work force but, rather, to a belief that arises from imperfect information about applicant skills. This is an especially acute problem, as it may lead to belief formation in female applicants who will anticipate discrimination and invest less in human capital, or in certain types of human capital – choosing to study certain fields versus others.

The education offered to women may also create societal beliefs about skills or abilities. Primary education and vocational training for women focus on traditional women's occupations, and even higher education for women is typically devoted to the humanities and social sciences. Indeed, it was only recently that programs such as law, political science, architecture, and engineering became available to Saudi women. Law degrees, for example, were offered only in selected private colleges until 2010, and women were only allowed to be office-based legal consultants until 2014, when women gained the right to practice as attorneys in Saudi courts.[63]

Owing to the distribution of available jobs and to transportation issues, statistical discrimination may also occur if firms choose not to hire women who live further away from work, perhaps due to the uncertainty in the applicant's ability to get to the firm. Women residing further away from the firm may face statistical discrimination, where the distance from the firm may be a signal that the female candidate will face difficulty getting to work.

Statistical discrimination in addition to search costs characterize the difficulty of both finding and hiring women, in addition to the difficulty in finding work.

**The incomplete or asymmetric information about employers or potential employees can lead to an inefficient allocation of jobs and workers in the private sector.**

## Skills Mismatch

Underlying the discussion of the labor market is the skills market, where individuals make decisions about skill acquisition or educational attainment. The supply of skills by educational institutions and the demand for skills by individuals will find an equilibrium under the assumption that quality and current information about the private costs and benefits of education for individuals exist. For women, the availability of quality information is especially important given the cultural norms steering young girls into socially acceptable fields. Such norms may therefore reinforce educational decisions, and can then

[63] First female law firm, 2014

lead to a skills market failure, where the equilibrium amount of skills obtained could be suboptimal relative to the needs of the economy.

The concentration of women in certain positions and sectors in the labor market also sends signals to those entering the skills market. High numbers of women in the educational sector, for example, may send a strong signal to women who are deciding on their educational choices to invest in the subjects and the skills that would provide them a job in education.

As these suboptimal educational decisions accumulate, they may create a wide disparity in the skills demanded by the labor market and those demanded by individuals. While reskilling policies attempt to address suboptimal educational decisions, the training they offer may come too late in the educational or professional career of a candidate. Reskilling may work when the structure of the economy changes, when production of goods and services require new skills that the population does not currently hold. In the Saudi case, however, there is no evidence that there is a large shift toward certain goods and services that requires a fundamental reskilling of the economy. Policy responses that try to address skill shortages may therefore fall short, as the decision to study certain fields may have been made long ago and reskilling may not lead to a reconfiguration of women's core skillsets. This would therefore lead to economy-wide skill mismatches between the labor and skills markets, leading to suboptimal allocation of female labor.

**The mismatch between the skills the labor market demands and the skills demanded by women in the skills market can lead to inefficient labor market outcomes.**

### Wrapping up: Labor and Skills market failures

The above discussions have pointed to several imperfections and failures of the labor and skills markets that contribute to the suboptimal allocation of female labor in the private sector:

1. Firms face higher fixed and marginal costs in hiring women
2. Incomplete and asymmetric information exists in the labor market
3. Inefficiencies in the skills market create suboptimal results in the labor market

While less-than-ideal labor market outcomes for women in Saudi Arabia likely come about from the interaction of the above market failures and perhaps others, they provide an initial framework to build upon for considering the design and redesign of labor market interventions.

## B. Policy Responses: Integrating Women into the Workplace

We now discuss the policy responses in light of the market failures introduced above. A detailed description of the policies discussing the topic of gender inequalities in the labor market can be found in the Appendix. Table 2 shows the market failures and the policies that will be discussed with each failure. We discuss each market friction or failure and associated policies below.

*Table 2: Market failures and related policies*

| | Policies | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | SWJF | WERS | Telework | Part-time work | Productive Families | Female Transportation | Taqat | Career Education Development | College of Excellence | Mini-Jobs/Saifi | On The Job Training |
| **High Costs** | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | | | |
| **Imperfect Information** | | | | | | | ✓ | ✓ | | | |
| **Skill Mismatch** | | | | | | | | ✓ | ✓ | ✓ | ✓ |

### High Marginal and Fixed Costs of Hiring Women

Policy responses addressing the high fixed and marginal costs associated with hiring Saudi women in the private sector range from mandating that firms hire female labor to providing subsidies for alternative work arrangements for Saudi women. The policies intend to reduce the higher costs of hiring Saudi women to better incorporate them in specific sectors or the private sector more generally.

Two such sectoral programs are the *Women's Employment in the Retail Sector (WERS)* and the *Support Women's Jobs in Factories (SWJF)*, which provide incentives via wage subsidies for training and hiring Saudi women in the retail and manufacturing sectors. The aim of *SWJF* is to increase aggregate demand for women's employment in the private sector by encouraging manufacturing firms – which are presently staffed predominantly with guest workers – to achieve *Nitaqat* compliance through a "big push" approach, or an upfront investment for long-term returns by switching the staff of entire production lines from male migrant workers to Saudi women. *WERS*, on the other hand, aims to feminize and nationalize the sales workforce in retail by mandating that businesses employ only Saudi women as sales clerks in stores that sell merchandise of primary interest to women. Both programs provide training and wage subsidies to address the increased costs of hiring Saudi women in lieu of male migrant workers. Participation in the above policies allows firms to fulfill *Nitaqat* quotas as well, furthering the goal of Saudization of the private sector.

The *SWJF* and *WERS* assume that the wage subsidies provided to firms would cover the costs associated with hiring Saudi women. Since the *WERS* and the *SWJF require* a fundamental restructuring of the firm (due to mandated segregation) it is unclear whether these policies cover the lump sum costs associated with participation in these programs. *Further research can cast light on whether such subsidy-based "big push" programs encourage firms to make lump sum investments for hiring women and have long-run benefits for firms.*

In addition, these sector-specific policies also assume that taste-based or statistical discrimination against Saudi women does not exist in the labor market, holding all other factors constant. It is not obvious that this is the case, as limited information (or a pure preference against women) may drive discriminatory practices by firms. *It is therefore an area of study to further analyze whether discrimination plays a role in hiring Saudi women.*

In addition to the above programs which incentivize hiring full-time Saudi labor, other policies such as *Part-Time Work* and *Telework* offer ways for firms to hire Saudi women and fill *Nitaqat* quotas through alternative work arrangements, such as part-time labor or allowing for telecommuting opportunities. Similarly, *Productive Families* provides self-employment training and interest-free loans for women who want to start a business from home. The programs attempt to address women's preferences for a work-life balance by providing alternative working arrangements and potentially reducing costs associated with transportation or segregation. The policies also incorporate a wage subsidy to cover the incurred costs in hiring women, or interest-free loans in the case of *Productive Families*. These programs belong to a category of active labor market policies whose chief goal is to reduce the opportunity costs of female labor supply. For example, parental-leave and subsidized childcare programs have been popular policy options elsewhere in the world.

These alternative working arrangement programs assume that women desire jobs that potentially provide little upward mobility and are likely to be low-skilled. It is unclear whether this is the case, especially given the higher proportion of highly educated Saudi woman than men. *It is therefore an area of further study to better understand whether women desire such alternative working arrangements given the low likelihood of advancement or training.* To better test this assumption, female *Hafiz* recipients, for example, could be surveyed to better understand the kinds of labor they are interested in.

Lastly, to address the challenge presented by the lack of public transportation and the ban on driving for women, the Ministry is developing a new program to support women's transportation to and from work called *Female Transportation*. The program, which is currently in the planning phase, is intended to provide transportation support to help working women sustain their jobs and also to target the needs of those with disabilities.

### Incomplete and Asymmetric Information in the Labor Market

As discussed above it is likely that market for labor suffers from informational failures, especially regarding Saudi women. While "big push" programs such as *Nitaqat* attempt to mandate experience with Saudi employees to overcome informational deficiencies, women may also face limited information about the kinds of work that is available in the private sector. The following policies address informational failures through job-search assistance.[64]

*Taqat* attempts to lower the search costs of finding qualified women by providing employers access to job seekers registered in the *Taqat* online portal through the internet, recruitment offices, call centers, and job fairs. Candidates are sourced from the *Hafiz* program for the various employment channels. The *Taqat* program assumes that the search costs of finding qualified Saudi employees are prohibitively high for firms, and that an online platform will provide the necessary information to make it easier to hire Saudis. One of the primary assumptions that this intervention makes is that search costs are positive and a barrier to hiring, especially women. While it is true that the private sector has limited experience with Saudi female employees, it is not clear whether such search costs pose a significant barrier to both

[64] The rationale for job search assistance is further developed in Heckman, Lalonde and Smith (1999).

hiring and finding suitable positions. *Further research on the existence and magnitude of search costs may be needed to better understand the barriers to hiring female Saudi labor in the private sector.*

Another important assumption surrounding the *Taqat* platform concerns the credibility of the signals provided for both applicants and employers. Signals provided by the platform about the availability of work or the quality of labor, for example, may not be believable on their own and may require further verification, adding to search costs. *A research area to consider is whether such government-provided platforms can provide credible signals about the conditions of the market.* An initial survey of firms using the Taqat platform, for example, can provide a glimpse into their experience with candidate profiles.

*Career Education Development (CED)* is a supply side oriented policy that provides job seekers and employees with career exploration services, providing both a candidate-focused process for discovery of interests, strengths and weaknesses, along with an exposure component that provides candidates with information on other roles and functions to consider based on their backgrounds. This may prove to be an especially important tool for providing information on relevant fields to women, who are concentrated primarily in education.

*CED* assumes, however, that the primary constraint keeping Saudis and women specifically, from exploring other fields is career information about other positions and roles relevant to their skills. In other words, while it provides information on what potential roles Saudi candidates may fill, those roles may not be socially acceptable or respected (such as in construction), leading to a hesitance by candidates to accept work in such areas. *Further research is needed on how information provision can affect beliefs about socially acceptable work.*

Another program has large female participation without an explicit gender component is *Hafiz*. This program provides monthly stipends in addition to employability training programs for unemployed individuals to help cover the costs associated with searching for and applying to jobs. *Hafiz* is an especially important unemployment assistance program and will be discussed in detail in the Chapter II. *It does, however, raise an area of potential research regarding whether applicants can be reliably induced to search and learn about opportunities through pecuniary benefits.*

### Skills Market Failure: Skill Mismatch

The failure between the skills required in the labor market and the skills that are provided in the skills market, or skill mismatch, can also provide a source of friction to the efficient allocation of labor.

There are several programs that address the skill obtainment and skill matching of Saudi citizens. *Colleges of Excellence (CoE)* provides three-year vocational training primarily in technical fields, while *Mini-jobs/Saifi, On-the-Job Training (OJT)*, and *CED* programs aim to provide skill obtainment through formal classroom and field training opportunities as well as short-term work experiences.

While the *CoE* program aims to provide a breadth of quality training opportunities for both men and women, the fields of study offered are primarily male-dominated occupations, except for fashion and beauty. Although the *CoE* provides ample opportunity for women to gain skills in a variety of fields and therefore expands the supply of skills in the skills market, it still raises the question of whether such

programs will be demanded by women. In other words, whether or not women have quality information about how lucrative and/or the socially acceptable such fields are may determine whether they will demand longer job training programs like the *CoE*. This may be unclear; if the signals for social acceptability of certain positions in the labor market are strong, then it may lead to constrained demand for traditionally male fields and skills. *Further research is needed to understand how signals and belief formation in the labor market link to skill acquisition in the skills market in the Saudi context.*

*Mini-Jobs/Saifi, OJT,* and *CED*, on the other hand, emphasize acquiring skills through short-term training and work experience. These programs assume that such skills are relevant to the needs of women in the labor market. While reskilling may provide more relevant skills, it is unclear whether such interventions come too late. In other words, reskilling assumes that the current set of skills in the labor market is insufficient for the needs of the economy. This would therefore call for an earlier intervention, potentially during the formative educational career of individuals that provides them with more relevant skills than the ones candidates pursue (such as teaching). *Research is therefore needed on what point in the skill-development process such interventions would be usefully implemented to best expand the relevant skills that women obtain.*

# CHAPTER V:

# YOUTH EMPLOYMENT

Youth employment is an important labor market issue around the world, and numerous studies have found that young people encounter different employment limitations and opportunities than other workers. In Saudi Arabia, the impact of these differences has long been compounded by low youth labor force participation (LFP), particularly among young women. In recent years, the number of Saudi youths has grown rapidly. However, employment opportunities for new labor market entrants have failed to keep pace, resulting in very high youth unemployment rates.

Cultural and economic considerations in Saudi Arabia, moreover, generate special challenges for youth employment, particularly for young women. These issues can also constrain the scope of potential policy interventions. Nonetheless, the Saudi government has invested heavily in education and, most recently, in programs to promote the integration of young workers into the private sector labor force.

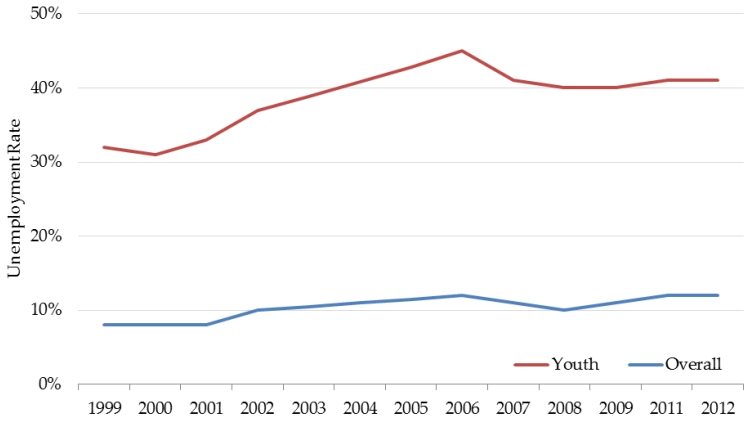
With this background in mind, Section A below makes use of available data to diagnose and provide context for the problems associated with youth employment in Saudi Arabia. Section B describes current policy interventions in light of discussed market failures and offers preliminary suggestions for potential research areas.

## A. Context and Diagnosis: Persistent Youth Unemployment

Youth unemployment became a pressing issue in the Middle East in the early twenty-first century, with economic growth in the region outpacing the availability of skilled human capital. Saudi Arabia, which has the largest economy in the region and rapid economic growth (6.6 percent for the private sector projected between 2010 and 2014),[65] also has one of the highest rates of youth unemployment. In the 15–24 age group, the unemployment rate is 41 percent, according to the latest available figures, compared to 12 percent for the population overall (Figure 1). Moreover, although males and females are represented more or less equally in the population (see Figure 3), latest statistics show that, despite high literacy and education rates, unemployment among young Saudi women is more than twice as high (74 percent) as for young Saudi men (Figure 2).

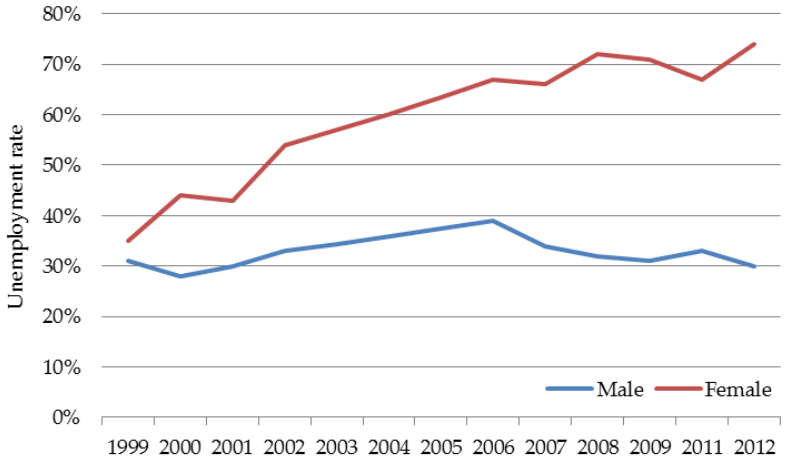
[65] Ministry of Economy and Planning, 2014

*Figure 1: Saudi youth (ages 15-24) and total unemployment rate, 1999 – 2012*




*Source: CDSI Labour Force Survey, 1999-2012*

*Figure 2: Saudi youth (ages 15-24) unemployment rate by gender, 1999 – 2012*




*Source: CDSI Labour Force Survey, 1999-2012*

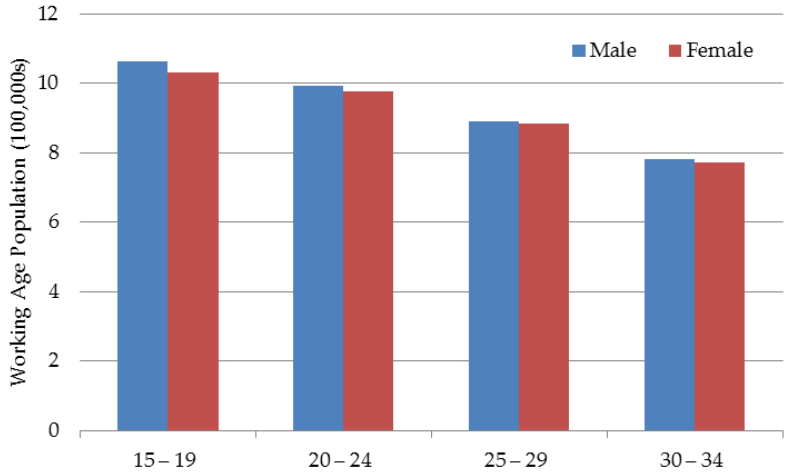
The United Nations defines youth as individuals between the ages of 15 and 24. The Ministry of Labor, however, expands this cohort under the *Hafiz 1* program to include eligibility for individuals who were age 35 or under when the program was introduced in 2011[66].[67] The cohort thus includes individuals who were born in the post-oil boom era of the 1980s (see figure 3), when high birth rates and economic prosperity led to a demographic "youth bulge" in the form of a generation characterized by somewhat skewed attitudes regarding work, owing to the learned habit of reliance on family wealth, foreign labor,

[66] Human Capital Development, 2012

[67] Unless otherwise noted, for the purposes of this research "youth" refers to the population targeted by the MoL policies discussed in this paper, including *Hafiz* 1 (aged 18–34). The relatively late entrance of Saudi youth into the labor market late (the median age is 28 for males and 31 for females) has been ascribed to such factors as free access to higher education and to the King Abdullah Scholarship Program (KASP), as well as to reliance on family and on the government for assistance (see Chapter I).

and government benefits and employment support[6869]. That is, these individuals generally expect the state to provide employment in the public sector.

