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Evidence for Policy Design

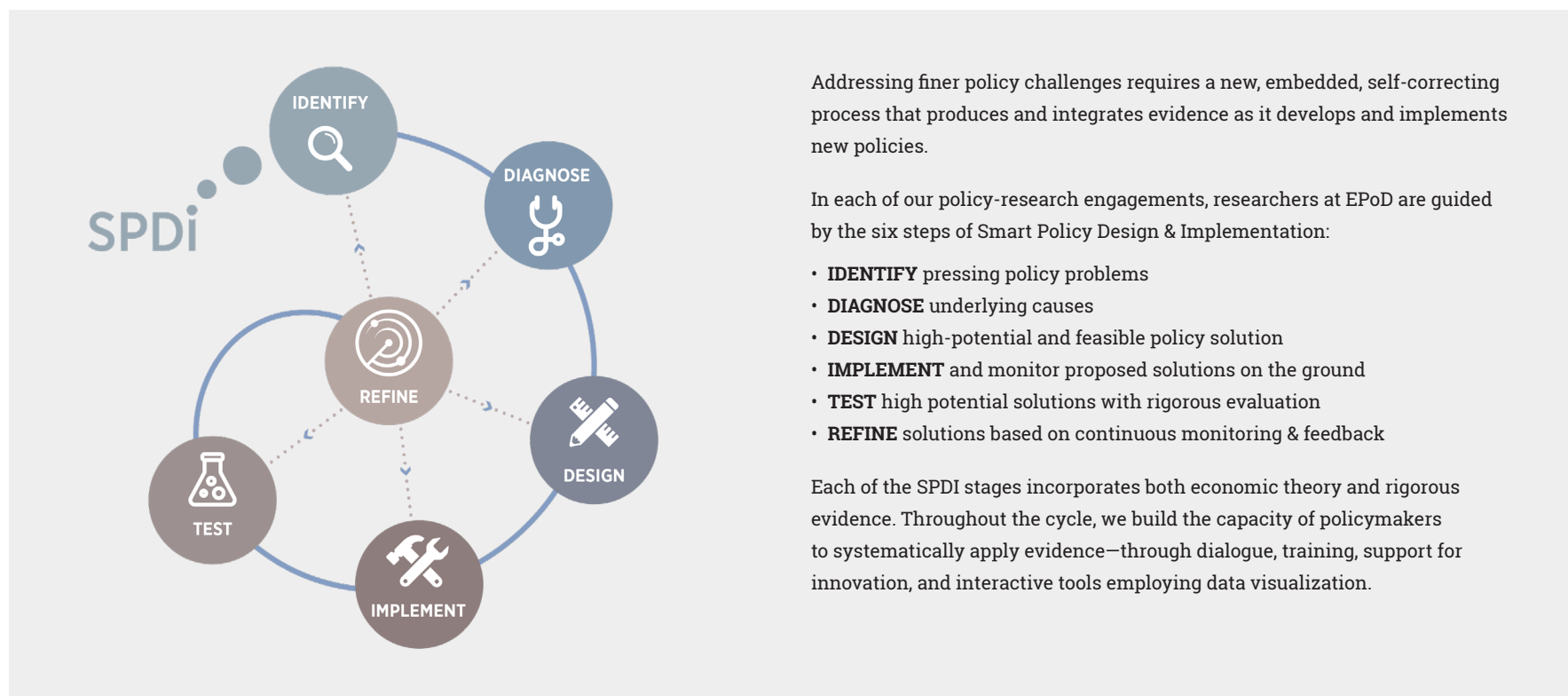
The Labor Market in Saudi Arabia:

Background, Areas of Progress,
and Insights for the Future

Introduction

Since 2015, Saudi Arabia's Human Resources Development Fund (HRDF) has engaged in a research-policy collaboration with Evidence for Policy Design at Harvard Kennedy School to produce concrete, evidence-based insights to inform better policy

supporting the goals of Vision 2030. The collaboration has brought together top-tier researchers and Saudi policymakers to generate in-depth knowledge on policy problems and design solutions using EPoD's Smart Policy Design and Implementation approach.



An early product of the EPoD-HRDF collaboration was a background paper titled “Back to Work in a New Economy: Background Paper on the Saudi Labor Market” in 2015, which analyzed underlying causes of labor market constraints, and provided an economic framework for subsequent research. For that paper, EPoD brought together over 35 researchers from top global institutions to identify the policy and theoretical grounding for further research on labor market issues in the Kingdom, focusing in particular on areas of greatest potential for bringing Saudi citizens into the labor force, in line with Vision 2030.

From that point, the collaboration has funded 24 distinct research projects led by 47 international and Saudi researchers.

This report, “The Labor Market in Saudi Arabia: Background, Areas of Progress, & Insights for the Future” updates the 2015 paper, incorporating recent research. It identifies policies HRDF has undertaken to accomplish the goals of Vision 2030, and provides insights from the research projects to date.

1. Human Capital Development and Job Creation

MAIN POINTS

- Saudi Arabia has close to universal literacy and has seen a dramatic increase in university enrolment in the last decade.
- Saudi expenditures on education are comparatively high, but primary school students score low on international tests of science, mathematics, and reading.
- While educational attainment has grown rapidly, returns to education are low.
- Women face particularly low returns to tertiary education.
- The job-seeking process for university graduates seems to depend on their social networks.
- Government programs that connect relevant job-seekers with employers, such as TAMHEER and SAQF may help job-seekers without relevant networks find relevant work.



The Vision 2030 aims to reduce the percentage of illiterate adults and improve the percentage of graduates who have secured employment. The Saudi authorities plan to launch 33 initiatives that will enhance the matching between education system and labor market needs.

Saudi Arabia spends a larger portion of its GDP on education than the global average, and has achieved near universal literacy (95 percent of adults, 99 percent of youth) and enrolment rates. Yet Saudi Arabia fared lower than international averages on Trends in International Mathematics and Science Study (TIMSS) and Progress in International Reading Literacy Study (PIRLS) tests.

In fact, Saudi test scores were the second lowest scores among Gulf Cooperation Council (GCC) nations, and far below the global benchmark, as shown in the figure on p. 6. It is therefore imperative to define and identify the exact factors that improve student learning in the Kingdom.

Saudi Arabia invests in its citizens. How to achieve better results?



Saudi expenditures on education are on par with education spending in high-income countries



However, educational performance is among lowest worldwide

↓ KSA in bottom 8 percentile in 4th Grade Math

↓ bottom 6 percentile in 4th Grade Science



Unemployment is highest for Bachelor's degree holders, at 18%

What education inputs are missing?