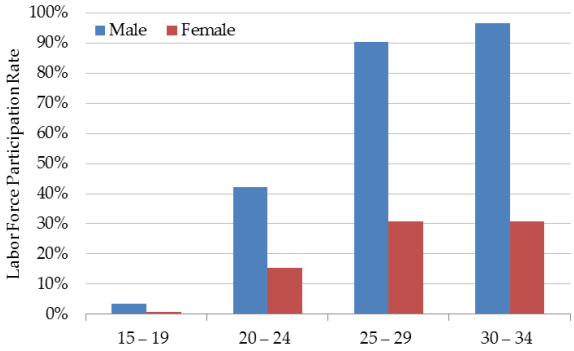
*Figure 3: Saudi youth population by gender and age group (15-35), 2013*




*Source: CDSI Labour Force Survey, 2013 Round 1*

This approach to public vs. private sector work, along with government safety net programs, may perpetuate a cycle of dependency for some individuals who are now at an age when they are expected to be active labor force participants. Indeed, the level of economic inactivity, i.e., those who are voluntarily involved neither in education nor seeking employment, was estimated to be as high as 63.7 percent among Saudi youth in 2013[70].

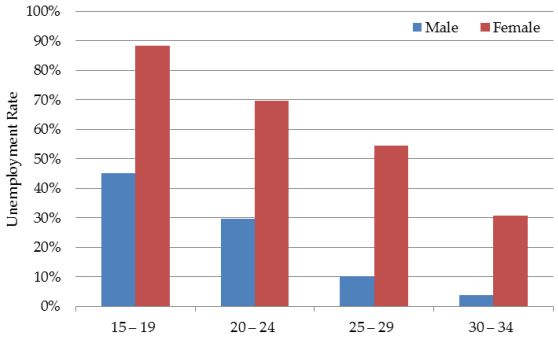
*Figure 4: Youth labor force participation by gender and age group (15-35), 2013*




*Source: CDSI Labour Force Survey, 2013 Round 1*

[68] Aguirre et al., 2012
[69] Schlaffer & Kropiunigg, 2012
[70] Ministry of Economy and Planning, 2014

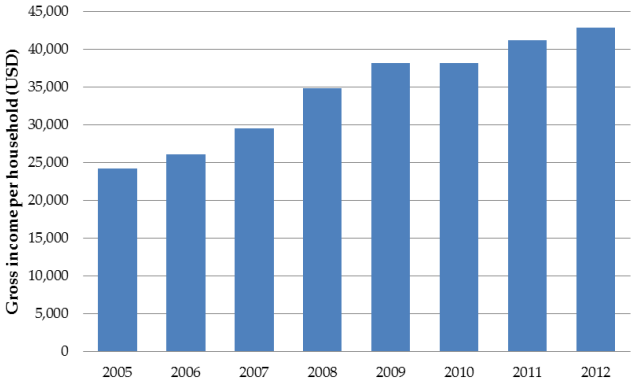
*Figure 5: Youth unemployment by gender and age group (15-35), 2013*




*Source: CDSI Labour Force Survey, 2013 Round 1*

Saudi youth today, however, are typically better educated and may have differing views than their parents regarding gender roles. For example, in a recent survey 60 percent of young men and 73 percent of young women stated that both genders should contribute to household income[71]. Surveys also show that Saudi youth today are more aware of their rights and their educational and occupational options than previously.[72] Indeed, the Arab Spring of 2011, which focused attention on some of the social, economic, and political ills of the region – including high youth unemployment, youth social, political and economic marginalization, poverty, and discrimination – also helped Saudi youth to become more closely connected to social and political movements and discourse worldwide, a fact that has bolstered their demands and expectations regarding rights and opportunities, including the right to earn a living.

*Figure 6: Gross income per household, 2005-2012*




*Source: World Consumer Income and Expenditure Patterns, Euromonitor*

## Rapid Population Growth

Youth in the MENA region is a rapidly growing segment of the population, one that is expected to rise from 88 million in 2010 to 94 million in 2030[73]. In Saudi Arabia, latest figures show the total Saudi

[71] Saudi youth, 2011
[72] De Bel-Air, 2014
[73] Roudi, 2011

population increasing rapidly, from 15 million in 2001 to 20.2 million in 2013[74]. According to the 2013 census, youth aged 15–24, at 3.9 million, constituted 21 percent of the Saudi population and 35 percent of the working age population[75]. Moreover, the population under the age of 20 has increased at a rate of 4.3 percent from 2006 to 2009[76]. Although Saudi fertility rates are currently below three births per woman, rates through the 1980s and 1990s were some of the highest in the world at six to seven births per woman. As a result, the Saudi population is still very young, with a national median age of 19. The proportion of the population under the age of 25 was about 61 percent in 2004, but it decreased to 58.4 percent in 2007[77]. Nonetheless, this rapid growth, coupled with the increase in the public sector retirement age to 62 may contribute to an even greater shortage of jobs for the Saudi youth population in the future.

### Informational Requirements for Job Opportunities

For the labor market to function well, job seekers must have access to information on what jobs are available and how to apply for them. This is often not the case for new labor market entrants, who tend to lack both the benefits of previous work experience as well as the professional networks that can help them search for employment opportunities. In Saudi Arabia, youth typically enter the labor market after completing secondary or tertiary education and having gained little or no work experience (median age of employment was 31 for women and 28 for men in 2013).[78] As a result, many young people do not know how to seek employment and are not aware of the requirements of the job market.

Moreover, youth have limited access to job opportunities – such as internships and apprenticeships – that they can take advantage of while pursuing their education. The educational system in Saudi Arabia does not provide job counseling for students while they are in school, a service that could be beneficial in guiding youth toward future employment and helping them assess job prospects. Meanwhile, without previous work experience such as temporary jobs, transitioning to the labor market after completing education can be challenging. Moreover, youth who lack any form of job experience are less likely to find jobs in the private sector that are relevant to their academic backgrounds and learned skills.

Some of these issues are reflected in the results of a 2010 Booz & Company survey of urban youth in the Gulf Corporation Council between the ages of 15 and 24 who were involved in secondary or tertiary education or vocational training, regarding their involvement in summer and/or temporary jobs. The majority stated that they had had no such work experience. Of the respondents, moreover, 31 percent said that they preferred to relax during the holidays, 26 percent responded that they felt that they were "not ready for work," 19 percent said that there were no suitable opportunities available, 17 percent that their parents did not allow them to work, and 16 percent that the salaries offered were too low[79].

[74] Central Department of Statistics and Information, 2001-2013
[75] Ministry of Economy and Planning, 2014
[76] Labor and the Nitaqat Program, 2012
[77] Ministry of Economy and Planning, 2014
[78] General Organization for Social Insurance, 2013
[79] AlMunajjed & Sabbagh, 1011

Job seekers often rely on networks of professional contacts to gather job references information on potential positions. This is usually more difficult for young people, whose social networks are likely to be less connected to the labor market. This may be especially true in Saudi Arabia, where high youth unemployment and delayed entry into the labor force mean that Saudi youths are less likely to have peers who are employed., Informal networks commonly play a role in the recruitment process. This leads employers to hire their own or their contacts' relatives, which can contribute to a mismatch among jobs and skills and exacerbate inequality.

**A lack of information on available opportunities and their requirements may create barriers to youth unemployment.**

Moreover, it is also possibility that private sector opportunities fail to meet young nationals' expectations or desires in terms of working hours, salaries, etc., which could deter young nationals from trying to acquire skills relevant to these position.

Informational problems may be particularly significant for young Saudi women. In addition to the problems faced by youth in general, there are often additional hurdles for women to connect with employment opportunities. For example, although MoL policy on female employment in the private sector no longer requires the consent of the male guardian, social traditions force many companies to seek such consent in order to avoid friction with guardians, particularly in the case of young women applying for jobs that entail interaction with men. Navigating this process may call for additional information and experience in order to identify firms where guardian consent will be required.

### Job Seeker Expectations from Private Sector Work

In addition to lacking information about job opportunities, Saudi youth may also have biased beliefs about what to expect from private sector work. If young Saudis' expectations for entry-level wages are too high, they may turn down reasonable offers, prolonging their job search.

Indeed, the average wages currently offered in the private sector have decreased in recent years, and are considerably lower than those of public sector employees. Presently, the Saudi labor market relies heavily on low-wage, low-skilled guest workers. These workers occupy jobs that Saudi youth generally look down upon: construction, sales, and other technical jobs that are typically low-paid. By contrast, Saudi youth prefer office-based jobs that carry greater prestige. Recently, however, inflation and the increased cost of living may have led to a slight shift in the attitudes of Saudis towards occupational choice, with Saudi youth starting to venture into the private sector in jobs such as security guards and cashiers, according to latest data from GOSI.

The availability of low-cost foreign labor, however, keeps wages low across the sector, a fact that has historically contributed to driving Saudi youth to seek employment in the public sector.[80] Indeed, private sector wages have been declining since 2004 for both Saudi and guest workers (see Table 1), despite an increase in inflation. The spike in private sector salaries in 2011 coincided with overall economic growth

[80] Hertog, 2012

in Saudi Arabia and throughout the GCC, despite political instability in the region. It also coincided with 1) the $130 billion public sector subsidy announced in March 2011, which provided for a 15 percent increase in public sector salaries and for housing subsidies, both of which were instituted in order to ease political unrest; 2) the introduction of the SAR 3,000 minimum wage; and 3) the advent of the *Nitaqat* quota program, which put pressure on private sector firms to hire Saudis. The latter measure compounded the rising costs of hiring foreigners with penalties imposed by the MoL for companies that hire more than the allowable number of expatriate workers (see Chapter III on *Nitaqat*).[81] However, figures for 2012 show that average nominal wages for Saudis dropped to close to 2005 levels, despite continuing inflation. Private sector wages, although higher for Saudis than for expatriate workers, may therefore be lower than new job seekers expect.

*Table 1: Average wages in the Saudi private sector in SAR (adjusted for inflation), 2004–2012*

| Year | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| Saudi | 4,701 | 4,152 | 3,777 | 3,624 | 3,394 | 2,839 | 3,031 | 4,495 | 3,922 |
| Non-Saudi | 1,116 | 1,101 | 1,113 | 1,011 | 950 | 1,220 | 907 | 797 | 768 |

Source: Ministry of Labor annual statistical yearbooks 2007–2012, Hertog (2012)

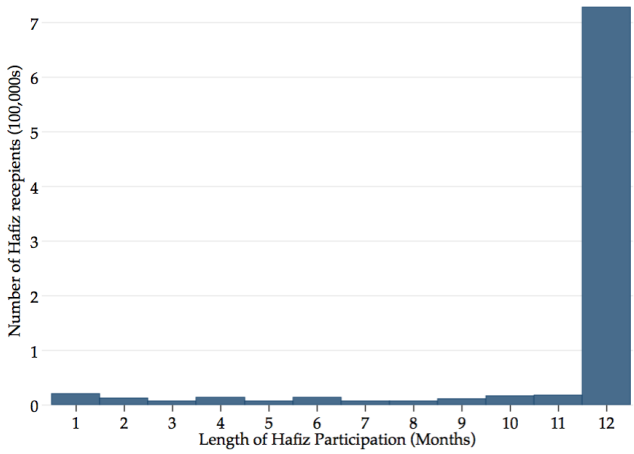
In contrast to the private sector, public sector employment often requires lower levels of education and skills while providing better benefits and fewer working hours, in addition to the 15 percent wage increase mandated in 2011 (and an additional two-month's salary). As the expansion of the public sector has slowed, however, these jobs have become increasingly scarce. Youth expectations for private sector wages and working conditions may well be unrealistic if they are based on public sector jobs.

One proposed reason for the low Saudi youth participation in the private sector is not lack of skills but the reluctance of employers to meet the higher wage expectations of this demographic[82]. Hence, the Saudi government introduced the aforementioned subsidies, minimum wage, and quotas to promote Saudi LFP in the private sector.

In addition to their high expectations regarding wages, there is also evidence that Saudi youth are hesitant to accept suitable jobs. For example, 79 percent of *Hafiz 1* beneficiaries who applied before February 2012 exhausted their 12-month maximum unemployment benefit period (Figure 5). This figure suggests that search durations may be inefficiently long, especially since firms subject to *Nitaqat* quotas were reportedly searching intensively for Saudi employees over the same period. Of course, this may also suggest that the parameters of *Hafiz* and other support and/or assistance programs may therefore deserve reconsideration, so that necessary support is provided in a manner that contributes as little as possible to prolonged dependence.[83]

*Figure 5: Number of Hafiz Recipients by length of program participation, eligibility before February 2012*

[81] Nitaqat in the Spotlight, 2012
[82] Kawar & Jaafar, 2013
[83] In other words, early accession should be rewarded, not de-incentivized; see Chapter II.




*Source: Hafiz Eligibility Dataset, MoL*

**Young job seekers have strong preferences for the returns from private sector work, restricting the number of job opportunities that would realistically match experience and skillset.**

Finally, it may also be the case that Saudi youth overestimate the value of their skills in the labor market. With the increase of literacy rate among Saudi youth, which a UN report estimates will reach 99 percent by 2015[84], it is possible that the returns to education have declined as the supply of educated Saudis has increased. This push is balanced somewhat by the pull exerted by rising inflation, which appears to have contributed, as noted, to Saudis being somewhat more willing to take up jobs that they did not previously consider. However, with the wages for guest workers remaining as low as 20 percent of those paid to Saudis in the same job (see Table 1), increasing Saudi LFP will remain a considerable challenge.

### Informational Requirements for Job Seeker Productivity

As noted, one of the main challenges impacting Saudi youth LFP is the poor quality of information transmission and signaling among stakeholders. This manifests on the demand side of the labor market as youth struggle to signal their skills effectively to prospective employers. The result is that employers do not have complete information about their potential productivity. Reasons for these communication shortfalls are numerous, but the following, at least, should be noted.

First, young potential market entrants may not have the skills needed to communicate their qualifications to employers[85]. Indeed, there is a common employability issue that arises when a candidate has relevant skills but enterprises do not understand the description of diplomas and qualifications provided by the candidate or by the degree-granting institution – particularly in the case of degrees obtained abroad – and this can contribute to statistical discrimination. This may be a particular issue for firms that have little experience hiring Saudi employees, and may be more experienced in assessing the qualifications of foreign workers. It may disproportionately affect young workers with less in the way of previous work history. In this regard, accreditation can help youth to provide potential employers with skills signals that they can understand and appreciate.

[84] AlMunajjed & Sabbagh, 2011
[85] Cunningham, Sanchez-puerta & Wuermli, 2010

**Firms face poor signals on the quality of young candidates, leading to a hesitance to hire in the absence of alternative, credible signals.**

Again, these informational problems are likely to be particularly serious for young Saudi women. Female labor force participation is particularly low, which leads to incomplete information about them in the labor market, as well as to an extreme version of the limited employed peer networks challenge that has already been noted for Saudi youth in general. Moreover, primary education and vocational training for women focus on traditional women's occupations, and higher education for women is typically devoted to the humanities and social sciences. Performance in these academic areas may provide a less useful signal of ability than grades in science and math degrees. It is therefore important to provide potential employers with more and better information regarding these potential employees.

### Human Capital Quality and Relevance

In comparison to other Arab countries, according to the Trends in International Mathematics and Science Study (TIMSS) and the Progress in International Reading Literacy Study (PIRLS) for 2011, Saudi youth perform low on education measures, particularly in the fields of mathematics and science[86]. According to Kawar and Jaafar[87], however, this represents a vicious cycle, in that the low wages offered in the Saudi private sector – made possible largely by the availability of qualified guest workers from neighboring Arab countries and elsewhere – fail to create an incentive for Saudis to succeed academically and to compete for jobs.

Indeed, young people may have poor and/or outdated information on the private sector costs and benefits of various educational choices, and therefore choose specialties for which there are few jobs, such as education and other fields in the humanities. This results in a skills mismatch, such that the most widely completed educational degrees do not correspond to the most widely available jobs in the market. For example, the majority of Saudi students on scholarships abroad study subjects in the humanities and social sciences, even though the Saudi job market is already saturated with individuals trained in these fields.

The paths that have been created for women to expand their educational options, moreover, such as law, engineering, and political science, were established without specific reference to demand in the private (or public) sector labor market. As a result, relatively few private sector firms have employed young women with such qualifications, and for those that have, some new labor market entrants have ended up holding job titles that did not match their qualifications.

Although Saudi Arabia has an education budget of SAR 210 billion ($56 billion) for 2014, current efforts are not expected to overcome the skills gap. In particular, enrolment in technical and vocational training, which is needed to fill the jobs that are currently occupied heavily by guest workers, remains

[86] Mullis et al., 2012a, 2012b
[87] Kawar and Jaafar, 2013

low. Additionally, the labor market is in need of more participants with scientific, technical, and engineering qualifications, as there is an ongoing shift toward a more knowledge-based economy.[88]

Another issue concerns the pedagogical methods that predominate in Saudi Arabia and their inadequacy in meeting current industry and economic needs. Presently, Saudi education at all levels emphasizes memorization and does little to foster skills such as problem solving, communications, and teamwork. Moreover, English is only introduced in middle school in Saudi public schools, although private sector firms seek workers with a high level of English language skills. Indeed, job seekers with limited English skills are reportedly struggling to obtain employment through job placement centers, and scholarship programs abroad typically require at least one additional year to make up for language deficiencies, a fact that adds an additional economic drain to the system.