Quality of instruction



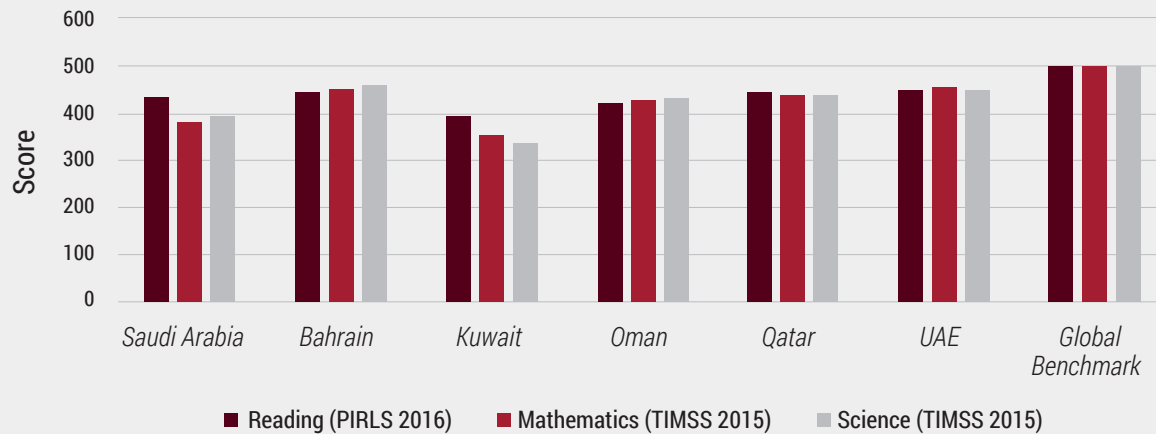
Relevance of instruction to 21st century skills



Peer and mentoring networks

Sources: World Bank Data on Government Expenditure on Education, Trends in International Mathematics and Science Study (TIMSS) 2015, and Labor Force Survey Q4 2018, General Authority for Statistics

Grade 4 performance in mathematics, science and reading among GCC and selected countries



Sources: Trends in International Mathematics and Science Study 2015 and Progress in International Reading Literacy Study (2016) and Progress in International Reading Literacy Study (2016)

The unemployment rate is strikingly high for Saudi women with a bachelor’s degree, but there are large numbers of both male and female bachelor’s degree holders, and a substantial percentage of them are unemployed (33.5 percent of women, 7.5 percent of men).

While this ratio is lower than that for those with lower levels of education, the employment returns to education are quite low for bachelor’s degree holders. The relatively low employment rate among bachelor’s degree holders indicates that the problem is something other than mere academic credentials among job-seekers.

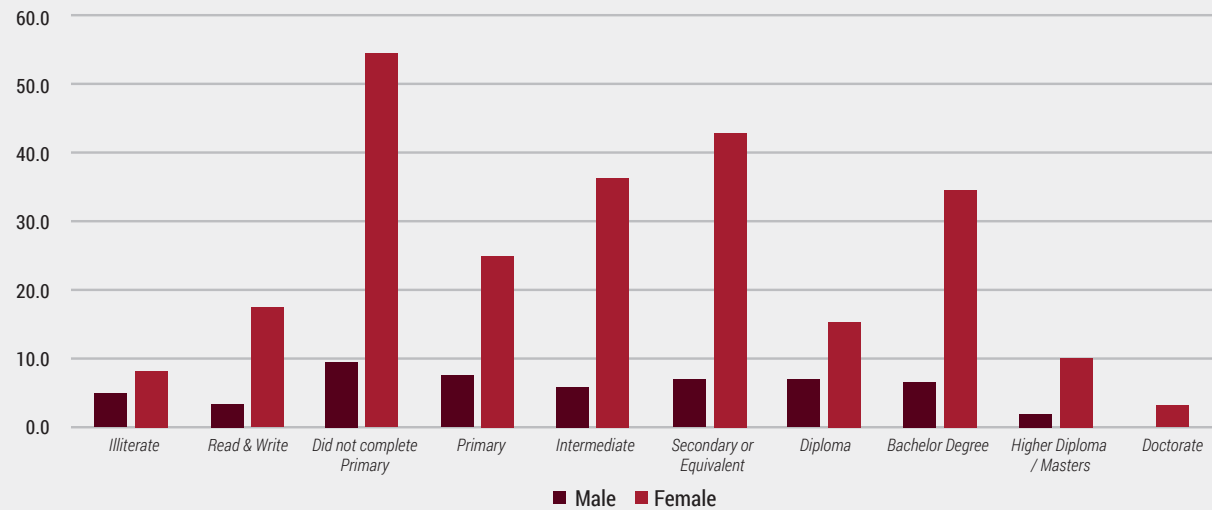
One possibility is that bachelor’s degree holders lack the relevant skill sets required by employers. As shown in further detail in Section 6 of this report, “Matching in Markets”, policymakers are concerned

that the skills that graduates obtain in school and university do not match those that firms demand.

RELEVANT EPoD RESEARCH

One study conducted under the EPoD Saudi Labor Market research program (Kugler, 2017) indicates that employers in Saudi Arabia have trouble finding female job-seekers with important soft skills, such as communication and work ethics. However, the study also showed that an innovative blended-learning course to improve soft skills boosted work-ethic scores by 50 percent and organizational skills scores by 67 percent. This points to a skills mismatch problem in the Saudi Arabian labor market, but it also gives cause for optimism of how relatively small policy changes can reduce this mismatch.

Percentage of Saudi nationals unemployed, by gender and educational level, 2018



Source: General Authority for Statistics, Labor Market Q4 2018

The gender discrepancy in unemployment is largely consistent, and these are the most plausible explanations:

- The type of technical skills acquired by men and women differ considerably. Women are much more likely to specialize in the humanities or education—degrees that are required for many public-sector jobs but not highly valued by the private sector.
- More jobs may be open to university-educated men than women.
- Women’s colleges may not have the networks with potential employers that men’s colleges do.

The reliance on networks for finding employment may lead to poor opportunities for social mobility in general. A report by Ernst and Young shows that 72 percent of young Saudi nationals turn to their

network of family and friends for career advice and information about jobs. This means that graduates who do not have a well-connected network of family and friends are at a disadvantage when they enter the labor market. To remedy this, the Education Evaluation Commission has established the Saudi Arabia Qualifications Framework (SAQF).

The SAQF provides a framework for standardizing qualifications across different academic and training institutions so employers can easily understand the skills developed by job applicants. The SAQF is a positive step to streamline transfer of information from student to employer by standardizing qualification, regardless of where students received education and training, and communicating those qualifications to employers.