Failure to match more Saudi workers to private rather than public sector employment is also partly due to the signals Saudi students receive from the public sector. High-profile public sector expansions may keep Saudi youth from considering employment in the private sector and targeting their skills development accordingly. For example, in 2012, 60,000 jobs were provided in the Ministry of Interior alone, thus "crowding out" private sector employment and diverting job seeking efforts toward the public sector.[89] Since the Saudi public sector relies more on academic degrees than on skills[90] and provides greater job longevity, its signaled precedence in the Saudi labor market provides potential market entrants with a somewhat skewed impression of the overall employment picture, in which continued economic growth and stability depend largely on a transition to greater Saudi private sector LFP.

The concentration of women in specific positions and sectors in the labor market also sends signals to potential skills market entrants. The female presence in the educational sector, for example, may send a strong signal to women that this is a "safe bet" for their considerable expenditure of time and effort in acquiring job skills. As noted, however, markets that appear to offer bounteous opportunities may in fact already be saturated, and both job seekers and the economy as a whole will benefit from more reliable forms of information to guide market entrants in their educational choices.

Indeed, as suboptimal educational decisions accumulate, they can contribute to a wide disparity in the skills that are demanded by the labor market and by individuals. While reskilling policies attempt to address such factors, they may come too late. Reskilling can be effective when the structure of an economy changes, when production of goods and services requires new skills that the population does not currently hold. In the Saudi case, however, there is no evidence that there is a large shift toward certain goods and services that requires a fundamental reskilling of the economy. Policy responses that try to address skill shortages may therefore fall short, as the decision to study certain fields may have been made long ago and reskilling may not lead to a reconfiguration of women's core skillsets.

[88] AlMunajjed & Sabbagh, 2011
[89] Behar & Mok, 2013
[90] Salehi-Isfahani & Dhillon, 2007

**The equilibrium outcome of skills provided by and obtained in the labor market is not matched optimally with the needs of the labor market, leading to an inefficient allocation of skills and workers in the economy.**

In sum, the discussion of the labor market must be undergirded by an assessment of the skills market, which includes the decisions that individuals make about skills acquisition and/or educational attainment. The supply of skills via educational institutions and the demand for skills by individuals will find an equilibrium if quality, up-to-date information about the private costs and benefits of education for individuals exists. For women, the availability of quality information is particularly important in light of the cultural norms that steer young girls into socially acceptable fields. Such norms can lead to a skills market failure, where the type and/or extent of skills obtained can be suboptimal relative to the needs of the economy.

### Wrapping Up: Labor and Skills Market Failure

The above discussion has pointed to a number of imperfections and shortcomings in the labor and skills markets that are contributing to the suboptimal allocation of youth labor in the Saudi private sector. In particular, the following should be reiterated:

1. Firms face poor signals on the quality young candidates, leading to lower levels of hiring than would be with perfect information.
2. Young job seekers have strong preferences regarding their potential occupation, restricting the number of job opportunities they would consider.
3. Young people lack information about how to find jobs in the private sector given their limited experience in the private sector and small networks for finding opportunities.
4. Human capital investments do not match the needs of the private sector, which leads to inefficient allocation of skills and workers.
5. Saudi citizens have much stronger employment protection and regulations than foreign workers; dismissal costs are much higher for Saudi workers than for non-Saudis, leading to inefficient allocation of skills and workers.

## B. Policy Responses: Training and Work Experience Attainment

We now discuss Saudi policy responses in light of the market failures introduced above. A detailed description of the policies discussed can be found in the Appendix. Table 2 shows the market failures in question along with the policies that will be discussed in connection with each.

*Table 2: Market failures and related policies*

| | Policies | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Taqat | CED | Mini Jobs/ Saifi | WPS | Nitaqat | WERS | SWJF | Telework | Part-time Work | OJT | CoE | TVTC |
| **Lack information** | ✓ | ✓ | | | | | | | | | | |
| **Expectations of Returns** | | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | | | |
| **Productivity** | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **information** | | | | | | | | | | | | |
| **Skills mismatch** | | ✓ | | | | | | | | | ✓ | ✓ |

### Young People Lack Information on How to Find Jobs

The *Career Education Development (CED)* program is a human capital development initiative aimed at achieving the following goals: 1) improving the job skills of Saudi youth; 2) offering them career and job counseling; and 3) helping them to build their capacity to work in the private sector (job readiness), thus improving the supply of labor. Courses are offered in the form of short-term classroom training to help improve information about job seekers in the private sector.

Given that most young Saudis acquire similar educational backgrounds, the key benefits of this policy may lie in helping youth identify suitable job opportunities and in providing them with career counseling to help them find jobs that are suited to their skills. Indeed, the program assumes that the services and counseling will help job seekers find suitable job opportunities, but it fails to address the demand side of the labor market. That is, job counseling could help youth decide on career paths, but it cannot alter the facts that most have qualifications more suitable to the public sector and the private sector is already saturated with Saudi employees with similar backgrounds. At present, moreover, there are no career-counseling opportunities provided for Saudi youth during secondary or tertiary education. In other words, the key drawback to this program is that it may be offered after they have already decided on their educational paths. *More research needs to be conducted on the short- and long-term effects of these types of interventions in order to add to or modify this program for optimal impact in the Saudi case.*

*Taqat* and the various employment channels (*Taqat Recruitment Offices, Taqat Job Placement Centers (JPCs), Taqat Online, Liqaat/e-Liqaat, Tele-Taqat Centers, and Jahiz*) aim to improve skills and signaling quality for job seekers in the private sector by providing several interventions for *Hafiz* recipients (with the exception of *Jahiz***,** which targets KASP alumni) to help them find suitable job opportunities quickly. Interventions include soft-skills and professional training, job referrals and job search assistance, CV preparation, and general career guidance. These services are offered through various channels, including online and through job centers, in order to reach the maximum number of beneficiaries. However, anecdotal evidence suggests that enrollment is low. Moreover, employment firms have to fill monthly placement quotas, so the quality of the match between employee and job is often poor. As a result, these placements often turn out to be short-term, resulting in high employment turnover. *More research needs to be done on how referral networks can be improved for job seekers and on the features that contribute to effective job counseling and job-search assistance.*

### Young People have Unrealistic Expectations about Entry-Level Wages, Work Requirements, and Working Conditions

As discussed, the perception of a gap in the quality of working conditions is one of the reasons why Saudi youth seek employment more eagerly in the public than in the private sector. Several policies have been instituted in the labor code in an attempt to close this gap, such as the SAR 3,000 minimum wage and limiting working hours to eight hours per day, 48 hours per week (for men and women alike)

throughout the year, as well as to six hours per day, 36 hours per week during Ramadan. Of course, these policies may have unintended consequences for Saudi employment by making Saudi workers more costly for private sector firms, and these negative effects may disproportionately affect younger workers. *Research should address whether these policies are having the desired impact on the perceptions of youth regarding working in the private sector as well as the intended overall effects on employment.*

Additionally, the MoL introduced the *Wage Protection System (WPS)* in September 2013 to monitor receipt of wages for Saudi and guest workers in the private sector. Under this rubric, the Ministry regularly audits the timeliness and accuracy of wage payments to private sector employees – the goal again being to address concerns about low wages and lack of job security in private sector jobs. Such measures may help to reduce the distaste of Saudi youth for private sector work without further increasing the cost differential between Saudi and expatriate workers. *Research is needed to assess the impact that these recently introduced policies have had thus far, and should inquire into ways in which they can be made more proactive in realigning Saudi expectations and work ethics.*

*CED* assumes that the various interventions it offers are sufficient in altering youth perceptions about work in the private sector and adjusting their expectations about work conditions and career opportunities, and, subsequently, reduce job search friction. It may, however, as previously discussed, be too late in the career path to introduce such an intervention. *More research needs to be done on whether providing information about job prospects affect the duration and results of job search, and whether the timing of these interventions matters for their outcomes.*

The Ministry has introduced several other policies that are intended, at least in part, to address the low labor supply of youth in the Saudi private sector. These range from direct employment initiatives such as the *Nitaqat* quota policy, *Support Women's Jobs in Factories (SWJF)*, and *Women's Employment in the Retail Sector (WERS)* to programs that support alternative employment channels, such as *Telework* and *Part-time Work*. *SWJF*, *WERS*, *Telework*, and *Part-time Work* provide training and wage subsidies for female employees in order to help prepare them for jobs that were previously dominated by male guest workers. The aims of these subsidies include increasing the exposure of Saudi workers in the private sector and creating networks of employed women that can attract other women into the private sector. In this regard, key research questions include the following: *Do policies to increase Saudi employment in the private sector have indirect effects through social networks? Do role models increase interest in private sector jobs?* In addition, given that the aforementioned policies are coupled with awareness campaigns intended to help shift perceptions about women's employment, researchers should ask: *What role do informational campaigns play in changing social norms regarding private sector work?*

The *Mini Jobs/Saifi* program offers short-term employment opportunities, coupled with classroom training, targeted at the younger youth cohort – i.e., those who are still pursuing their education. The Ministry collaborates with private sector firms in providing these temporary job placements. The policy may help to improve the signaling of information about prospective employers to youth and, at the same time, provide youth with realistic work experience that will help them to develop job skills and to understand what to expect when they enter the labor market after graduation. The program may also

have a positive effect in terms of altering the expectations of youth with regard to wages, work requirements, and conditions. The policies assume that these temporary job placements provide perfect information about the jobs to potential workers. In seeking to optimize and/or supplement the program, future research should ask: *How can the government provide the most useful, credible, and current information about firms to prospective workers?*

### Firms have Poor Information about Worker Productivity

As discussed, one of the reasons for low employment of youth in the private sector may incomplete or asymmetric information about these workers, which may be due in part to their typical late entry into the labor market and lack of work experience during schooling. Several MoL policies are intended to improve the dissemination of information about job seekers to the private sector.

The various soft skills training components available to *Hafiz* recipients via *Taqat* may improve the signaling about these job seekers to potential employers by communicating job readiness. At Job Placement Centers, for example, *Hafiz* recipients' readiness for employment is assessed according to three categories: red ("need [training] support"), yellow ("nearly job-ready"), and green ("job-ready")[91]. Depending on the category, JPC officers provide the necessary job training for a period of 20 to 52 weeks to make the job seeker ready to work in the private sector.

Similar training programs intended to increase and improve worker productivity and information signaling include the vocational training programs that run under the *College of Excellence (CoE)* and the various training programs under *Technical and Vocational Training (TVTC).* These supply-oriented centers offer technical training to Saudi workers so that they can replace expatriate workers in technical jobs in the private sector. Participation in these programs signals that the prospective worker has the relevant skills to work in the private sector. These programs may be particularly useful when coupled with "big push" programs such as *Nitaqat***,** whereby private sector firms are required to hire a certain quota of Saudi labor depending on firm size and industry. *However, more research needs to be done on whether "big push" programs increase the hiring of Saudis by non-targeted firms through information dissemination.*

Direct employment programs such as the various wage subsidies provided to women (*SWJF*, *WERS*, *Telework*, and *Part-time Work*) also serve as big push policies in that they induce demand for female employees – particularly in the case of *WERS***,** whereby only women are allowed to work in stores that sell women's merchandise. The training subsidies provided by these policies, which continue for up to 12 months, can be a useful way to offset costs as employers gather information about worker productivity. Indeed, training subsidies may also be useful in identifying suitable candidates to hire at the end of the training period based on the information the employer acquires. Moreover, the establishment of networks of women in various firms may have a positive impact in improving productivity for women employees as well as improving signaling quality for those still seeking jobs.

[91] The criteria for this classification is unavailable.

The aforementioned policies are based on the premise that private sector firms can be induced to hire new lower-skilled workers alongside existing workers. However, if wage subsidies are too high, they have the potential to shift the demand to young unskilled workers in place of non-subsidized workers, who may be Saudi or foreign. In other words, policies may increase demand for new workers but reduce demand for existing workers (J-PAL, 2013). Thus, it is important to ask: *What are the short- and long-term effects of wage subsidies on targeted and non-targeted workers? What happens when wage subsidies are removed? Are there role model effects as Saudis become more engaged in the private sector?*

Similarly, the *On-the-job Training (OJT)* and *Mini Jobs/Saifi* programs provide temporary contracts targeting youth, while *CED*, as discussed, provides capacity-building interventions. These programs aim to increase the employability of youth after they graduate from secondary or tertiary education in order to smooth their transition into full-time employment in the private sector. The work and counseling experiences that they provide to participants are intended to improve information about youth and the quality of the signals about their skills and backgrounds. Although firms are usually reluctant to hire workers with no previous job experience, these temporary contracts are intended to reduce the perceived risk associated with hiring youth workers and thus to improve the demand for youth labor. *To assess their potential effectiveness, however, more research needs to be done on whether these programs provide useful, credible information about applicants to firms.*

Finally, *OJT* and *Mini Jobs/Saifi* are based on the premise that firms will invest in the training and in the development of the human capital of young participants in the programs. At the same time, such programs run the risk of incentivizing the demand for temporary jobs only because they provide lower wages and less job security than full-time jobs; hence, these interventions may lead to full-time employment in significantly fewer cases than expected or desired[92]. *Thus, more research needs to be done on whether temporary employment helps youth transition into permanent employment.*

### Human Capital Mismatch / Skills Mismatch

The goal of *CoE* and *TVTC* has been discussed above with respect to the various training elements targeting the supply side of labor in providing the skills required by the public sector and in providing potential employers with relevant information about workers to increase demand for their labor. However, the reskilling and counseling are being provided late in the development of potential job seekers, and thus runs the risk of leading to suboptimal job skills matching. One should also note that students exhibit suboptimal patterns in terms of matching their educational choices to the demands of the labor market. Therefore, continuing research needs to focus on the potential value of early intervention in students' educational choices in smoothing the transition into the labor market. *Additionally, more research needs to be done on the impact of training programs such as CoE and TVTC on youth employment, wages, and productivity; in addition to retraining young workers for different specialties.*

[92] J-PAL, 2013

In light of the limitations on women's employment opportunities, Chapter II discussed the fact that *CED* provides information both on employment options for students and on the socially acceptable nature of private sector jobs; as such, it may be useful in providing women (and men) with relevant information about job prospects. It is unclear whether *CED* is offered to youth at an early age during school years or later, during or after tertiary education*. In any case, more research needs to be carried out regarding the impact of this policy, if any, on educational choices, as well as its impact on job placements.*

# CHAPTER VI:

# MATCHING IN MARKETS

A critical factor in ensuring any market works well is ensuring that the process of intermediation – or the matching of supply to demand – happens effectively and efficiently. The considerable success of researchers in designing such matching systems – whether it be how best to allocate scare resources across multiple usages, how to allocate students across colleges, or workers across employers[93] – is a testament to how important this intermediation process is.

In the Saudi context such matching in both the skills and labor markets is especially challenging given that individuals and educational providers/firms face limited and often not very credible information. Compounding this is the fact that market players are relatively new and inexperienced, and may also hold specific preferences that may lead to increasing the mismatch between the supply and demand sides in these markets.

This chapter sheds further light on these issues. In Section A we first draw on available data to shed light on the context and potential challenges faced in matching. In Section B we describe current policy interventions in light of these challenges and a broader analytical framework while also highlighting areas where further work may be valuable.

## A. Context and Diagnosis: Suboptimal Matching in Skills & Labor Markets

This section sheds light on some of the matching frictions that may be relevant for both the Saudi skills and labor markets. While there is limited data that directly captures such frictions, an exploration of educational and occupational choices, employee characteristics and employer behavior suggests substantial distortions may exist.

### Skill Choice and Occupational Opportunities

An important first step in entering the labor market is in acquiring the right set of skills that are able to best match the individual's aptitude and interest while also providing meaningful employment/self-employment opportunities. While this process can start as early as secondary education, these decisions are more consequential at the higher education level.

In Saudi Arabia, similar to most educational systems, the choice of what specific higher education degree to pursue is made upon completion of secondary education. Starting in 2007, university admissions required students to take the General Aptitude Test (GAT) and, if they plan to study engineering, medicine, or other science-related programs, the Standard Achievement Admission Test (SAAT). These tests along with secondary education grades constitute the basis for university admission, though students apply to each university directly.

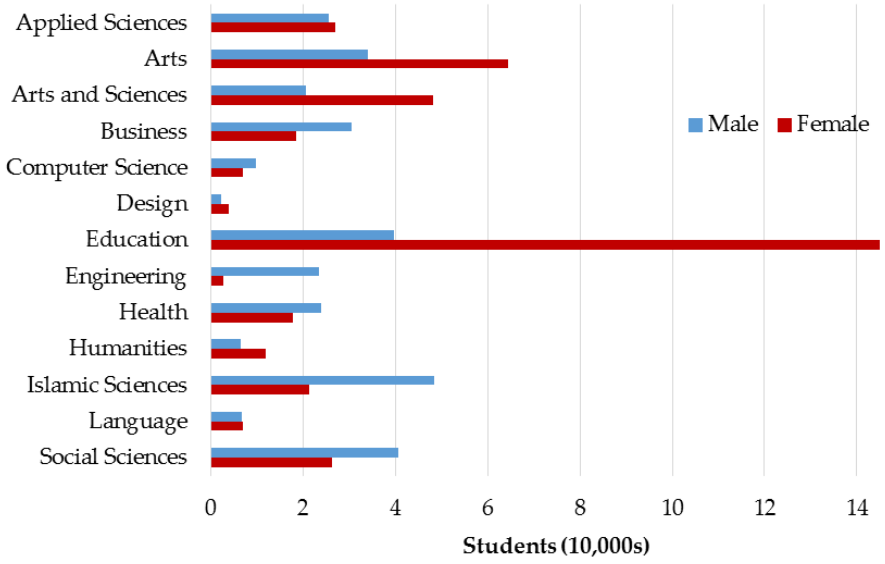
Students are sorted into general secondary education and vocational/technical training. The former allows individuals to then apply to public and private universities, and makes them eligible for the King Abdullah Scholarship for studying abroad. Students are allowed to pick a field of their choosing, though are restricted to non-science related fields if they did not take or did not perform well in the SAAT. Individual institutions are also allowed to require examinations for certain fields.

[93] Roth, 2002

It is difficult to ascertain how well the process of matching students' aptitude and interests to universities functions since separating the demand for specific fields from the opportunities supplied by educational institutions is problematic. In addition, data on admissions and acceptance rates is difficult to obtain, making it difficult to gauge how often students are turned away in the matching process.

However, the fields of study in higher education provide some preliminary evidence. Drawing our focus to the 24 public universities in the Kingdom, we see that while women make up a significant fraction of higher education students in public universities (56 percent), their educational decisions seems to be highly skewed, especially when compared to those of men. More than a third of the women are studying in education and teaching faculties (over three-fold the number of men). In contrast there are extremely low numbers of women in engineering (an eighth of the number of men).

*Figure 1: Saudi Public University Students by Gender, 2011*




*Source: Ministry of Higher Education, 2011*

While these patterns could be reconciled with personal preferences, choices and employment options, it raises the question of whether these are more likely due to failures in matching preferences to opportunities. For example, and as examined earlier in Chapter IV, while work-life balance and similar considerations certainly play a role, it is unclear whether these desires limit individuals only into education-related fields or path dependencies in this matching process creates such a skewed distribution of women. In other words, individuals' preferences for a work-life balance when considering an occupation may have lead in the past to sizeable investments in women's faculties for teaching and education and, at least initially, adequate work opportunities especially in the public sector. Because of the availability of such opportunities for women, women may feel compelled to take the path of least resistance in the skill market than consider other areas that can offer similar work-life balance outcomes to the teaching field.

However, as such opportunities diminish, and the evidence suggests that this is increasingly the case, it is unclear whether the skills attainment choices individuals make and the skills that universities offer are best able to meet the needs of the market.

While we do not currently have similar data on other training opportunities, a lack of clear information on returns to training in the form of labor market outcomes may lead to suboptimal investment in certain fields due to societal beliefs about returns.

**Students, especially women, may be choosing fields and training opportunities without clear knowledge of the pecuniary and non-pecuniary returns to alternative fields.**

More broadly, if signals about job opportunities, student and institution quality are imperfect or are slow to change, then an equilibrium may arise where colleges are catering to student demands but the skills being provided are not likely to lead to effective employment.

Thus the challenge in the skills market is not only to create mechanisms that can help individuals make the right choices and universities the right admission decisions, but to ensure that these choices and decisions are informed by both the existing and, more difficulty, potential returns to these skills. Thus overall efficiency in the skill market is also closely linked to outcomes in the labor market, where demand for certain skills by firms need to inform the skills supplied and demanded in the skill market.

Given this, we now turn to understanding frictions that hinder matching individuals to work opportunities in the labor market. A more thorough discussion on skill and human capital acquisition and associated market frictions and failures can be found in Chapter I.

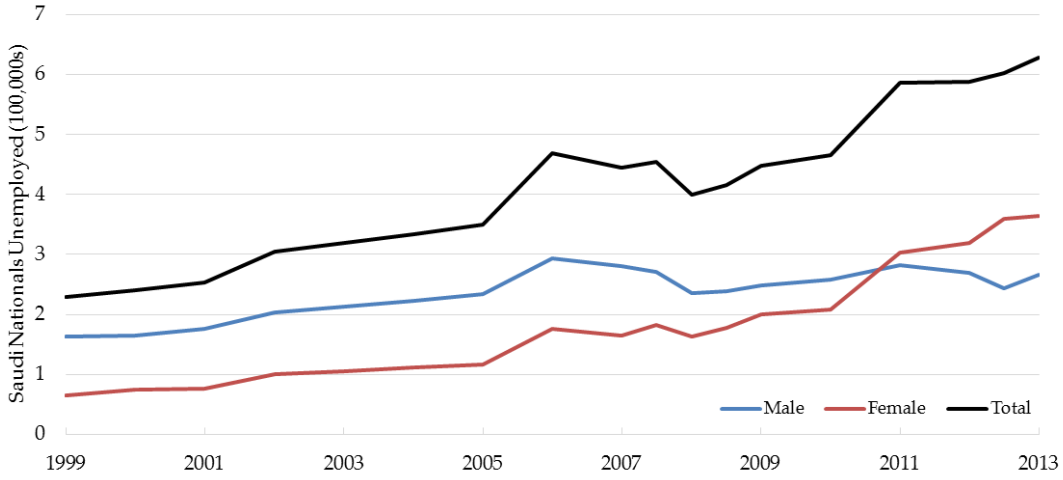
### Employment & Employee Characteristics

In order to understand how best to facilitate the matching between those seeking jobs and those offering these jobs, one needs to have a sense of employment trends and employee characteristics.

Below we show that a challenge facing the labor market is that there are an increasing number of individuals who are unemployed and need to be matched to suitable employment opportunities. The matching problem is further exacerbated by the fact that the majority of these job seekers are women and youth: both of whom are new entrants into the labor market with limited resources and experience.

As discussed in previous chapters, there has been a substantial rise in unemployment in Saudi Arabia over the past few years – with an almost tripling of those seeking jobs in the past decade (see Figure 2). The number of unemployed Saudi nationals is also growing primarily as a result of the increasing number of unemployed women in the labor market.

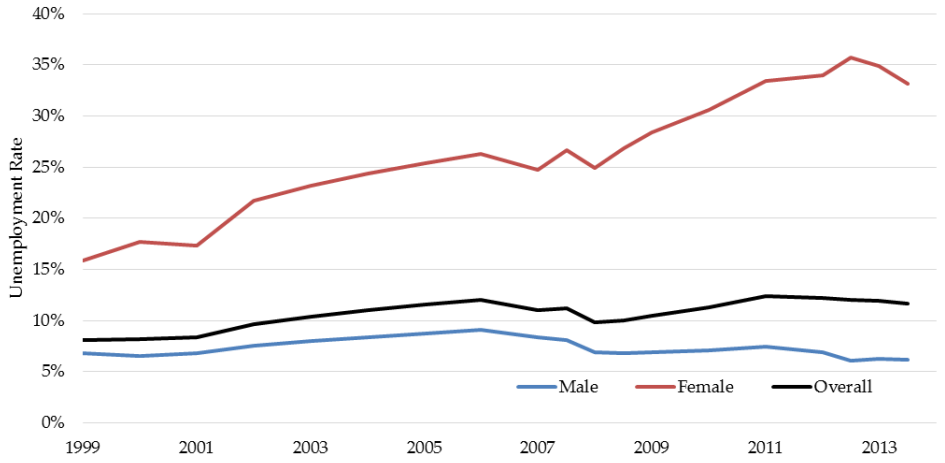
*Figure 2: Number of Saudi Nationals Unemployed, 1999-2013*




*Source: CDSI Labor Force Survey, 1999-2013 Round 1*

The labor market has been able to absorb the increasing number of male labor market entrants to keep the male Saudi unemployment rate at approximately 6 percent. For women, however, the labor market has not been able to keep pace, growing from 16 percent in 1999 to 33 percent in 2013. Thus there is a substantial mismatch between workers and firms for female workers.

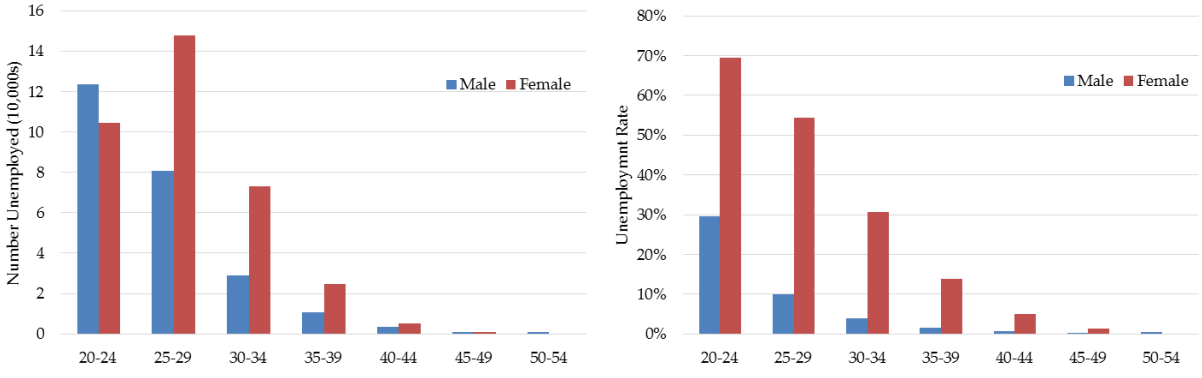
*Figure 3: Unemployment Rates of Saudi Nationals, 1999-2013*




*Source: CDSI Labor Force Survey, 1999-2013 Round 1*

Disaggregating the unemployment patterns by age reveals yet another challenge for the labor market: the majority of those unemployed are young. Approximately 70 percent of the unemployed are between the ages of 20 to 29. Not surprisingly, unemployment rates are also the highest amongst these younger populations. Examining by gender shows that the problem is perhaps even more severe for men – with the largest fraction of men job seekers in the 20-24 year age group – a cohort which also sees one of the highest (close to 30 percent) unemployment rates.

*Figure 4: Number of Unemployed Saudi Nationals & Unemployment Rates by Age, 2013*



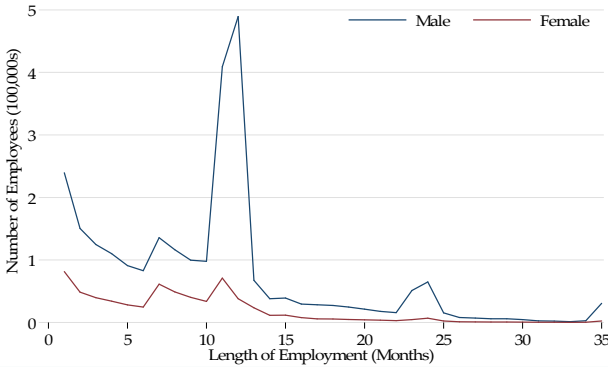

*Source: CDSI Labor Force Survey, 2013 Round 1*

**The unemployment trends above show that the overwhelming majority of individuals are new entrants to the labor market likely seeking their first professional experience.**

New entrants are very likely to face difficulty in signaling their skills and potential productivity given their lack of previous work experience. The inability of new entrants to credibly signal skills (without the benefit of having previous work experiences) may create frictions in the matching process that leads to lower levels of hiring or low quality matches. Without the ability to correctly interpret the potential productivity of a worker, firms may be reluctant to hire Saudi nationals, especially if preexisting beliefs about Saudi productivity creates impetus for statistical discrimination.

In addition, examination of employment patterns also raises concerns regarding the quality of the initial match. Saudi employment tenure is short, with more than 81 percent of private sector employees leaving their position before their first year.

*Figure 5: Employment Tenure by Gender, Jan. 2011-Nov. 2013*




*Source: GOSI Database, 2013*

In 2012, the turnover rate, or the number of individuals who left their position relative to the number of individuals working, was 64.8 percent. In other words, more than half of all individuals employed in the private sector left their jobs in 2012, raising concerns about whether matches are optimal.

**The short job tenure, the high rate of turnover, and the large ratio of minimum wage earners suggest that even when individuals get employed, the match quality between workers and employers may not be sufficient to sustain the match.**

### Breadth of Educational Attainment and Experiences

Given that employers are faced with job seekers who have limited work histories (youth and women), there is likely an increasing reliance on educational qualifications and performance in order to facilitate the hiring process. Firms require credible information on skills and capabilities to make effective hiring decisions. Information on educational institutions attended, grades, field of study, etc. can provide indicators of ability or productivity. This is especially important in the absence of other credible signals of worker quality (such as work experience).

However, one of the recent strengths of the educational system – the opportunity for Saudi citizens to access a range of national and international educational opportunities – paradoxically can present an additional challenge for employers in differentiating the array of educational experiences individuals may have had.

Specifically, with the recent investments in higher education, the number of institutions and fields of study has expanded considerably. This expansion covers both vocational institutions such as *Colleges of Excellence*, public, and private higher education institutions such as King Abdullah University of Science and Technology (KAUST). This requires firms to be increasingly aware of not only student performance at such universities, but also the quality and reputation that an institution provides. In other words, simply knowing that a student performed well in a university may not be enough – firms may also need to know the overall quality of the institution and the curriculum (i.e. the skills imparted).

Moreover generous scholarship programs – such as the *King Abdullah Scholarship Program* which provides students scholarships to study abroad – have also expanded the breadth of required knowledge on educational quality. The expansion of candidates' institutions and degrees requires employers to understand the curricula of a global list of institutions, fields of study, and grading methodologies. With over 57,000 scholarship recipients in 2010 going to over 30 countries,[94] this may create an onerous burden on firms to ascertain worker quality through educational signals.

Firms therefore face a whole array of potentially noisy signals of educational quality, leading to unclear assessments of candidates' quality and achievements. The weak signals of new entrants' productivity, as discussed above, coupled with unclear educational quality can lead to informational market frictions that lead to suboptimal matching outcomes in the labor market.

**Firms require credible and differentiable information on candidate educational qualifications but the increasing number and variety of educational options may make such information costly to gather or interpret.**

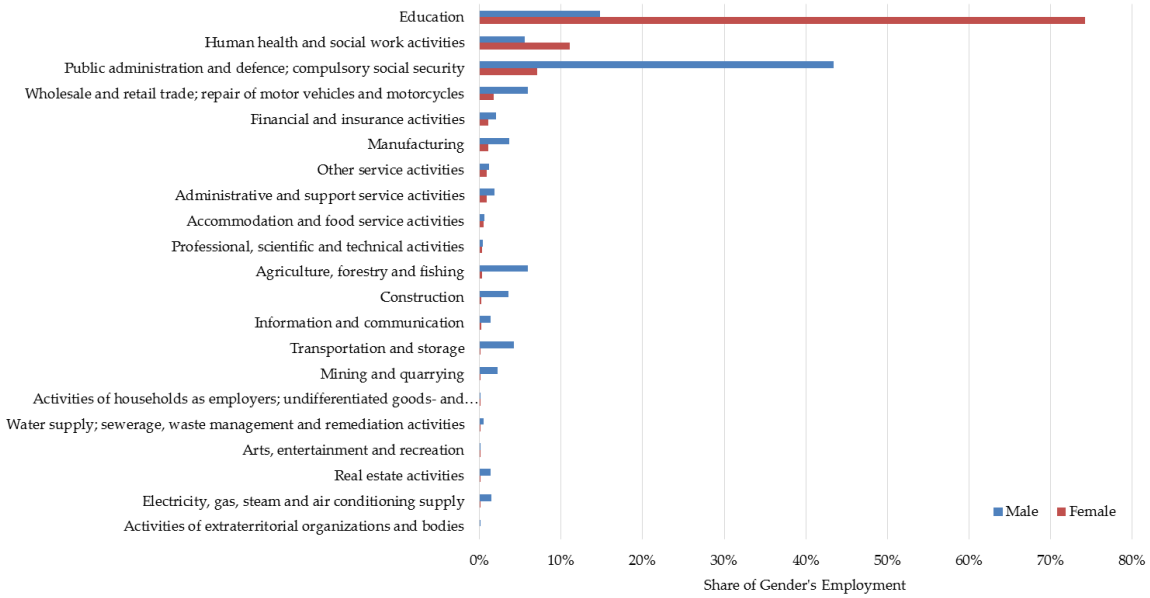
### Job Preferences

While information certainly plays a role in matching outcomes, the preferences over characteristics of a potential employment opportunity can create additional challenges in matching.

[94] Ministry of Higher Education, 2010

In the Saudi context, in addition to the requirements of an ideal job an individual may have in terms of work conditions, compensation and career trajectory, social expectations and cultural factors may play a large role in determining candidates' preferences. As discussed in Chapter IV, women are especially likely to have strong preferences for a work-life balance given cultural norms about gender roles. This is reflected in employment trends, where more than 70 percent of women are employed in the education sector – a field traditionally viewed as providing flexibility in balancing familial responsibilities while being socially acceptable.

*Figure 6: Share of Male/Female Employment by Sector, 2013*




*Source: CDSI Labor Force Survey, 2013 Round 1*

Youth in Saudi Arabia, the other significant category of job seekers, may also have specific and potentially unrealistic expectations. A survey on youth perceptions of jobs, for example, found that over 81 percent of respondents viewed a job title as an important determinant in pursuing job opportunities.[95] As is typical of a generous welfare state, starting salary expectations is likely higher than would be the norm leading to extended job search phases and likely higher unemployment durations.

More generally, social status also plays a significant role in the occupations that Saudi nationals seek. Saudi nationals may be unwilling to pursue some occupations for fear of degrading social status.[96] It is unclear, however, how extensive these beliefs may be, and requires further study. While Saudization policies aim to lower the dependence on migrant workers, social status considerations may lead to strong preferences against taking on work previously done by migrant workers. Thus social and cultural preferences may significantly limit the scope of acceptable matches for candidates.

[95] Alzalabani & Nair, 2013
[96] Ramady, 2013

## Hiring Considerations

Preferences for the types of firms, positions, amenities or benefits provided also plays a crucial role in efficiently matching workers to firms. This is especially true in the Saudi context, where there are significant differences in wages, benefits, and social status both along public-private lines and between Saudi nationals and migrant workers. As seen in Table 1 below, wages for Saudi nationals are up to six times higher on average than non-Saudi workers.