2. Employability and Unemployment

MAIN POINTS

- **The level of unemployment in Saudi Arabia is relatively high overall, and particularly high among women, youth, and the well-educated.**
- **The majority of Saudis gravitate towards public-sector employment, as it provides higher wages, more comprehensive benefits, and greater job security.**
- **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.**
- **Some of the gender-specific transportation costs may have decreased with the lifting of the ban on women from driving, from the summer of 2018.**



- Ensuring 1,200 new suitable job opportunities Saudi women and men in the private sector by 2020.
- Securing 50 percent of Saudis will seek to be employed in the private sector by 2020.
- Reducing the unemployment rate for Saudi citizens 9 percent (currently at 12.8 percent) by 2020.
- Reaching 28 percent women in the labor force (currently at 23 percent).

UNEMPLOYMENT

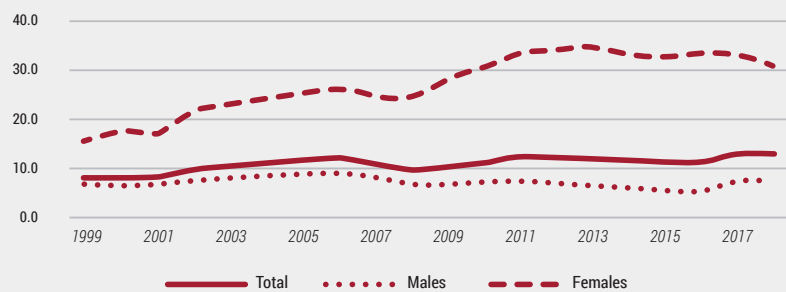
The Vision 2030 has ambitious goals for securing meaningful employment for Saudi citizens. It aims to reduce the unemployment rate for Saudi citizens to 9 percent (currently at 12.8 percent) by 2020, and to increase the proportion of women who are active in the labor force to 28 percent (currently at 23 percent).

Unemployment rates are currently highest among new labor-market entrants: youth and women face the highest unemployment rates, and make up more than half of unemployed Saudis.

Like most countries in the Middle East and North Africa (MENA), Saudi Arabia has a young and growing population. Although absolute increases in the number of unemployed are to be expected when a country's population is growing, the percentage of unemployed people among all job seekers has risen quite substantially, from 6.8 percent in 1999 to 12.8 percent in 2017.

- This trend is driven by a rising women's unemployment. As Figure 1 shows, we see a relatively constant, and even decreasing male unemployment rate, but a steadily increasing rate for women (31 percent) in the last decade. This is mostly a product of a growth in the share of women reporting to be job-seekers than before. Female Labor Force Participation (FLFP) in Saudi Arabia, while very low on a global scale, **increased from 16 in 1999 to 22 percent in 2018**.
- Unemployment is largely an issue for the young, as shown in Figure 2 below. The absolute number of unemployed individuals shows that the overwhelming majority of unemployed are between the ages of 20 and 29.

Figure 1: Unemployment rates of Saudi nationals, 1999-2018

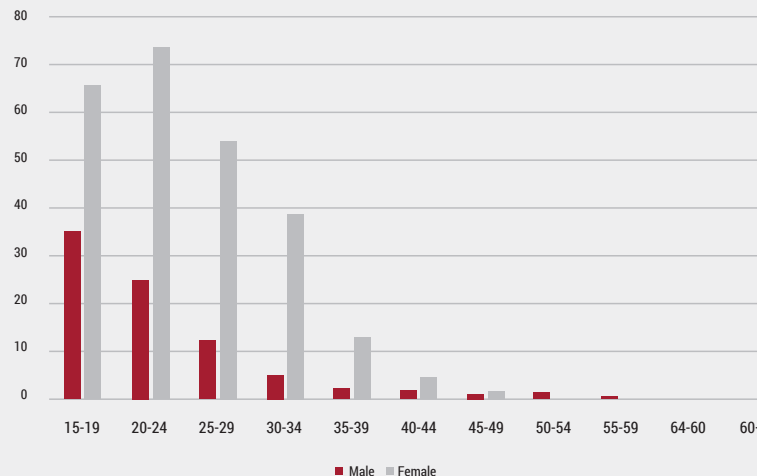


Sources: Labor force indicators 1999-2016, Labor Market Q3 2017, Labor Market Q3 2018, General Authority for Statistics

- As Section 1 of this report, "Human Capital Development," expands on, university-educated women are particularly overrepresented among the unemployed. This highlights the need for separate gender- and education-based targeting mechanisms for policies aiming to address unemployment problems.

Unemployment benefits may create undesirable incentives. Indeed, data from the unemployment program *Hafiz* from 2013 showed that only 20 percent of unemployment assistance recipients left the program before the end of their entitlement period. The unemployed 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.

Figure 2: Unemployment rates among Saudi citizens



Source: Labor Market Q4 2018, General Authority for Statistics

PUBLIC-SECTOR VS. PRIVATE-SECTOR UNEMPLOYMENT

The Vision 2030 aims to make most of the new employment be generated in the private sector – 4.5 million new job opportunities for Saudi women and men in the private sector by 2020. Furthermore, it aims to increase the ratio of Saudis employed in the private sector to 50 percent by 2020.

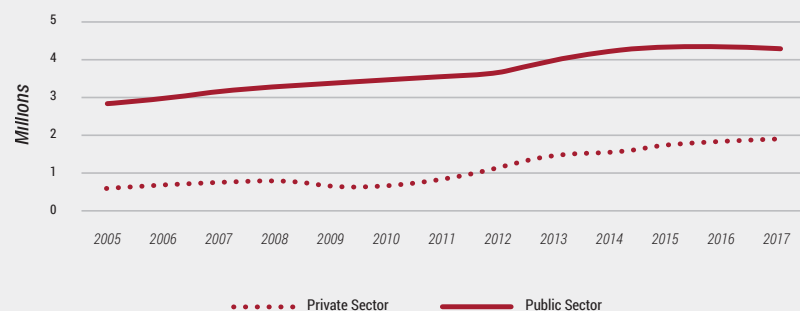
This is an ambitious goal, given the current state of affairs. The majority of employed Saudi citizens work in the public sector. While this overrepresentation is strong and stable, there has been a reduction in this gap since 2005 (see Figure 1). The number of private-sector jobs has grown by an average of 11 percent per year from 2005 until 2017, while the growth in public-sector jobs has averaged 3 percent.

Saudi employment in the private sector is hampered by high wage requirements and **mismatched career expectations**: private-sector employment provides lower wages and weaker job security than the public sector.