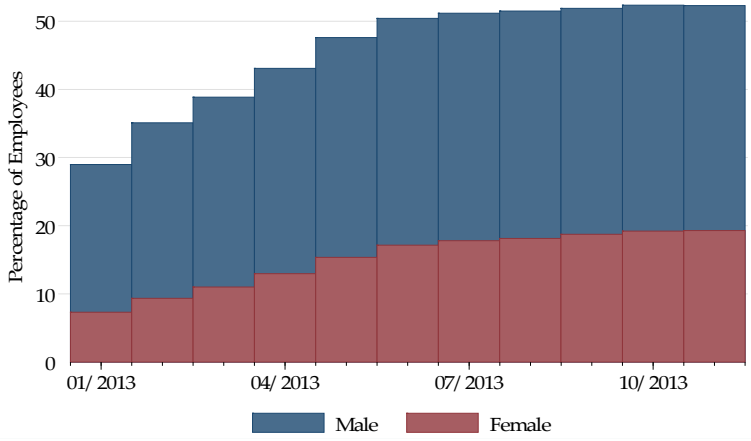
*Table 1: Average wages in the Saudi private sector in SAR, 2004-2012 (adjusted for inflation)*

| Years | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **Saudi** | 4,701 | 4,152 | 3,777 | 3,624 | 3,394 | 2,839 | 3,031 | 4,495 | 3,922 |
| **Non-Saudi** | 1,116 | 1,101 | 1,113 | 1,011 | 950 | 1,220 | 907 | 797 | 768 |

Source: Ministry of Labor annual statistical yearbooks 2007-2012, Hertog (2012)

While quota programs like *Nitaqat* promote Saudi nationals' involvement in the private sector, the wide disparity in wages between Saudi nationals and guest workers may mean that firms primarily hire workers to fill quotas rather than for their productivity. This is evidenced by the distribution of wages and occupations. More than 50 percent of Saudi nationals are paid the minimum wage for firms to factor them towards their *Nitaqat* quotas, and the top occupation with the greatest growth since the introduction of *Nitaqat* quotas is "follow up man," or the equivalent of a courier, with more than 63,000 individuals.

*Figure 7: Percentage of private sector employees paid the minimum wage, Jan. 2013 – Nov. 2013*




*Source: CDSI Labor Force Survey, 1999-2013 Round 1*

These two facts together – that most firms need such specific skills (i.e. a "follow-up" man) and that these occupations would be paid exactly at the minimum wage – are hard to reconcile with unconstrained productivity-maximizing behavior and is far more suggestive of firms simply trying to meet their "quota" and therefore ignoring the potential quality of the match. Moreover, to the extent that workers also realize this, they may also view the job in a similarly disinterested manner leading to little effort in finding the ideal job. This could also be one of the factors behind the short employment tenure and high job turnover in Figure 4 above.

**Hiring considerations that privilege one group could potentially lead to undesirable outcomes where neither firms nor workers care about the quality of the match leading to poor match quality and shorter employment spells.**

### Synthesizing Labor and Skill Market Constraints to Matching

Our discussion of the frictions faced during the matching process brings to light several overarching constraints to keep in mind in the Saudi Arabian context. Since matching brings together the agents behind the supply and demand in the skills and labor market, factors that hinder this intermediation process will lead to poor matching. The above discussion highlighted the following factors:

1) Incomplete information in the skills market: Both individuals acquiring skills and institutions offering courses may be making decisions with limited information on returns to alternative fields that may not reflect the realities in the labor market.
2) Lack of credible skills information in the labor market: Firms and candidates require credible information on skills for high quality matches in the labor market to occur, but such information may be costly to gather or interpret. The problem is particularly enhanced by a large fraction of workers entering the labor market for the first time and an increasing array of degrees that may be hard to distinguish between.
3) Incompatible preferences between workers and firms: Saudi workers' expectations about pay, working conditions and career objectives may not match what firms are willing to offer, leading to situations of either matches not occurring or, when they do, not lasting for long since the matches were made to meet quotas as opposed to maximizing match-value.

## B. Policy Responses: Accreditation and Information Provision

We now discuss labor and skill market design and matching policies in light of the constraints introduced above. A detailed description of the policies discussed can be found in the Appendix.

Matching results in the skill and labor markets will necessarily interact as an individual moves from one market to the other. Optimal matches must therefore occur in both markets for efficient allocation of labor in the economy. Discussing the markets separately for the time being, however, provides a framework to evaluate and develop policy responses.

*Table 2: Matching frictions and related policies*

| | Policies | | | |
|---|---|---|---|---|
| | Taqat | Nitaqat | Career Education Development | Saudi Skill Standards |
| **Incomplete Information in the Skills Market** | | | ✓ | ✓ |
| **Lack of Credible Information in the Labor Market** | ✓ | | | ✓ |
| **Worker & Firm Incompatible Preferences** | | ✓ | ✓ | |

### Obstacles to Skills Market Matching: Incomplete Information in the Skills Market

In the skills acquisition market, the quality of a match between a student and a degree or training program depends not only on students' preferences for the training and their aptitude, but also on being able to choose the right program given their skills and career goals. This therefore requires foresight by a skill market entrant to make an early decision knowing the expected outcome. Effective policies need to focus on reducing the uncertainty associated with the returns to skill attainment, while also providing guidance on which skills to obtain for each career goal.

*Saudi Skill Standards (SSS)* addresses the latter by providing guidance on obtaining skills that popular occupations require. It also provides accreditation that affiliated training programs meet or exceed the skill demands of the private sector. This directly addresses both better tying of skills provision to market needs and also helping individuals navigate skills acquisition. However, it is important that this information and accreditation be provided in a way that is compatible with the interests of individuals, skill providers and potential employers. In other words, employers should want to express demands for skills so that they can find better workers, and skill providers should be willing to get accredited since that would make them achieve better student placements and, in turn, attract better students.

In addition, while such a policy would be able to match current employment needs, by design it is more challenging to have it address future needs since those employers may not yet even exist or realize the demand for the skills that they may need in the near future. As such it may be important to have some amount of flexibility and room for valuing skills that may currently have low demand, especially in the Saudi context, but are areas where one could imagine future growth. We discuss this issue in more detail in Chapter I.

*SSS* also provides matching services through private career development service providers who match individuals to training programs based on the candidates' interests or potential career matches. The program relies on the knowledge of career development service providers to match individuals with prospective careers and related training programs. While clearly helpful, a challenge with such a system is that its effectiveness is reduced if the information to ascertain the quality of a potential match (such as aptitude, work ethic etc.) may not be readily available. *This raises an area of further work: what types of information are most valuable in ascertaining the quality of a potential match of a student to a training program and can these potentially non-cognitive quality measures be readily provided?*

Finally, a successful approach that has been used in other developed economies has been to create effective allocation/matching mechanisms where desirable matches are made by individuals expressing their educational preferences, and educational providers selecting amongst those individuals who rank the institution highly. As *SSS* continues to evolve, it may be worth drawing insights from this matching literature and allow individuals and institutions to find better matches through such systems rather than through a more top-down approach. *An interesting area to explore in this context would be to also allow for an additional party – for example potential employers – to be also able to express their preferences in the allocation system in addition to students and skills providers.*

### Obstacles to Labor Market Matching: Lack of Credible Skills Information in the Labor Market

Informational constraints in the labor market – faced both by firms and by candidates – are primarily targeted by information provision. To add credibility to such information, the Ministry of Labor is also engaging in accreditation mechanisms that will design the provision of vocational skills based on firms' skill demands.

In the first case, *Taqat* provides a centralized marketplace where job seekers can access postings and find information about firms and where employers have access to data on applicants. Job seekers and employers are also provided access to the portal through recruitment offices, call centers, and job fairs. Candidates are sourced from the *Hafiz* program, and are also provided with employability training, such as CV writing, interviewing skills, etc. One challenge in such systems is being able to provide credible signals to firms regarding the ability, skills, or desire of the candidate to work in the private sector. It is especially difficult to ascertain whether candidates are actively looking for work given that candidates are sourced from *Hafiz*, a program that may not be catching active job seekers (see Chapter II). *Research is therefore needed on how mechanisms can be designed to improve matches between employers and job seekers through such job search engines.*

As noted above, *SSS,* on the other hand, attempts to provide similarly skilled employees to firms by surveying and defining the typical vocational skill needs of employers in major industries. The program defines core expectations from an employee for a subset of occupations that are attractive to young Saudi nationals (i.e. due to the wage rate, benefits provided, etc.). The information gathered from this initiative is then used to design curricula for vocational training institutions to ensure that such institutions meet the needs of the private sector. This program, by focusing on measuring more tangible skills, does address one important need of helping clear the market by providing credible information on skills. However, much like matching under *Taqat*, to the extent that firms want to know more than just whether the workers have acquired the relevant skills but also cares about worker reliability, work ethic, ability to work in teams, take initiatives etc. it is important that the skills standards try and also address these needs. *Further research can help shine light on what types of information are the most valuable in signaling the quality of a potential match and whether initiatives like SSS can provide the degree of credibility and type of information that employers may be looking for.*

### Obstacles to Labor Market Matching: Incompatible Preferences between Workers and Firms

Incompatible preferences among job seekers and employers can make matching difficult. Firms may prefer not to hire Saudis based on beliefs about productivity, whereas Saudi nationals may not prefer to hire at private sector firms because of beliefs about working conditions. These strict preferences can severely limit the number of acceptable matches. Women, for example, may prefer to only work in environments that are female-only. This constraint creates scope for policies that improve outcomes by helping allay some of the (potentially misplaced) concerns both workers and firms may have.

*Career Education Development (CED)* provides job seekers and employees with career exploration services, enabling both a candidate-focused process for discovery of interests, strengths and weaknesses, along with an exposure component that provides candidates with information on other roles and functions to consider based on the candidate's interests and background. While this program

does provide guidance on matching training programs to candidates' interests (discussed below), there is no explicit matching component between firms and candidates. The primary assumption behind the program is that the supply side of the labor market, or job seekers, is missing information on alternative fields and careers. However, firms, due to their limited exposure to Saudi nationals, for example, may also face incomplete information in hiring alternative (or, in this case, Saudi) candidates. *Research can further shine light on the extent of the knowledge deficiency in pursuing non-traditional careers or hiring from groups with which firms have limited engagement, and which agents in the market (firms or job seekers) face the most inhibiting informational constraint.*

Quota policies like *Nitaqat* create incentives for private sector firms to hire Saudi nationals, and can help educate the firms with regards to the quality of Saudi job seekers through mandating that firms gain exposure to them. These are similar to affirmative action policies that help reduce statistical discrimination. Moreover, such policies can also help on the labor supply side as more Saudis working in the private sector may change social norms regarding private sector work. The extent of these indirect effects, however, is unclear. Moreover, to the extent that firms view these policies as a tax and workers consider them a 'free-ride', one could instead obtain the exact opposite and undesirable outcome where firms' prejudices are further exacerbated and workers' grievances increased as neither find themselves to be in a desirable match. *Further research can provide evidence on whether policies that may affect preferences by instituting hiring quotas, such as Nitaqat or the Women's Employment in the Retail Sector, expand or contract the set of possible matches.*

# APPENDIX:

# POLICY DESCRIPTIONS

## 2400 SAR

**Description**
This policy levies a flat fee of SAR 200 per month for every expatriate employee exceeding the number of Saudi employees at private firms. The fee is designed to increase the costs of employing expatriates, particularly at low wage rates, and to make hiring Saudi workers more attractive. The policy currently allows exemptions for very small companies (fewer than 9 employees) and construction firms, where the Saudi share of employment has historically been extremely low.

**Objectives**
1. Induce private companies to hire more Saudi employees
2. Decrease employment of expat workers at the lowest wage and skill levels

**Target Beneficiaries**
Saudi job seekers

**Eligibility**
Private sector firms hiring more expat workers than Saudis

**Size**
The private sector has paid around SAR 15 billion in fees as of 2013.

**Timing and Status**
The government first introduced this program in late 2012.

**Linked Programs**
- *Nitaqat*

**Data and Monitoring**
- *Nitaqat*
- GOSI

**Implementation Entities**
- MoL: Dr. Amre Massoud

## Career Education Development

**Description**
This program is designed to match job seekers with government-sponsored training programs and educational opportunities. These training opportunities are grouped into five categories: overall capacity building, secondary education, university, vocational colleges, job seeker skills, and career change counseling. Private career development service providers counsel job seekers in choosing a training program depending on their career goals and current skills. Counseling services are supported by HRDF.

**Objectives**
1. Facilitate lifelong learning and career-building for Saudis either currently looking for jobs or hoping to change careers
2. Match people's skills and interests with available education and employment opportunities

**Target Beneficiaries**
All Saudi people

**Eligibility**
1. Service providers include eight companies selected by HRDF based on their service proposals
2. Beneficiaries will be selected by individual screen process of service providers

**Size**
In addition to those who receive general capacity-building through short-term counseling, service providers expect to refer 11,000 to additional secondary education, 11,000 to university-level and vocational training programs, 26,000 to job seeker skills, and 1,000 to counseling regarding changing careers.

**Timing and Status**
This program is planned to be initiated in 2014 and continue over the long term.

**Linked Programs**
This program is linked with all training program and job placement program in MoL+.

**Data and Monitoring**
N/A

**Implementation Entities**
- MoL, Human Capital Development: Maha Taibah
- BCG
- Miles Morgan

## College of Excellence

**Description**

*CoE* is a privately operated government-owned entity aimed at fostering the partnership between the public and private sectors. It provides technical and vocational training provided by contracted international colleges from different countries. *Saudi Skills Standards (SSS)* has been created as a new independent regulator to conduct quality assurance across these colleges (see *Saudi Skills Standards*).

*CoE* offers a three-year diploma. In the first year, classes focus on English training[97], computer skills, communication, and other soft skills. During the remaining two years, students choose from a range of majors. Majors, curricula, and college locations reflect current market needs and trends. Majors currently offered include: electrical technology, information technology, mechanical technology, construction, administration and business, fashion and beauty, food technology, automotive and transportation, and tourism and hospitality.

Financial rewards are granted to colleges and the amount is calculated considering the following:

1. Students' performance score evaluated by *SSS*
2. Salaries *CoE* graduates receive upon employment
3. Evaluation of quality of curriculum and facilities by *SSS*.

**Objectives**

1. Improve vocational training curricula
2. Promote enrollment at vocational training institutes

**Target Beneficiaries**

All Saudi high school graduates

**Eligibility**

1. Students must be accepted into colleges through their regular admission process
2. There are currently 10 colleges under contract that meet the requirements of Saudis Skills Standards for inclusion in the program.

**Size**

There are currently 10 colleges (six for men and four for women) hosting around 5,000 students. The second round of enrollment is expected to commence in September 2014 adding 27 additional colleges (13 for men and 14 for women). The long-term goal is to target 420,000 students by 2023 and continue to improve the quality of vocational training.

**Timing and Status**

The first round of the program started in September 2013 offering English language training. The first batch of students is expected to graduate in 2016. Significant scale-up is planned for September 2014.

**Linked Programs**

1. *TVTC*: oversees the program as part of its mandate to provide nationwide vocational training

[97] Students have to pass the Cambridge language proficiency exam.

2. *Saudi Skill Standards (SSS)*: sets guidelines for vocational training, assesses the quality of education offered by international providers, and supervises tests for students
3. *Doroob*: develops online curricula used by the colleges

**Data and Monitoring**
*CoE* collects data on students' background information, attendance, dropout rates, and test scores.

**Implementation Entities**
- *College of Excellence*: Dr. Mohammed Almajed
- *Saudi Skill Standards*: Geoff Carroll

## Daycare Centers

**Description**
Firms employing more than 50 women are required to provide dedicated caregivers to attend to employees' children under the age of six, if there are more than ten such children. A firm employing more than 100 female employees in the same city is required to establish a nursery, which can be done jointly with other firms. The pilot program will set up daycare centers in four locations: malls, standalone shops, companies, and universities.

**Objectives**
1. Encourage women to pursue jobs in the private sector
2. Help working women sustain their jobs in the private sector

**Target Beneficiaries**
Women working in the private sector

**Size**
N/A

**Eligibility**
All private sector firms employing more than 50 women are required to provide on-site childcare

**Timing and Status**
It currently is in a pilot stage, with daycare centers expected to open in 2014.

**Linked Programs**
This program is meant to complement other policies aimed at increasing female employment in the private sector. These include:
- *Women Employment in Retail Sector*
- *Support Women's Jobs in Factories*

**Data and Monitoring**
N/A

**Implementation Entities**
Takamol

## Doroob

**Description**
*Doroob* is a job-preparation program that targets students and job seekers. It provides general courses and industry-specific skills. General courses include English skills, improving motivation and work ethic, CV writing and interview preparation. Industry-specific courses are for information technology, retail, and health industries.

The program offers 10 online courses each lasting 10 weeks. Certificates are awarded upon successful completion of the program in each area covered by the course. Students with certificates in retail courses are fast-tracked to on-the-job training opportunities with participating companies.

**Objectives**
1. Enhance functional skills and employability of Saudi youth
2. Develop online-learning program to complement other training programs

**Target Beneficiaries**
All Saudi job seekers with a focus on youth.

**Eligibility**
1. General courses are open to everyone
2. Advanced courses are only for university students and university graduates

**Size**
The program will have a budget of SAR 750 million. In September 2014, the pilot program will offer 10 online courses, targeting 25,000 applicants and 2,500 users completing at least one online course.

**Timing and Status**
The initial rollout of the program is a pilot and was launched in December 2014 with the main program starting in 2015. During the pilot stage, the focus will be on developing an e-learning curriculum, making connections with the *On-the-job Training* program, and creating certification exams. The second stage will add mentoring programs with it ultimately extended for use in short courses, career education development, mini jobs, entrepreneurship, and job search preparation.

**Linked Programs**
1. *Career Education Development*: mentoring system for career development
2. *Mini-jobs*: mini-jobs workers will benefit from online learning
3. *On-the-job Training*: helps employers build on-the-job training modules
4. *Colleges of Excellence*, universities: physical facilities for hosting Doroob Certification Tests

**Data and Monitoring**
1. Online service providers will collect basic demographic and socioeconomic data on all Doroob participants at the time of registration
2. GOSI has information on Saudis employed in the private sector
3. *Hafiz* provides information on unemployed Saudis

**Implementation Entities**
- Takamol: Nabil Tuker

- McKinsey & Company

## Female Transportation

**Description**
Because women are prohibited from driving in the Kingdom, they must either find a male family member to drive them to work or hire a driver at significant expense (around USD 800 per month). Saudi Arabia has no public transportation options even in the largest cities, and most urban spaces lack pedestrian pathways. The Ministry of Labor is planning on subsidizing transportation for working women to help them retain their jobs and encourage unemployed women to seek employment.

**Objectives**
1. Increase women's overall employment
2. Solve transportation challenges of reliability and safety

**Target Beneficiaries**
1. Female workers who need to commute to work but cannot afford hiring a personal driver
2. Employers who are unable to subsidize transportation for female workers

**Eligibility**
All Saudi female workers

**Size**
The policy aims to offer subsidies to 363,000 women.

**Timing and Status**
The pilot commenced in the first quarter of 2014 and will continue throughout 2015 targeting 77,000 female workers employed in education, manufacturing, and retail. Depending on the outcome of the pilot, the policy will be offered nationwide by the end of 2015.

**Linked Programs**
*Limousine Project*: Accredited taxi service with intensified criteria of safety and hygiene

**Data and Monitoring**
N/A

**Implementation Entities**
- Takamol: Mazin Alshanbari
- Elixir

## Hafiz 1 (UA-1)

**Description**

*Hafiz* is an unemployment assistance program that offers support of up to SAR 2,000 per month[98] for a maximum of 12 months to active job seekers, conditional participating in HRDF training and maintaining an active job search. It functions both as training and as a job placement initiative. The program requires participants to complete weekly online check-ins to maintain their profiles. This helps to target benefits at active job seekers and gathers data (such as up-to-date education and skills information) needed to help locate suitable work opportunities and training options.

The monthly stipend is intended to cover the cost of transportation and other expenses associated with the job search. Through this mechanism, the program functions both as a "safety net" for active job seekers and as an incentive for individuals who have never worked to seek employment (i.e., by making them accustomed to earning a monthly salary and by incentivizing them to continue to seek employment). In that sense, it also contributes to female employment by bringing women into the labor force.

Each program participant is eligible for a stipend of SAR 2,000, minus his or her average monthly income from any small jobs and other government assistance[99] that don't affect eligibility of beneficiaries.

The *Hafiz* database is used to help match participants with potential employers via various employment channels that are linked to the program's online portal. *Taqat*, which primarily targets *Hafiz* participants, is the main employment channel (see *Taqat*). *Hafiz* also runs concurrently with *TVTC* initiatives to provide relevant skills and training to increase participants' employability (see *TVTC*).

**Objectives**

1. Provide financial and employment support and incentives to job seekers in the private sector
2. Provide training in skills required by the private sector
3. Match job seekers with suitable jobs

**Target Beneficiaries**

Unemployed male and female job seekers from low-income households

**Eligibility**

Initial applicants must fulfill all of the following conditions:

1. Saudi nationals between the ages of 20 and 35
2. Job seekers with average income of less than SAR 2,000 for the 12 months prior to application
3. Must not be employed in the private or public sector
4. Is not a student or undergoing any form of training[100]
5. Is not a business owner earning benefits or assistance over the SAR 1,500 monthly stipend
6. Is not eligible for a pension or any other unemployment benefits

[98] SAR 2,000 is the average wage earned by less-educated Saudi employees.

[99] For this calculation, income is considered to include any fixed or movable assets, stocks, bonds, or shares in companies, any benefit or expense allowance received as a result of a court decision, social security benefits, inherited pension or social security benefits, and any other benefits or incentives received from recreational activities.

[100] Exceptions exist for adult literacy, evening school, and other forms of part-time education/training.

7. A minimum of six months needs to have passed since the applicant completed (or withdrew from) an academic or training degree (12 months if the applicant was receiving government benefits/allowances during this training or education period)
8. A minimum of three months needs to have passed since the applicant left his or her most recent job

In order for a participant to continue to receive benefits, he or she must:[101]

1. Accept suitable job opportunities[102] provided by HRDF
2. Attend and successfully pass all training assigned by HRDF, including on-the-job training (maximum 28 hours per week) and distance training
3. Attend job interviews for public or private sector employment
4. Check-in weekly via the *Hafiz* website
5. Notify HRDF of job acquired or business engagements
6. Maintain an updated *Hafiz* account, including personal information and changes in income

**Size**

*Hafiz 1* is one of the most important employment programs. When it began in November 2011, there were 700,000 eligible recipients, 80 percent of whom were women. In its first full year, over five million Saudis applied to the program, and approximately two million received a total of SAR 30 billion (around USD 8 billion) in benefits; in addition, a total of 75,000 beneficiaries were provided job placements and 64,000 Saudis received counseling[103]. Currently, there are more than 1.5 million *Hafiz 1* participants who receive approximately SAR 3 billion per month in benefits.

**Timing and Status**

*Hafiz 1* was launched in 2011. *Hafiz 2* is a recent expansion of the unemployment assistance program to expand the eligibility to more age groups (see *Hafiz 2*).

**Linked Programs**

1. *Taqat* and all programs of employment channels
2. *Employer Driven Academy (EDA)*
3. *AlNahda*: training subsidy
4. *Badges*: screening active job seekers
5. Indirectly related:
   a. *Women's Employment in the Retail Sector*

[101] Participants who fail to abide by program guidelines are subject to fines in the form of a 10 percent (SAR 200) reduction in their monthly benefits. Violations include failure to check-in at least once a weekly via *Hafiz's* online portal, absence from training sessions, unsuccessful completion of training sessions; and absence from job interviews.

[102] To constitute a "suitable job opportunity," a position must:

a. Provide a minimum monthly salary of SAR 3,000, which is the minimum for full-time employees
b. The minimum pay must also take into account:
   i. Accommodation and transportation allowances, when necessary (e.g., for a work location that requires travel of more than 80 kilometers, SAR 500 is added to the minimum wage)
   ii. Any other subsidies paid by HRDF to the employer or directly to the participant such as training subsidies.
c. The job description must match the work skills of the applicant (if previously employed) and, for applicants with college degrees or higher, must match the academic qualifications of applicants who have not previously been employed.

However, these guidelines do not apply if the participant has rejected two suitable job offers and has been receiving benefits for four months or longer.

[103] Kawar & Jaafar, 2013

b. *Support Women's Jobs in Factories*
c. *Part-time Work:* legislate part-time employment for female workers to find jobs easily

**Data and Monitoring**
Demographic data is collected from applicants and beneficiaries including age, gender, and educational status in addition to previous work experiences.

**Implementation Entities**
- HRDF
- BCG

## Hafiz 2 (UA-2)

**Description**

*Hafiz 2* is an unemployment assistance program for unemployed Saudis who are above the 20-35 target age range for *Hafiz 1*. The monthly stipend for the first four months is SAR 1,500. This amount is reduced by SAR 250 at four months increments (i.e., to SAR 1,250 for months 5-8 and to SAR 1,000 for months 9-12. The maximum term of benefits is 12 months.

Similar to *Hafiz 1*, the monthly stipend is calculated by deducting the average monthly income from the *Hafiz* stipend (e.g., if a *Hafiz 2* recipient is receiving an income of SAR 500 per month, then his or her unemployment assistance stipend will be SAR 1,000 for the first four months, SAR 750 for months 5-8, and SAR 500 for months 9-12).

Participants who fail to abide by program guidelines are subject to fines in the form of a 10 percent (SAR 150) reduction in their monthly benefits. Violations include: failure to check-in at least once a weekly via *Hafiz*'s online portal; absence from training sessions or unsuccessful completion of one or more training sessions; and absence from job interviews.

**Objectives**

1. Provide financial and employment support and incentives to job seekers in the private sector
2. Provide training in skills required by the private sector
3. Match job seekers with suitable jobs
4. Provide support to job seekers outside the age range for *Hafiz 1*

**Target Beneficiaries**

1. Unemployed male and female job seekers from low income households above *Hafiz 1* age thresholds
2. Former *Hafiz 1* beneficiaries who are still unable to find jobs after completing the program

**Eligibility**

Applicants must fulfill all of the additional conditions, as well as those in *Hafiz 1:*

1. Saudis between the ages of 35 and 60 (or 20 and 35, but who are no longer eligible for *Hafiz 1*).
2. Applicants' average monthly income for the preceding 12 months must not exceed SAR 1,500 for the first four months, SAR 1,250 in months 5-8, and SAR 1,000 in months 9-12

Criteria for continuation of benefits are similar to *Hafiz 1*.

**Size**

On June 7, 2014, 191,755 *Hafiz 2* recipients received their first monthly stipend with women constituting 95 percent of the recipients (183,028). The majority (82 percent) of female beneficiaries were under the age of 35.

**Timing and Status**

Launched in February 2, 2014

**Linked Programs**

Same as *Hafiz 1*

**Data and Monitoring**

Demographic data is collected from beneficiaries including age, gender, and educational status. In addition, information on previous work experiences is also collected.

**Implementation Entities**

- HRDF
- BCG

## Job Seeker Intervention (Qarar 5)

**Description**

Job seeker intervention offers incentives for participants to leave the *Hafiz* unemployment assistance program early. *Hafiz* beneficiaries who find and maintain full-time employment within the same company are given a lump sum payment ranging from SAR 14,000 to 24,000 depending on their category, as explained in the below.

In order to be eligible to receive the maximum lump sum benefit, the participant should work and maintain a job in the same private sector company for at least 24 months.[104] Depending on their category, beneficiaries receive a lump sum cash reward after four, six, 12, and 24 months of maintaining the job, with total benefits not to exceed the maximum indicated in Table 1.

***Program beneficiaries are divided into four categories:***

1. Category 1: *Hafiz 1* participants who exited the program in less than 12 months.
2. Category 2: *Hafiz 2* participants who have not previously enrolled in *Hafiz 1*.
3. Category 3: *Hafiz 2* participants who have previously benefited from *Hafiz 1*.
4. Category 4: applicants who are not eligible to receive *Hafiz* benefits but are eligible to receive employment support benefits.

*Reward for Job Seeker Intervention by category*

| | Benefits Receipt per Category | | | |
|---|---|---|---|---|
| **Employment Duration** | **Category 1** | **Category 2** | **Category 3** | **Category 4** |
| **After 4 months** | 25% of remaining *Hafiz* 1 benefits | 25% of remaining *Hafiz* 2 benefits | 25% of remaining *Hafiz* 2 benefits | No benefits |
| **After 6 months** | SAR 4,000 | SAR 4,000 | SAR 4,000 | SAR 4,000 |
| **After 12 months** | 2 x job salary + 25% of remaining *Hafiz* 1 benefits | 1 x job salary + 25% of remaining *Hafiz* 2 benefits | 1 x job salary + 25% of remaining *Hafiz* 2 benefits | 2 x job salary |
| **After 24 months** | 3 x job salary | 2 x job salary | 2 x job salary | 3 x job salary |
| **Maximum total benefits** | **SAR 24,000** | **SAR 20,000** | **SAR 14,000** | **SAR 20,000** |

**Objectives**

1. Incentivize *Hafiz* beneficiaries to exit the program before the end of the benefit period
2. Encourage *Hafiz* beneficiaries to find and maintain employment in the private sector

**Target Beneficiaries**

1. *Hafiz 1* beneficiaries
2. *Hafiz 2* beneficiaries
3. Applicants receiving other employment benefits

**Eligibility**

[104] The applicant is still eligible for benefits if he or she leaves for another job within three months of starting the first one.

1. Between 20 and 60 years of age
2. Not employed in the public or private
3. Not a student or a trainee
4. Not engaged in running a business
5. Had an average monthly salary of SAR 2,000 or lower in the 12 months prior to applying for the reward
6. Not a recipient of other benefits, such as pension and unemployment insurance
7. At least six months have passed since the applicant was last enrolled in any educational or training program.

**Size**
N/A

**Timing and Status**
Launched in April 22, 2014

**Linked Programs**
The rewards program is linked to the *Hafiz* database (which is also integrated with *Taqat* employment channels), so once the applicant registers with this program his or her background information, job referrals, and benefits receipt history are retrieved from the *Hafiz* database to determine and calculate benefits. Workers interested in benefiting from the reward program must register within 30 days of commencing employment in the private sector and applying for social insurance via GOSI.

**Implementation Entities**
HRDF

## King Abdullah Scholarship Program

**Description**

The *King Abdullah Scholarship Program (KASP)* provides tuition and stipend support for Saudi students to study abroad. More than 30 counties have hosted *KASP* students, with most attending programs in the United States (35 percent), Canada (11 percent), the United Kingdom (15 percent), Australia (8 percent), New Zealand, China, Germany, France, and India (based on 2010 figures). The program funds students for one year of intensive English language proficiency training, with the option of undertaking a postgraduate preparatory program relevant to their intended field of study prior to enrolment in the undergraduate or postgraduate degree. The program sponsors bachelor's, master's, and doctoral degree students, as well as providing medical fellowships.

**Objectives**

1. Provide Saudi students with opportunity to complete tertiary education abroad
2. Provide Saudi students with disciplinary backgrounds and skills needed for work in the private sector

**Target Beneficiaries**

All Saudi nationals under the age of 36

**Eligibility**

1. For bachelor's degree applications:
    a. Candidates under the age of 23
    b. Enrolled in science path (or equivalent) in high school
    c. Received a minimum high school grade of 90 percent or equivalent
    d. Received a minimum score of 80 percent in the General Aptitude Test
    e. No more than three years have passed since graduating high school
    f. Received a minimum score of 5 in the IELTS English proficiency test
2. For master's degree applications:
    a. Candidates under the age of 28
    b. Received a minimum of 80 percent or an equivalent in the bachelor's program
    c. No more than five years have passed since completing bachelor's degree
3. For doctoral degree applications:
    a. Candidates under the age of 36
    b. Received a minimum of 80 percent of equivalent in the master's program
    c. No more than five years have passed since completing master's degree
4. For medical fellowship applications:
    a. Medical fellowships are only granted to high-ranking universities

**Size**

In 2010, 58,710 Saudi students pursued higher education abroad under the program, including 12,166 females and 46,544 males. The majority (26,674) were enrolled in bachelor's degree programs. By 2012, however, 71,000 Saudi students attended programs at U.S. universities alone (compared to 3,500 in 2005, when the program began), with over 35,000 enrolled in English language training and approximately 20,000 in bachelor's degree programs. In 2014, there were about 12,500 Saudi graduates from U.S. universities, of whom nearly one-half were female (5,699). Women also account for nearly 28 percent of 2014 *KASP* scholarship holders worldwide, a sizable increase from 2010, when women

represented 20.7 percent of scholarship holders. The government spends approximately SAR 9 billion each year on the scholarship program.

**Timing and Status**

*KASP* commenced in 2005 as a five-year policy. In 2007, it was extended again for two more years and a further three-year extension was issued in 2009. In 2012, Ministry of Higher Education officials announced that the program will extend through 2020.

**Linked Programs**

*Jahiz* (see *Taqat*): a matching program for *KASP* scholarship graduates

**Data and Monitoring**

The Ministry of Higher Education collects the following data from scholarship recipients:

1. Demographic information
2. High school grades
3. Name and location of institution
4. Degree and major of study
5. Educational outcomes (reports, grades, and dissertations)
6. Duration of study

**Implementation Entities**

- Ministry of Higher Education

## Mini-jobs/Saifi

**Description**
The Ministry is currently working on several initiatives under the *Mini-jobs* rubric, including summer internships (*Saifi*, i.e. "summer"), part-time work, and training.

The *Saifi* program works with private sector firms to offer on-the-job training and/or sponsor skills training programs lasting four to eight weeks. Both the companies and the students have access to *Safi's* online portal. The students can use the portal to view and select available on-the-job and classroom training opportunities. The companies are also able to recruit interns through the portal and to select from available training sponsorship opportunities.

There are two types of training offered through the program:

1. **On-the-job training:** Youth and students enrolled in the program are paid a minimum of SAR 1,500 per month by the company for four to eight weeks. They are assigned a mentor (maximum eight students per mentor) and are expected to put in four hours of work each weekday. They have the option of working on a specific project, rotating between departments, or being assigned to a specific job.

   During the internship, mentors guide students throughout the training process and evaluate their performance, including skills development in areas such as communications, problem solving, time management, and teamwork. Companies post available internship opportunities online, and students can filter their search by sector and location. Companies are also able to search for potential candidates and to filter their search by skills.

   The number of interns per firm is calculated based on the size of the firm, as shown in the table below.

*Saifi opportunities offered per firm*

| Number of Employees in Firm | Percentage of Summer Interns per Firm |
|---|---|
| 25 – 500 | 4 percent |
| 501 – 3,000 | 3 percent |
| More than 3,000 | 2 percent |

2. **Classroom training:** Private sector firms sponsor a four-week external training course. The firms can select from any of the training courses offered on *Saifi's* web portal that are licensed by *TVTC*. Firms contribute a minimum of SAR 1,500 to training per student and provide a sum of SAR 500 as bonus per student. HRDF posts relevant training opportunities online. These postings are accessible to students and firms and are prioritized and displayed in order of importance, targeting populations with limited opportunities, such as young women and students in rural areas.

***Evaluation and reward:*** A certificate of completion is awarded at the end of the internship, conditional on participants' performance and on minimum attendance of 75 percent for the duration of the

internship. Moreover, students are expected to be evaluated by their mentors twice during their on-the-job experience, once in the middle and again at the end of the training. HRDF expects mentors to develop evaluation forms for use in assessing participants' work-related skills and work ethic. Mentors are also expected to progress reports that focus on completion of learning objectives and action plans. These reports will track participants' work progress and monitor their development of communications, time management, and other work-related skills. Students who demonstrate a good track record are eligible for further, as yet unspecified rewards.