Consequently, some Saudi nationals may choose unemployment as they wait to secure a public-sector job or look for a high-skilled, high-status public-sector job. If unemployment assistance monthly benefits are high, then the expected returns from private-sector jobs (adjusted for effort, search costs, etc.) appear relatively low, leading to voluntary unemployment. The maximum benefit provided by *Hafiz* of SAR 2,000 per month, for example, is only slightly lower than the minimum wage in the private sector (SAR 3,000). This may shape the society at large so that job seekers are discouraged from looking for work given the government's willingness to subsidize periods of unemployment.

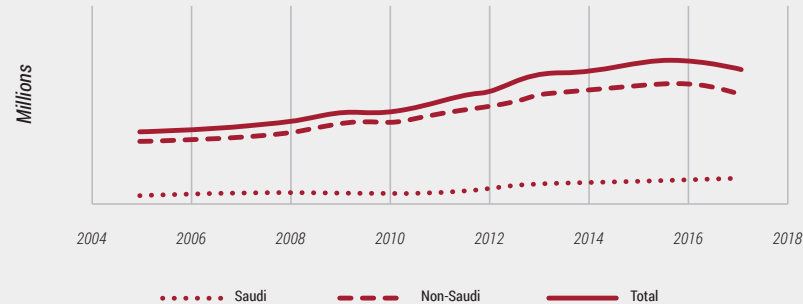
The Saudi private sector has relied historically on low-cost foreign labor to fill the gap between the skills that students require and those required by employers, which exerts a downward pressure on wages. As further elaborated upon in the Section 3 of this report, "Saudization", the Saudi government has launched programs such as the *Nitaqat*, which mandate private-sector firms to hire Saudis, as well as increased minimum wages in the private sector.

Figure 3: Number of Saudi nationals employed by sector, 2005-2017



Source: Sama annual statistics 2017

Figure 4: Labor force in the private sector by nationality, 2005-2017



Source: Sama annual statistics 2017

3. Saudization

MAIN POINTS

- Saudi nationals are underrepresented in the largest segments of the private sector.
- Saudi workers are significantly more expensive and have more employment protections than expatriate workers, making them less attractive to private firms.
- A wide range of quotas and other programs, most notably the *Nitaqat*, have been put in place. These programs have succeeded in increasing Saudization rates, but at a significant cost for firms.

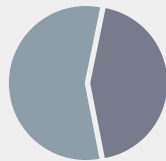


- 950,000 enrolled students in technical and vocational education by 2020 (up from around 100,000 in 2018).
- Reducing the share of Saudis working in the public sector to 20 percent.
- Financial institutions should allocate up to 20 percent of their overall funding to small and medium enterprises (SMEs).

The majority of employed Saudi citizens work in the public sector, and a central Vision 2030 goal is to reduce this to 20 percent by 2030. Conversely, Saudis are underrepresented in most private-sector industries, with a few notable exceptions **such as agriculture, mining, finance, real estate, and utilities**. Saudi employment in the private sector is hampered by high wage requirements and **mismatched career expectations**: private-sector employment provides lower wages and less job security than the public sector.

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. Women are particularly underrepresented in the private sector.

Making the transition from public to private employment in Saudi Arabia



45% of Saudis work in the public sector



The average public-sector wage is 58% higher than in the private sector



To move towards a diversified knowledge-economy and increase employment opportunities, more Saudis must develop skills for the private sector.



The government has made several efforts to promote Saudization, including:

Encouraging demand for Saudi labor

by making Saudi workers more attractive (e.g. Nitaqat Saudi labor quota) and expat workers less attractive (e.g. expat hiring fees)

Enhancing supply of Saudi labor

through on-the-job training programs (e.g. Tamheer) and teaching 21st century skills

Source: Labor Force Survey Q4 2018, General Authority for Statistics

Several policies have been adopted to address this, and there has been a reduction in this gap in recent years, but this may not fully reflect successful policies. Slowing economic growth since the drop in oil prices since 2014 has disproportionately affected expatriate-heavy industries **such as the construction and retail service sectors**. This may have added to the increased Saudization rate in recent years, giving an exaggerated impression of the effectiveness of Saudization policies.

The main administrative measure in this regard, the *Nitaqat* program, was launched in 2011 to set target ratios of Saudi employees per industry. In recent years, **the MLSLSD has increased the mandatory employment** ratio of Saudi nationals to expatriates, and added a mandatory internship to Saudi national students for all private entities with more than 25 employees, as part of the “Saifi” initiative.

Furthermore, **expatriate dependent fees are expected to increase until 2020, and tax on foreign residents is also expected to be installed in this period**. While quotas and affirmative-action policies in general have been known to increase representation of certain groups, they have to be weighed against the costs for other workers and firms. Research conducted under the EPoD Saudi Labor Market research program (Peck, 2017) shows that the *Nitaqat* program has increased Saudi employment at substantial cost to firms, particularly those without any Saudi employees at the onset of the program. Another study (Koyame-Marsh, 2016) supports these findings, showing that while *Nitaqat* has led to an increase in the number of Saudis in the private sector, it has also increased so-called “ghost Saudization”, where Saudis are put on the payroll merely to fill the quota, and led to the closure of more than 200,000 firms in the first years of its implementation.

Another strategy for increasing Saudi employment in the private sector is to encourage nationals to set up their own businesses. Vision 2030 recommends financial institutions allocate up to 20 percent of their overall funding to small and medium enterprises (SMEs) by 2030.

This strategy started in 1974 with the establishment of the Saudi Industrial Fund, but it has doubled its capital in recent years, alongside allocated funding from banks for SMEs. So far, the new private-sector jobs tend to occur in industries with lower Saudization rates than 20 percent: construction, manufacturing, and wholesale and retail trade.

Finally, the Saudi authorities have put in place educational reforms to incentivize Saudi students to pursue scientific and technological academic studies in subjects more in demand in the private sector. Plans for expanding technical and vocational education in general are ambitious: Vision 2030 aims for 950,000 enrolled students in 2020, up from just over 100,000 in 2018.

RELEVANT EPoD RESEARCH

One study conducted under the EPoD Saudi Labor Market research program (Peck, 2017) found that the *Nitaqat* quotas did substantially increase employment of Saudis, but at a high cost to industry, as evidenced by firms closing or downsizing. The costs fell hardest on firms without any Saudi employees at the onset of the program. The study called for more research identifying the types of costs quotas impose in order to inform support programs to mitigate their effect.

4. Female Employment

MAIN POINTS:

- **Female Labor Force Participation is very low in Saudi Arabia, and among those women who are on the labor market, a large share are unemployed.**
- **Quota programs have been shown to be effective in boosting female employment in Saudi Arabia, especially for those firms hiring women for the first time.**
- **A number of governmental and private programs have been launched in recent years to spur employment and job creation in the private sector, where women are particularly underrepresented.**



- Increasing the number of job opportunities for both men and women, especially in the private sector to 3 million by the end of 2020.
- Increasing women's participation in the workforce from 22 percent to 30 percent by 2030.