**Objectives**

1. Provide Saudi students an early start in making career choices through temporary employment
2. Create awareness of private sector opportunities and develop willingness to engage with private sector work in young students
3. Improve the work skills of new labor market entrants
4. Increase private sector employability of participants

**Target Beneficiaries**

1. Youth and new labor market entrants
2. Women and youth in rural areas with limited access to training resources

**Eligibility**

Students between the ages of 17 – 24 years.

**Size**

In 2012, 1,150 private sector firms participated in creating 37,700 positions for Saifi candidates, though only 20,800 students were matched to suitable opportunities. Female applicants represented 21 percent of the matched candidates.

**Timing and Status**

*Saifi* for university students was initiated in 2012 and continues through 2014.

**Linked Programs**

N/A

**Data and Monitoring**

N/A

**Implementation Entities**

- MoL, Human Capital Development: Lama A. AlGhrair
- HRDF
- A.T. Kearney

## Nitaqat

**Description**
One of the cornerstones of Saudi labor market policy is a nationalization quota called *Nitaqat*, or "bands". *Nitaqat* imposes nationalization targets on private sector firms based on their size and industry classification.

***Classifications:*** Firms are grouped by industry classification and size (number of employees), and ranked within these clusters according to the share of nationals making up their workforce (i.e., their level of Saudization). Firms are assigned one of four grades—Platinum, Green, Yellow, or Red—with thresholds defined differently for each industry by size cluster.

***Penalties and rewards:*** Quotas are strictly enforced and non-compliers face restrictions on work visas for foreign workers. Firms that perform well are given expedited access to Ministry services such as recruiting assistance and visa approvals. HRDF has recently instituted a program to subsidize the wages of Saudi workers at firms according to the firm's *Nitaqat* level, with firms in higher levels qualifying for greater subsidies (see *Payroll Rebate*).

**Objectives**
1. Increase Saudi employment in the private sector
2. Provide differentiated benefit to companies with higher nationalization of employment

**Target Beneficiaries**
All Saudi nationals

**Eligibility**
All private sector firms

**Size**
As of December 2013, the program applied to 238,000 firms across all private sector industries. These firms employed 1.3 million Saudis and 6.5 million expatriate workers. There were 16,000 firms in the Red band, 18,000 in the Yellow band, 189,000 firms in the Green band (distributed across three subcategories within this band) and 15,000 in the Platinum band.

**Timing and Status**
Enacted in June 2011 and currently running.
Since 2011, the program has undergone several revisions:
1. The set of regulated firms expanded to include small firms with nine or fewer employees, which were initially exempt. These firms must now employ at least one Saudi worker or have a Saudi owner.
2. The Ministry has also set a salary rate of SAR 3,000 for a Saudi worker to be considered a full-time employee; a Saudi worker being paid SAR 1,500 counts at a half rate toward the total count of Saudi employees.
3. Fines have been introduced for excess expatriate workers, and firms must pay a penalty of SAR 2,400 per year for every expatriate worker employed above the number of Saudi workers employed at the firm (see 2400 SAR).
4. The Green band has been split into three sub-categories, with increased benefits for firms in the Green band with higher rates of Saudization.

**Linked Programs**

1. *2400 SAR fees*
2. *Incremental subsidy (Qarar 7)*
3. *Ogbalak*
4. *Part-time Work*
5. *Women's Employment in the Retail Sector*
6. *Hafiz 1and Hafiz 2*
7. *Financial Employment for Small Businesses Owners*
8. *Wafid*
9. *KFNEC*
10. *On-the-job Training*

**Data and Monitoring**

To administer the program, MoL gathers weekly entity-level observations of the employment measures and corresponding quota compliance ratings used to trigger enforcement measures. The establishment-level data contains weekly totals of Saudi and non-Saudi employees, the level of quota compliance and basic firm characteristics such as industry and size category, geographic location.[105] The *Nitaqat* administrative data is complemented by the individual-level data on private sector Saudi employment gathered by GOSI. This dataset contains information on approximately four million engagements and includes demographic information on workers and job data such as salary, occupation, location, and firm.

**Implementation Entities**

MoL

[105] This database is particularly notable for its wide coverage and high quality, as employment submissions from firms are automatically checked against government social security and visa records. The data include observations for over one million firms, 116,873 of which were large enough to be included in the *Nitaqat* program at its start in July 2011. Although a large number of firms were initially exempt from *Nitaqat* due to a ten-employee inclusion cutoff, the firms included in the program employed over 95 percent of the Saudis and 68 percent of the expatriates in the private sector workforce at baseline.

## On-the-Job Training

**Description**

*On the Job Training (OJT)* is a program that finances workplace training for unemployed Saudi job seekers. At the end of the training period, six months to one year, candidates receive a skills certificate to signal their readiness to transition into permanent employment in the private sector. Hiring firms pay the candidates' salaries and HRDF subsidizes any subsequent employment of candidates for up to six months.

***Rewards***

HRDF will subsidize the salaries of *OJT* graduates if they transition to permanent employment and maintain employment in the same firm for one year. *OJT* candidates are counted as one Saudi toward the *Nitaqat* quota program.

**Objectives**

1. Help job seekers obtain practical skills
2. Smooth transitions into the working environment
3. Facilitate employment by providing training and hiring at once
4. Provide firms with an additional tool to achieve *Nitaqat* compliance

**Target Beneficiaries**

1. All Saudi job seekers
2. Service sector companies (pilot stage)

**Eligibility**

1. Candidates:
    a. All Saudi job seekers
    b. *Hafiz* beneficiaries
2. Firms:
    a. Contracted private sector firms that comply with Saudi Skills Standards qualifications
    b. Firms in the retail and service sectors with large number of expatriate workers

**Size**

Five pilot companies were selected in 2014. The program will be expanded to 100 companies by 2016.

**Timing and Status**

*OJT* is in the pilot stage. In 2014, five companies participated in the pilot are set to recruit 2,200 trainees. Al Shaya Co. retail franchise company is targeting to employ 8,000 on-the-job trainees by 2018.

**Linked Programs**

1. *Saudi Skill Standards*: coaches at work and training quality control
2. *Doroob*: complementary online education for trainees
3. *Hafiz*: *Hafiz* beneficiaries can enroll in *OJT*
4. *TVTC*: more training opportunities for *TVTC* students
5. *Nitaqat*: *OJT* beneficiaries are counted toward *Nitaqat* quotas

**Data and Monitoring**

N/A

**Implementation Entities**

- HRDF: Tariq Assaf
- BCG: Onur Elgun

## Part-time Work

**Description**
This program provides guidelines for salary subsidies and *Nitaqat* credits for part-time workers. HRDF covers 50 percent of the salary up to a maximum of SAR 1,000 per month for a maximum of 24 months, as long as the employee's salary is no less than SAR 2,000 per month (compared to SAR 3,000 as the minimum monthly wage for full-time employees).

For *Nitaqat* purposes, firms are able to count two part-time employees that meet the program's minimum requirements as one full-time Saudi employee. These workers can also be counted toward *Nitaqat* employee totals proportional to their work time. To be considered a part-time employee and factored into the *Nitaqat* bands, the work hours should be no less than 20 and no more than 24 per week. A firm cannot hire more than 20 percent of its total number of employees on a part-time basis. HRDF will subsidize 50 percent of employees' salary, for 24 months, not exceeding SAR 1,000 per month.

**Objectives**
1. Support part-time work in the private sector
2. Help women balance life and work
3. Increase women's employment in the private sector
4. Encourage firms to achieve *Nitaqat* compliance
5. Employ *Hafiz* beneficiaries

**Target Beneficiaries**
1. Female *Hafiz* beneficiaries
2. Females seeking part-time work

**Eligibility**
All Saudi women and men

**Size**
As of November 2013, there were 21,029 female employees working part-time in the Saudi private sector

**Linked Programs**
1. *Nitaqat*
2. *Hafiz*

**Timing and Status**
In a phase of drafting policy to legitimate the scheme

**Data and Monitoring**
1. Demographic data on part-time workers available in GOSI dataset
2. Total number of part-time workers per firm available in *Nitaqat* dataset

**Implementation Entities**
MoL: Dr. Fahad Altukhaifi

## Payroll Rebate

**Description**

The program rewards Platinum, Green, and Yellow *Nitaqat* firms for increasing the wages of Saudi employees. The percentage of payroll rebated depends on the firm's *Nitaqat* band and wage increase over a six-month period as summarized in the table below. The rebate increases with a higher rate of total payroll growth from period to period.

*Percentage of payroll rebate according to wage increases and Nitaqat bands*

| | Benefits Receipt per Category | | | | |
|---|---|---|---|---|---|
| Increase in Total Wages for Saudis | Red | Yellow | Low Green | Medium Green | Platinum |
| 0 – 4% | - | - | 10% | 20% | 30% |
| 5 – 9% | - | 5% | 15% | 25% | 35% |
| 10 – 14% | - | 10% | 20% | 30% | 40% |
| 15 – 19% | - | 15% | 25% | 35% | 45% |
| +20% | - | 20% | 30% | 40% | 50% |

**Objectives**

1. Reward firms for hiring new Saudi employees in the private sector
2. Reward firms for increasing payroll for national employees in the private sector
3. Incentivize employers to move to higher *Nitaqat* levels

**Target Beneficiaries**

All private sector firms hiring Saudi employees

**Eligibility**

1. Yellow, Green and Platinum entities in *Nitaqat*
2. Firms demonstrating an absolute increase in total payroll for Saudi employees every six months

**Size**

The policy will subsidize wages for employees up to a wage cap of SAR 15,000 and a maximum of SAR 10 million in subsidies per firm.

**Timing and Status**

This program will commence in 2014 and is planned to continue over the long term.

**Linked Program**

*Nitaqat*

**Data and Monitoring**

1. *Nitaqat*: number of employees per band
2. GOSI and *Wage Protection System*: monthly wage receipt

**Implementation Entities**

- HRDF: Dr. Abdulkarim AlNujaidi
- SDG Consulting

## Productive Families (Work from Home)

**Description**
The *Productive Families* program is a self-employment initiative for women who wish to start businesses that operate out of their homes. Under this program, women can receive training subsidies from HRDF, as well as interest-free loans from the Saudi Credits and Savings Bank (SCSB) at a maximum of SAR 300,000 per project.

**Objectives**
1. Solve the issue of unsuitable work environment for women in the private sector
2. Solve transportation challenges
3. Help women manage work-family balance
4. Support entrepreneurship

**Target Beneficiaries**
All Saudi women

**Eligibility**
1. The newly established business is allowed to have only Saudi employees in all aspects of the business, a provision that is intended to aid in promoting job creation for Saudis.
2. Businesses that engage in handiwork, such as arts and crafts, sewing, and the design and/or manufacture of clothing and accessories; food preparation and trading; technical jobs such as photography; hair styling, grooming, and perfume manufacture; event planning and other intellectual products and online services.
3. Ineligible businesses include daycare facilities, heavy manufacturing/industrial work, medical services, and restaurants/cafes.

**Size**
N/A

**Timing and Status**
In 2012, a total of 30,444 jobs were created, of which 74 percent were for females. The Ministry is in the process of establishing a Work from Home Authority, which will act as the regulating, legislating, licensing, supervising, and monitoring body for the initiative. The Authority will include representatives from ministries that issue licenses associated with home-based businesses and will establish a database of all businesses that are run from home and their employees.[106]

**Linked Programs**
*Supporting Small and Medium Businesses*

**Data and Monitoring**
The Work from Home Authority aims to establish a database of all businesses that run from home and their employees. No information is available on what type of data will be collected.

[106] Bab Rizq Jameel, 2012

**Implementation Entities**
MoL: Dr. Fahad Altukhaifi

## Saudi Skills Standards

**Description**
*Saudi Skills Standards (SSS)* was created by the *Technical and Vocational Training Corporation* (*TVTC*) and *Human Resources Development Fund (HRDF)* to give guidelines to vocational training institutes and control the quality of labor supply with credible certificates. At first, the program committee defined the *National Occupational Skills Standards (NOSS),* which reflects the practical needs of employers in major industries. *NOSS* analyzes the key occupations in the Kingdom that are attractive to young Saudi nationals, aggregated by salary and hardship level, employer expectation of workers. The 46 functions for 12 specific industries were then devised from this information.

At that stage vocational training institutions started designing curricula to meet these objectives. Actual training has been implemented through the *Colleges of Excellence* program (see *Colleges of Excellence*) and, at the end of each academic year, *SSS* will test the students to make sure they reach the standards defined in the *National Occupational Skills Standards (NOSS)*.

Additionally, *SSS* program plans to apply the same standards to the process of hiring expatriate workers. Now, since many expatriates are selected by remote agencies, workers often are not as qualified as reported through agencies; however companies still cannot substitute them easily due to administrative requirements. Therefore, as Saudization expands, employers are more concerned about quality of expatriate workers due to the limited number of available expatriate visas.

**Objectives**
1. Review curriculum and facilities of training institutions to assure quality of education
2. Design tests of vocational skills and work aptitude
3. Maintain the credibility of skills certificate to assure employers of high quality training
4. Support skills verification of expat workers

**Target Beneficiaries**
Training providers, vocational trainees and employers in the private sectors

**Eligibility**
N/A

**Size**
A Functional Map was designed to show what 46 functions are required to work in 12 different industries. By 2015, 100 more functions will be added to the program.

**Timing and Status**
Currently, *SSS* accredits only the quality of the *Colleges of Excellence* but will assure the quality of all the vocational training institutes under the control of *TVTC* within two to five years. *SSS* also plans to apply the standards in the process of hiring expatriate workers. *Skill Verification System (SVS)* is still in the pilot stage, selecting 3 agencies abroad to test potential expatriates on a set of 10 skills in their home countries. The same test will be applied for expatriates currently in Saudi Arabia to ensure compliance with skills profiles listed in their visa documentation.

**Linked Programs**
1. *NOSS*: controlling the standard for skill verification

2. *Colleges of Excellence*: Subject to *SSS* quality regulation.
3. *Skill Verification System*: controlling the skills of expatriate workers

**Data and Monitoring**

1. Pass rate of tests
2. Salary statistics of *CoE* graduates

**Implementation Entities:**

- *SSS*: Dr. Zuhair Abduljabbar
- *TVTC*

## Support Women's Jobs in Factories

**Description**

The program to *Support Women's Jobs in Factories* provides financial support and training for factories to feminize their workforces. HRDF subsidizes the salaries and training in the factory training program for up to three years. The fund pays 50 percent of the trainees' allowance for the first year (up to SAR 2,000 per month) as long as the employee's salary is at least SAR 3,000 per month (minimum wage). Training is also subsidized for up to six months at SAR 500 per month.

In addition to providing financial assistance through HRDF, MoL is also collaborating with *TVTC* to provide the necessary training for factory work. The first year of training is divided into two phases: the first phase aims to up-skill participants for participation in the workforce in general. In this phase, general managerial, organizational, and behavioral factors are addressed. English language and computer skills training are also provided at this stage, if needed. The second phase is tailored to training in skills directly related to the particular job.

During the employment period, the employees also receive job-related training for up to one year, depending on the needs of the firm. The employees' work and skills continue to be monitored by HRDF during this year, using a standard evaluation form to maintain quality control.

Factory jobs currently offered under this program include quality controllers, storekeepers, production workers, production line supervisors, machine operators, and shift supervisors. Other work opportunities available to women under the program include positions in human resources, information technology, accounting, security, and other administrative functions.

**Objectives**

1. Increase women's employment in the private sector
2. Encourage manufacturing firms to achieve *Nitaqat* compliance by switching the staff of entire production lines from male expatriates to Saudi women.

**Target Beneficiaries**

All Saudi women

**Eligibility**

All Saudi women

**Size**

Zamil Industrial and SABIC (a petrochemicals manufacturing company) have been among the first firms to participate in this initiative. At Zamil Industrial, 33 women were employed in 2012 on the sub-assembly line for Zamil Air Conditioners.[107]

**Timing and Status**

The policy is being implemented in two phases. The first phase aims to employ women in pharmaceutical factories and the second phase aims to expand the program to other types of factories.

[107] Zamil Industrial, 2012

Other suitable positions for women in factories are still being defined. No information is available on the dates of each phase.

Job opportunities for women in factories are expected to increase as the Kingdom is in the process of building 13 industrial cities with completion planned by 2020. The first of these is to be established in the Eastern Province and aims to provide 10,000 jobs, of which 5,000 jobs are slated to be made available to women in sectors that include food manufacturing, pharmaceutical, and fabric and carpet manufacturing. The production lines for these factories are planned to be staffed entirely by women. The locations of the industrial cities are to be in proximity to major cities to facilitate transportation.[108] [109] [110]

**Linked Programs**

1. *Nitaqat*
2. *On-the-job Training*

**Data and Monitoring**

Total number of female factory workers per firm is available in the *Nitaqat* dataset.

**Implementation Entities**

MoL: Dr. Fahad Altukhaifi

[108] Alkhattaf, 2013
[109] The allocation of land, 2012
[110] Half a million square meters, 2012

## Supporting Small and Medium Businesses

**Description**
*Supporting Small and Medium Businesses* provides support services: (1) help emerging entrepreneurs start new businesses and (2) expand existing small and medium enterprises (SMEs).

For entrepreneurs, the program offers financial support via the *Centennial Fund*. The *Government Backed Venture Capital* Funding also provides financial support in addition guidance and consultation to incubate startups.

Consultation services – such as legal, accounting, and IT – for existing SMEs are provided through the *SME Shared Services* program. The *Saudi Staff Leasing program* will facilitate agencies to train Saudi workers in the skills demanded by SMEs, also helping provide this temporary labor promptly when needed.

**Objective**
1. Assist the growth of existing small and medium enterprises
2. Increase the employment rate of Saudi nationals in SMEs
3. Help entrepreneurs start up their own business

**Target beneficiary**
Small and medium enterprises

**Eligibility**
The criteria to get support varies depending on the aforementioned program.

**Timing and Status**
N/A

**Linked Program**
N/A

**Data and Monitoring**
N/A

**Implementation agency**
- Takamol: Amjad Edris
- Ministry of Commerce and Industry

## Taqat (Job Placement Centers)

**Description**

The *Taqat* program was launched at the same time as *Hafiz* and acts as an online search engine for jobs in the private sector, displaying available jobs by region and occupation.

The *Taqat* program provides several different employment channels that assist the private sector in recruiting local skills from the different categories of job seekers who are registered in the *Hafiz* database. It offers job seekers employment assistance, such as soft skills training, and career guidance. It includes the following channels:

1. **T*aqat Job Placement Centers (JPCs)*:** *JPCs* are the most extensive intervention employment channels for *Hafiz* recipients. JPCs actively search and contact job seekers to invite them to introduce the whole suite of *Taqat* services. *JPCs* assign job seekers based on their job readiness into three categories: red ("need [training] support"), yellow ("near job ready"), and green ("job ready"); *JPCs* then offer customized training program accordingly. Training ranges from 20 to 52 weeks, with specific targeting for individual needs. Even after employment, JPC officers follow up with the now employed former job seeker for up to 13 weeks. Additionally, mobile agents will shortly begin physically visiting companies to collect job vacancies, especially from small and medium enterprises.

2. ***Taqat Recruitment Offices (TROs)****: TROs*, launched in November 2012, are walk-in development and recruitment offices that match job seekers with available jobs. They assess the suitability of the job seekers through interviews first and then arrange a meeting between a job seeker and a potential employer based on their initial assessment. *TROs* maintain a database of available job opportunities in the private sector.

3. ***Taqat Online****: Taqat Online* is an online national recruitment portal similar to online recruitment sites. It includes a comprehensive database of national job seekers registered in *Hafiz* and relates to each e-services website of the ministry of labor and to the *Hafiz* database. The website provides a search engine to recommend job seekers' profiles to vacancies in the private sector.

4. ***Liqaat/e-Liqaat****: Liqaat* is a physical job fair held in major cities across the Kingdom and *e-Liqaat* is an online job fair. These job fairs are held for a specific period of time in order to enable job seekers to meet with multiple potential employers at once. It provides a virtual communication platform whereby job seekers and potential employers can communicate live. Due to inefficiency, it has been on hold for two years and will be replaced with something similar run by a private company.

5. ***Tele-Taqat Centers****:* These are development and recruitment centers that provide numerous employment services by phone for registered *Hafiz* job seekers. The aim of this program is to reach a wider number of job seekers across the Kingdom, particularly in areas where there are no *TROs*.

6. ***Jahiz:*** *Jahiz* is a targeted employment channel for recent graduates of the *King Abdullah Scholarship Program* and graduates from Saudi universities. Graduates have access to an online portal listing available job opportunities. It also offers the service of matching job seekers with

available vacancies. The website will be developed shortly and will offer many services including career path orientation, CV preparation before graduation, marketing for on-the-job training programs, and professional training opportunities.

**Objectives**

1. Match job seekers with suitable employment opportunities in the private sector
2. Improve the soft skills of job seekers to make them more compatible with private sector requirements

**Target Beneficiaries**

*Hafiz 1* and *Hafiz 2* job seekers

**Eligibility**

1. All *Hafiz 1* and *Hafiz 2* job seekers
2. Job seekers receiving employment support

**Size**

There are 34 *Taqat Recruitment Offices (TROs)* located in the Central, Western, and Eastern Provinces. Between December 2012 and November 2013, there were 399,345 referred job seekers and 21,759 walk-ins. Under *Tele-Taqat,* a contract has been executed with a company that specializes in the establishment and development of call centers in the Northern Borders Province. There were 27 TROs when it was launched in 2012.

**Timing and Status**

The *Taqat* program and *JPCs* were initiated alongside *Hafiz* in 2011. The employment programs were later launched throughout 2012, including *e-Liqaat* and *TROs*. *Taqat Online* launched in May 2012. *Jahiz* is in a pilot phase currently offering limited services.

**Linked Programs**

1. *Hafiz*: Job seekers registered in *Hafiz* can utilize the service.

**Data and Monitoring**

Aggregated data available on *JPC* applicants includes monthly totals by region and gender for: referrals, walk-ins, job readiness assessment, reported job placements, reported jobs sustained for three months, arranged job interviews, placement breakdown by salary, placement breakdown by age, placement breakdown by marital status, work experience, and education.

**Implementation Entities**

HRDF: Ahmad AlMuhaish

## Telework (Distance Work Program)

**Description**

The strategy to encourage telework consists of three main parts: providing wage subsidies for teleworkers; developing labor regulations around distance work, including rules for counting workers toward *Nitaqat* quotas; and developing a software platform for companies to use to help employees work remotely.

HRDF supports this program by paying 50 percent of the salary (up to SAR 2,000) for up to two years for women who work remotely. Beneficiaries are also entitled to similar rights, allowances, and health insurance benefits as other office-based employees. In addition to subsidized wages, HRDF also subsidizes training for female teleworkers in collaboration with the *Technical and Vocational Training Corporation* (*TVTC*), which offers telework training programs.

MoL has also determined that female employees hired through this telework subsidy program will count fully toward *Nitaqat* quotas. A percentage cap has been implemented to limit the number of factorized females allowed per private firm under this policy, according to the *Nitaqat* categories: Platinum (7 percent), Green (5 percent), Yellow (3 percent), and Red firms in this category are not permitted to employ women under this initiative).

**Objectives**

1. Increase women's employment in the private sector
2. Encourage firms to achieve *Nitaqat* compliance
3. Offer flexible work opportunities to work from home
4. Solve transportation challenges
5. Cut down on the overall expenditures for transportation.

**Target Beneficiaries**

1. Women living in urban areas with general issues of physical mobility
2. Men and women living in rural areas
3. Men and women with disabilities and chronic illnesses

**Eligibility**

1. Saudi women must be:
    - Between the ages of 20 and 35
    - Not registered for social security benefits
    - Registered as full-time employees in the program
2. It is unclear what the criteria for male target beneficiaries are, and whether they differ significantly beyond those for females and beyond being part of the Target Beneficiaries group.

**Size**

3,399 Saudi women had already enrolled in the program according to pilot program figure in 2014, taking advantage of subsidized work opportunities in the areas of programming, consulting, journalism, ticketing, medical record keeping, graphic design, marketing, sales, customer service, advertising, telemarketing, and translation.

**Timing and Status**

A pilot phase started in 2013. The last phase is not fully implemented and is still in the development phase, as the Ministry is building a telework platform to be used by private firms and aims to begin a pilot program (via Takamol) for six companies in three months (starting in July-August 2014).

**Linked Programs**

1. *Nitaqat*: Teleworkers are counted towards *Nitaqat* quotas
2. *Hafiz*: *Hafiz* beneficiaries are major targets of this program
3. *Taqat*: Job seekers find opportunities to work from a distance through *Taqat*

**Data and Monitoring**

1. GOSI: demographic data on teleworkers
2. *Nitaqat*: number of teleworkers per firm

**Implementation Entities**

- Takamol: Ousama AlAhmar
- Elixir

## Technical and Vocational Training Corporation

**Description**

*Technical and Vocational Training Corporation* (*TVTC*) is an umbrella organization generalizing vocational training in the Kingdom at the secondary and tertiary levels, separate from the traditional education curriculum.

The most important group of programs is the *face-to-face training*, also called *classroom training*, which includes *Technical Colleges* (tertiary vocational training centers for males) and *Girls Technical Colleges* (similar centers for females); both lasting two years. *Industrial Institutes* (secondary education), *Short Courses* (intensive courses for *Hafiz* registrars of all ages), and other minor programs like military vocational training institutes also provide face-to-face training.

Apart from training for the general public, *TVTC* offers *joint training programs* in partnership with private sector employers to promote training, supporting technology transfer and enhance quality assurance by exposing trainees to international operators and experts. The main programs doing this are the *Strategic Partnership*, the *National System for Joint Training* and the *On-the-job Training.*

In spite of the progressive growth in vocational training in KSA, its share in the total tertiary education system is currently less than 10 percent, a very low figure compared to international standards like the OECD (44 percent). In order to promote vocational training with high quality standards, *TVTC* created the *Colleges of Excellence* (see *Colleges of Excellence*) in 2013. While the other vocational training programs are still implemented, unlike *TVTC* they are not expected to increase in size. *TVTC* has also put significant effort towards improving the quality of the curriculum to be in line with international benchmarks led by the Saudi Skill Standard.

**Objective**

1. Provide Saudi students with a wide range of vocational training programs that provide the necessary skills demanded by private sector firms
2. Increase Saudi workers' productivity, employability, and salaries

**Target Beneficiaries**

Saudi students pursuing intermediate, secondary, and tertiary degrees

**Eligibility**

1. For technical colleges: after completing the secondary education
2. For technical institutes: after completing the elementary school

**Size**

In 2013, there were 54 technical colleges (36 for males and 18 for females) that trained nearly 100,000 students (88,000 males and 11,000 females) and 68 technical institutes with 20,000 students. Other major programs include 18 strategic partnership institutes (boasting more than 7,000 students) and the Center of Community Service and Continuing Training, which provide short-term training to over 48,000 students.

**Status and Timing**

Most of *TVTC* programs have been under implementation for years. The newer programs are those related with e-learning and online training.

**Linked Programs**
N/A

**Data and Monitoring**
*Hafiz* and GOSI data can be traced to see how vocational training graduates can get employed more than before, as well as wage differentials.

**Implementation Entities**
TVTC Dr. Saleh Alamr

## Unemployment Insurance (Sanid)

**Description**

*Sanid* is an unemployment insurance program for Saudi nationals. The policy underlying this program was developed in collaboration with the International Labor Organization (ILO). The program offers three main services—financial benefits, training, and employment assistance—and is to be administered by HRDF, in partnership with GOSI. HRDF covers the cost of training and employment assistance, maintains records of all unemployed job seekers, and works through its employment channels to assess these job seekers and to match them with alternative job opportunities. GOSI, on the other hand, receives the registrations of private sector employees in the scheme and is responsible for the payment of benefits. GOSI is also responsible for checking participants' eligibility.

1. **Financial benefits:** Benefits are paid out to unemployed individuals for a maximum duration of 12 months, conditional upon employment for 24 consecutive months (i.e., for every 24 consecutive months of employment, the individual can receive benefits for up to 12 months). During the first 3 months, participants receive 60 percent of their salaries, calculated as an average of salary during 24 months preceding unemployment, at a maximum of SAR 9,000 per month. The benefits for the remaining nine months are calculated at 50 percent of the average salary, at a maximum of SAR 7,500 per month. Minimum benefit is SAR 2,000 per month, which is the same rate as *Hafiz* unemployment benefits. 1 percent of employee's salary should be collected for monthly insurance fee during employment and the same amount is paid by the employer.

2. **Training:** subsidized by HRDF. No further information available.

3. **Employment assistance:** HRDF provides employment/job-search support via *Taqat* employment channels.

Policy violations, such as providing inaccurate information in order to receive benefits, are subject to a penalty equal to the amount of benefits received in addition to returning the sum of benefits received. Employers who violate the policy and refuse to participate in the scheme are subject to a fine of up to SAR 10,000 for every employee not registered in the scheme. Subsequent violations will result in double the penalty.

**Objectives**

1. Encourage job seekers to find employment in the private sector, which is perceived as an insecure working environment in comparison to public sector work
2. Protect the livelihood of workers during the involuntary unemployment and the transition period of job searching

**Target Beneficiaries**

Employees in the private sector

**Eligibility**

1. Individuals who have lost their jobs, not individuals who have willingly left their jobs.

2. Those ineligible for alternate jobs or alternate source of income.
3. Those registered in the program as employees for more than one year.
4. Beneficiaries must:
    a. be under 60 years old;
    b. demonstrate active job searching;
    c. accept the first suitable job offer;
    d. undertake necessary training subsidized by HRDF.

**Size**
*Sanid* is expected to have 1.5 million enrollees, as it is mandatory for all private sector employees.

**Timing and Status**
The program was approved by the Council of Ministers on January 6, 2014, and is to be implemented on September 1, 2014.

**Linked Programs**
*Taqat*: Supports job search

**Data and Monitoring**
Demographic data and activity during unemployment available in GOSI

**Implementation Entities**
- Takamol: Ousama AlAhmar
- Elixir

## Wage Protection System

**Description**
The *Wage Protection System (WPS)* monitors wage payments to all workers to ensure timely and complete payments. Firms must register for the *WPS* through the MoL online portal by the deadlines indicated in the table below. Firms may choose either to transfer the wages monthly via electronic bank transfer or to issue their employees payroll cards that they can use to receive their salaries from the bank. Once a firm registers with the WPS, it must upload monthly wage records, which include data such as salary, allowances, and deductions for each month. MoL will monitor the time and wage receipt to ensure it is compatible with what has been specified in the firm's WPS registration.

***Penalties:*** If a company has not complied with the program (i.e. fails to upload wage records) for two months after the required registration date, the Ministry will seize its guest worker renewal permits. If the company is still non-compliant after three months, the Ministry will seize all services, and both Saudi and expatriate employees will be eligible to seek employment elsewhere without consent from the employer. Unpaid or late wage payments may result in legal action.

**Objectives**
1. Monitor wage payments to both Saudi and guest workers in the private sector to ensure that receipt of wages is timely and as per contract
2. Attract Saudis to work in the private sector by bringing wage security closer to the level seen in the Saudi public sector
3. Protect the rights of guest workers, particularly those in low-skilled, low-paying jobs
4. Facilitate the detection of illegal employment of guest workers

**Target Beneficiaries**
Saudi and expatriate private sector workers

**Eligibility**
All private sector firms

**Size**
N/A

**Timing and Status**
The pilot program began on September 1, 2013 with companies classified as Giant (more than 3,000 employees) in the *Nitaqat* system. Since then, the program continues to be implemented in phases, with *companies required to enter wage information rega*rding all private sector employees into MoL's online portal by the dates shown in the table below

*Wage protection registration dates by firm size*

| Firm Size (No. of Employees) | Wage Protection Registration Deadline |
|---|---|
| 3,000 and all private schools regardless of size | 9/1/2013 |
| 2,000 and over | 21/1/2013 |
| 1,000 and over | 3/1/2014 |
| 500 and over | 11/1/2014 |
| 320 and over | 2/1/2015 |
| 240 and over | 4/1/2015 |
| 170 and over | 6/1/2015 |
| 130 and over | 8/1/2015 |
| 100 and over | 11/1/2015 |
| Less than 100 | Not set |

**Linked Programs**

1. *Nitaqat*: Monitoring the actual employment of Saudi workers
2. *Inspection management system*: Data will be used for selecting the inspection target
3. All salary subsidy programs

**Data and Monitoring**

*Nitaqat*, GOSI and expatriate Visa database

**Implementation Entities**

- MoL: Mouneef Al-Harbi

## Women's Employment in the Retail Sector (Retail Sector Decree)

**Description**

*The Retail Sector Decree* mandates that stores only employ Saudi women as salesclerks in shops that sell merchandise of primary interest to women. HRDF provides financial support for wages and training, and female workers are counted toward *Nitaqat* quotas. HRDF offsets the cost of two to three weeks of sector-specific pre-job training at SAR 1,000 to SAR 1,500 per person, then subsidizes up to SAR 2,000 for 12 months of on-the-job training, and then for 24 months at 50 percent salary support, up to SAR 2,000. Working hours for women are limited from 9am to 11pm.

***Penalties:*** In partnership with MoL, the agency maintains a registry of all retail shops in each mall and performs regular inspections of each shop to verify feminization and Saudization rates. Enforcement of the policy includes a warning period, after which the non-compliant store is closed; in each case, shops must replace their staff with Saudi women within 24 hours to reopen. Shops that are found hiring female expatriate workers are fined between SAR 3,000 and SAR 10,000 per worker and are classified as Red in the *Nitaqat* quota bands.[111]

**Objectives**

1. Increase women's employment in the private sector
2. Feminization and nationalization of staffing in retail stores
3. Encourage firms to achieve *Nitaqat* compliance
4. Create a more comfortable shopping environment for women to avoid interaction with men

**Target Beneficiaries**

All Saudi women

**Eligibility**

All Saudi women

**Size**

As of November 2013, there were 41,069 females employees working as sales representatives, making this occupation the one with the greatest number of female employees in the private sector.

**Timing and Status**

The decree is being implemented in three phases according to the type of businesses involved, and is applicable to both standalone facilities and stores situated in malls. Phase one, initiated in 2011, applied the mandate to lingerie and cosmetics stores that should feminize and nationalize their respective staffs until August 2012. Phase Two broadens the regulations to stores that sell women's clothing, accessories, and abayas (cloaks), starting January 21, 2013, with enforcement beginning January 31, 2014. Phase

[111] The Ministry has assigned male and female inspectors to conduct a nationwide retail survey and to inspect for compliance with various MoL policies, including Saudization. These inspectors are sworn into their posts in the presence of the Minister after completing practical and theoretical training and are provided with "sworn inspector" identification cards. Female inspectors play a prominent role in the retail sector, especially in inspecting women-only shops for violations of Saudization and/or employment of female expat workers. The first batch of female shop inspectors commenced inspection in May/June 2013 to monitor the compliance of shops covered by Phase One (lingerie and cosmetics) in Riyadh and Jeddah, where most of the retail sector is concentrated.

Three will feminize and nationalize all other stores that sell feminine goods, including pharmacies with cosmetics sections and fabric stores.

**Linked Programs**

1. *Nitaqat*: promoting private companies to hire female Saudi workers
2. *On-the-job Training*: retail stores are main targets of *OJT* program
3. *Hafiz* and *Taqat*: female job seekers enrolled in *Hafiz* can search for jobs in the retail sector via *Taqat* employment channels

**Data and Monitoring**

1. GOSI: demographic data on retail sector workers
2. HRDF: inventory of all retail shops that sell these goods

**Implementation Entities**

MoL: Dr. Fahad Altukhaifi

# APPENDIX:

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