For Saudi women, entering the labor force is not the same as getting a job



In 2008, **26%** of Saudi females were unemployed



In 2018 **32%** were unemployed



Why did the number increase?



In a positive move, more females entered the labor market to look for a job, with female participation nearly doubling from 12% in 2008 to 22% in 2018. **However, many who entered didn't secure a job.**



Decreasing upfront costs of hiring females (e.g. subsidize the costs of making workplaces women-friendly) can further promote female employment



So how does HRDF help more women secure jobs?

Reduce barriers to female employment

- 💡 Qurrah childcare subsidy
- 💡 Wusool transportation subsidy

Promote competitiveness of female jobseekers

- 💡 Doroob training portal
- 💡 Tamheer on-the-job training

Mentor jobseekers on jobsearch process and opportunities

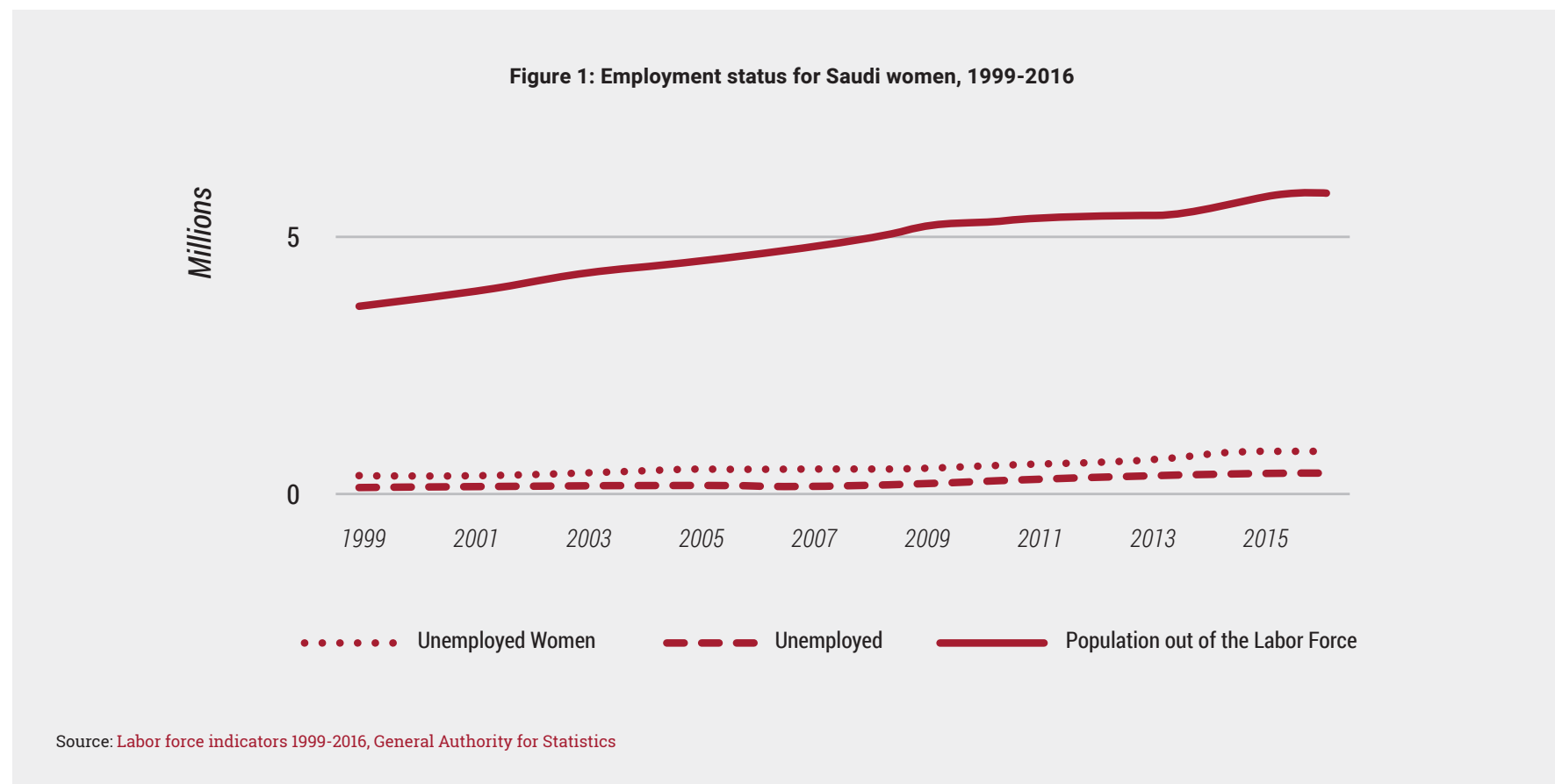
- 💡 Job Placement Centers

Sources: Labor Force Surveys 2008 and 2018, General Authority for Statistics

Boosting female labor force participation is an integral part of the Saudi Arabian economic transformation, as dual-income families will have a reduced dependency on the state for employment and social benefits. A number of incremental reforms in the last decade have facilitated female entry to the labor market.

As Figure 1 shows, the vast majority (around 78 percent) of Saudi women are out of the labor force, that is neither working nor seeking employment. While this has been a stable trend, there has also been a rise in both employed and unemployed women in the country.

Vision 2030 and the National Transformation Program (NTP) set ambitious goals for changing this state of affairs. The government aims to increase the number of job opportunities for both men and women, especially in the private sector, from the 1.8 million when the program was launched in 2016, to 3 million by the end of 2020. The NTP also aims to increase the proportion of women who participate in the workforce by 2020, though these goals have been scaled back for each passing year, from 30 percent in 2016 to 28 percent in 2017, to 25 percent in 2018.



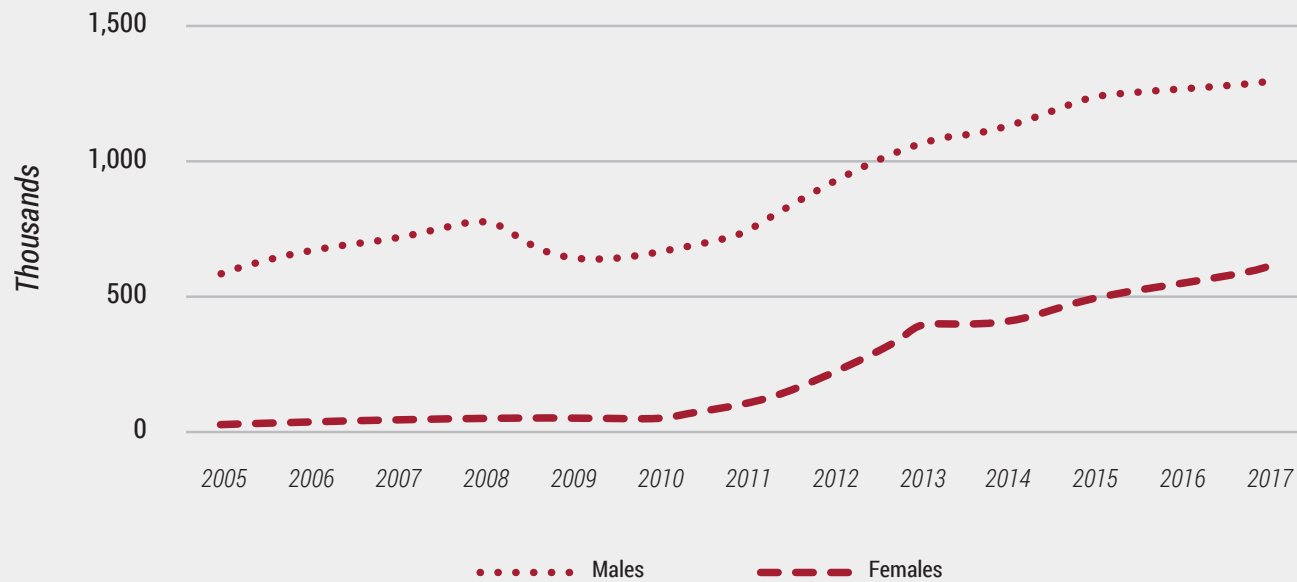
One core reason for the low levels of employment for Saudi women are the upfront costs for firms, as they must invest in separate physical space and special hiring processes for female employees.

RELEVANT EPoD RESEARCH

One study conducted under the EPoD Saudi Labor Market research program (Peck, Miller & Seflek, 2017) found that once the quota program Nitaqat motivated firms to make that initial investment, with lasting effects. After a firm hired their first female employee, their proportion of female employees increased to 30 percent, on average, after 5 years.

When women do work, they are overrepresented in certain parts of the public sector, particularly work within education. Conversely, as Figure 2 illustrates, female employment is lagging in the private sector, at 6.3 percent of all employment. Furthermore, most private-sector employment for women is clerical and sales jobs.

Figure 2: Saudi citizens employed in the private sector, 2005-2017



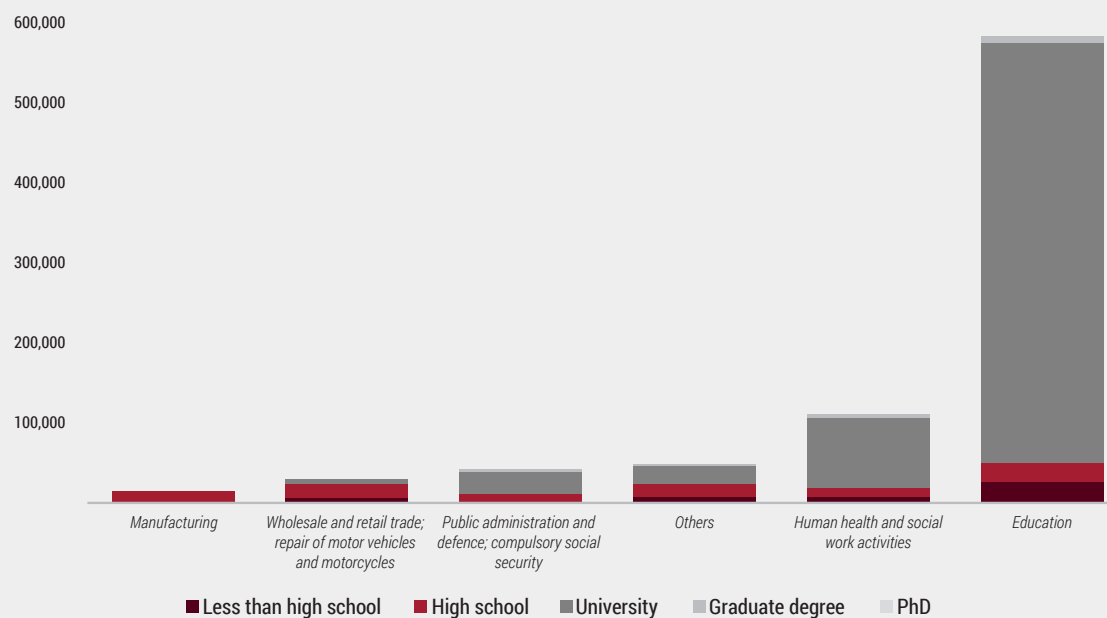
Source: Sama annual statistics 2017, General Authority for Statistics

WHAT IS SAUDI ARABIA DOING TO BRING WOMEN INTO THE WORKFORCE?

To increase female employment rates in the private sector, Saudi Arabian authorities have sought to expand the job market in general, and for women in particular, through promoting entrepreneurship. Programs such as the **Monsha'at**, and the entrepreneurship programs for women **through the Technical and Vocational Training Corporation (TVTC)**, aim to facilitate young entrepreneurship. The Ministry of Labor has launched number of initiatives within the National Transition Program to face the high unemployment rate among Saudis.

- Private companies such as the **Saudi Basic Industries Corporation (SABIC)** take part in organizing workshops and creating programs in collaboration with the HRDF to facilitate female entry into the labor force.
- The MLSD has launched a number of programs aimed at supporting training and job seeking training for women:
- Doroob Training Portal.
- **Partnerships with IBM and Huawei** to create more private-sector jobs for Saudi women.

Employed Saudi women by sector and education, 2016



Source: [Labor Market Q3 2016, General Authority for Statistics](#)

5. Youth Unemployment

MAIN POINTS

- Youth unemployment rates are unusually high in Saudi Arabia, especially among young women.
- Young people lack information about how to find jobs in the private sector given their limited experience in such work and small networks for finding opportunities.
- Firms lack information regarding the quality of young candidates. In addition, Saudi citizens have much stronger employment protection than foreign workers.
- Research conducted under the EPoD Saudi Labor Market research program (Hanna & Pande, 2017) indicates that relatively low-cost interventions such as job placement centers and on-the-job training schemes can be efficient in increasing youth employment in the private sector.



The Vision 2030 aims to “unlock the talent, potential, and dedication of our young men and women”, and promises continued investment in education and training so that the young population is better prepared for the jobs of the future.

Young people tend to be overrepresented in unemployment statistics globally, as it is a particularly sensitive demographic to labor market conditions. Yet, youth unemployment is particularly pronounced in the Middle East, and Saudi Arabia even stands out in the region. **The unemployment rate for those aged 20 to 24 was 38.8 percent in 2017, compared to less than 3 percent of those over the age of 40.**

Saudi youth today are typically better educated than their parents, but the younger segments of the population are growing particularly fast. **The median age is 27.5 years, which is well below Western countries,** but similar to that of the GCC as a whole. While the high youth unemployment is fundamentally linked to Saudi Arabia’s demographic trends, there are at least three other contributing factors.

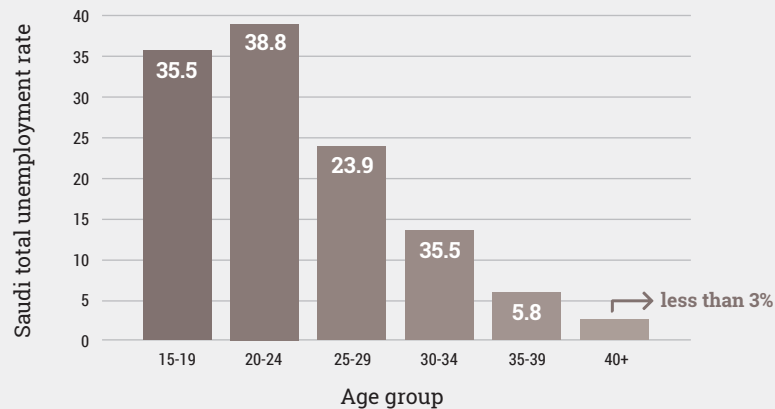
Helping Saudi youth enter the workforce

1.

Nearly 40% of Saudis in their early 20s are unemployed.





Saudi unemployment rates by age:



Sources: Labor Force Survey, General Authority for Statistics, Q3 2018 and General Authority for Statistics, 2018



2.

Why is it so high?

-  **Demographic trends** – young Saudi population (median age 27.5)
-  **Knowledge gaps** – limited knowledge navigating private-sector employment
-  **Information deficiencies** – employers have limited knowledge of youth credentials
-  **Skill deficiencies** – youth may lack skills required by employers
-  **Expectation mismatch** – youth may have high reservation wages

3.

The Kingdom's Human Resources Development Fund has several programs aiming to bridge these gaps:

-  Training opportunities, such as Tamheer and Dorooob, to build youth credentials
-  Career counseling, such as job placement centers, to bridge knowledge gaps

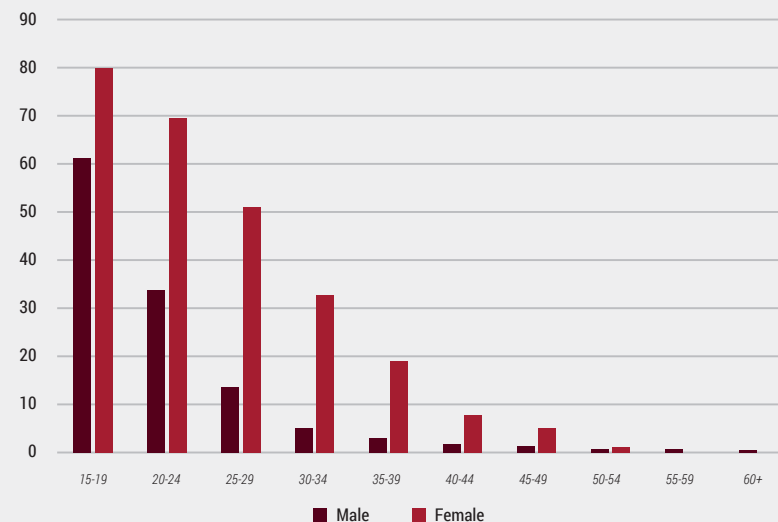
There may be information deficits for both job seekers and employers. Without work experience of their own, young people may lack the necessary information and social networks to search out and apply for jobs. This knowledge gap tends to be especially pronounced with respect to private-sector employment opportunities, where Saudi nationals are underrepresented.

Such informational problems affect young Saudi women in particular, as they often face additional hurdles in connecting with employment opportunities. For example, although MLSD policies on female employment in the private sector no longer require the consent of the male guardian, social traditions force many companies to seek such consent, particularly in the case of young women applying for jobs that entail interaction with men.

RELEVANT EPoD RESEARCH

There is evidence that this information deficit can be reduced quite cost-effectively. Analyzing administrative data from Hafiz and the General Organization for Social Insurance (GOSI), along with a new survey of approximately 760,000 Hafiz beneficiaries, research conducted under the EPoD Saudi Labor Market research program (Hanna & Pande, 2017) found that referrals to job placement centers were highly effective. 80 percent of Hafiz beneficiaries—both men and women—who receive referrals to job placement centers attend sessions there. Moreover, Hafiz beneficiaries who received a referral were 75 percent more likely to find private-sector employment than those who did not, even when controlling for other factors.

Figure 1: Unemployment rates among Saudi citizens



Source: Labor Market Q3 2018, General Authority for Statistics

Informational deficiencies may also reduce employers' willingness to hire young Saudis. With little previous work history, young job seekers have limited ability to signal their productivity to employers. Again, these informational problems are likely to be particularly serious for young Saudi women – the low female labor force participation leads to incomplete information about them in the labor market.

Accentuating the problem, 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 school transcripts.

RELEVANT EPoD RESEARCH

Research conducted under the EPoD Saudi Labor Market research program (Kugler, 2017) has shown that the very skills employers value the most, work ethic and interpersonal skills, are the hardest to find in new hires. While 39 percent of employers in a survey reported that skills related to work ethic are extremely important, only 1.4 percent report that it is easy to find male job-seekers with strong work ethics. The results are nearly identical for female employees.

Second, there may be an expectation mismatch for young job seekers. The private sector has traditionally been unpopular among Saudi nationals, who often associate it with poor working conditions and low job security. The private-sector opportunities also often fail to meet young nationals' expectations or desires in terms of working

hours, job security, and salaries.

Furthermore, general employment protections for Saudi workers may worsen the problem. Employment protections are meant to improve Saudi workers' perceptions of job security in the private sector by making it more costly to dismiss them, but they make it especially risky to hire a young person with little previous work experience. Policies that provide employers with low-cost ways to gather information on new workers may make it easier for firms to hire young job seekers.

The demographic and education trends of Saudi Arabia lead to tougher competition for jobs, which in turn may aggravate expectation mismatches. As Saudi youth are increasingly highly educated, returns to education have declined. *Nitaqat* quotas and several other MLSD policies seek to shift both perceptions and realities regarding these challenges, but even as private-sector firms transition to employing more Saudis, actual working conditions and reputations may be slow to adjust.

6. Matching in Markets

MAIN POINTS:

- **There is a large mismatch between the skills that Saudis acquire and those that employers look for.**
- **Human capital investments do not match the needs of the private sector, which leads to inefficient allocation of skills and workers.**
- **Saudi workers generally expect more favorable pay, working conditions and career objectives than firms are willing to offer.**
- **Policies that facilitate the information flow from employers to future job seekers would help students make more informed decisions and adjust expectations to reality.**

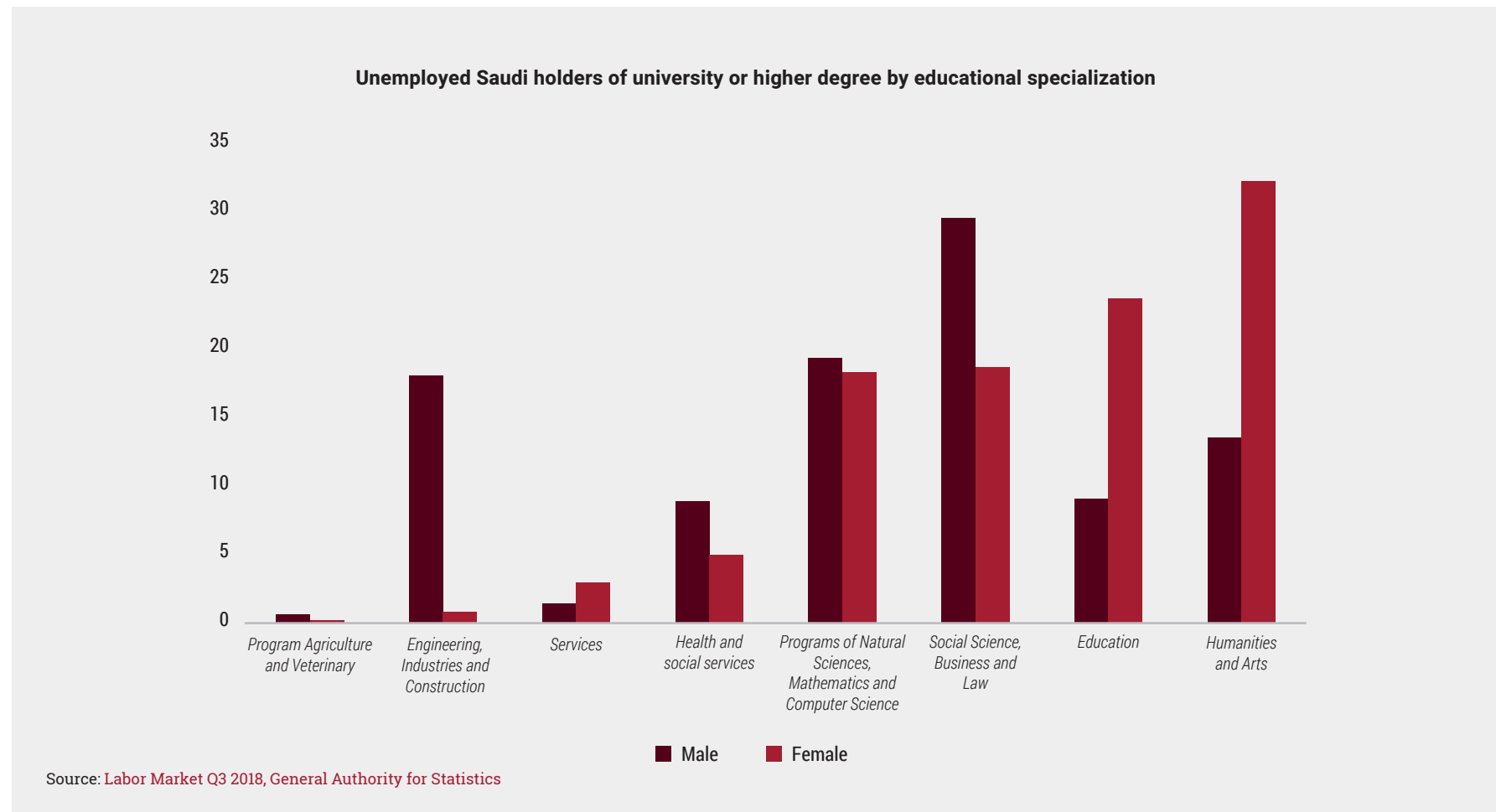


Vision 2030 recognizes the skills gap in the Kingdom, and aims to raise Saudis' skill level to match labor market needs.

- One target is that by 2020 90 percent of Technical and Vocational Training Corporation graduates will have joined the workforce within six months of graduation.
- Another is to raise the number of Saudis who have completed online training, hybrid, and on-the-job training from 36,000 to 1,000,000.

The Saudi Arabian labor market faces a serious market mismatch problem. Most importantly, there is a gap between the skills Saudis acquire and those that their potential employers want. The rapid increase in the number of educated citizens, both through domestic programs and 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). In addition to a high unemployment rate, students, especially females, may choose skills that do not match to labor market returns. Although women make up over half of college students, they are concentrated in the field of education. Women remain a very small minority in technical fields such as engineering, as seen in the figure below.



RELEVANT EPoD RESEARCH

One pilot study conducted under the EPoD Saudi Labor Market research program (Khwaja & Haidar, 2018) found that there is a profound misalignment in the relative supply and demand for skills in the job market. The enrollments in courses related to human resources (HR), secretarial work, customer service, and marketing is lower than the share of net jobs created in directly related occupations. The share of enrollments in courses related to information technology (IT), photography, and ticket reservation is higher than the share of net jobs in those occupations.

First-time labor market entrants often have strong formal credentials, but in an education system relying on rote learning, and with few internship opportunities, some non-cognitive skills that employers consider crucial are both underdeveloped and difficult to assess for universities and employers.

Universities teach the theoretical skills for success on the job, but private-sector employers want to see evidence of success in the workplace before employment. The Technical and Vocational Training Corporation (TVTC), the entity in Saudi Arabia that oversees all technical institutes, has been implementing programs to address labor market frictions for its graduates. In 2013, they sought to address the skills gap between technical colleges and employers through the introduction of Colleges of Excellence (CoE). It oversees 31 International Technical Colleges (ITCs) – institutes that create and implement their curriculum in partnership with foreign universities and companies. In 2014, there were 8,888 men and 10,826 women enrolled in ITCs.

The King Abdullah Scholarship Program (KASP) provides meritorious Saudi students with scholarships to pursue degrees at higher education institutes abroad, with the aim of giving them the background and skills needed for work in the private sector. Since the program was introduced in 2005, more than 30 countries have hosted KASP students, with most attending programs in the United States, Canada, the United Kingdom, and Australia.

The KASP sponsors bachelor's, master's, 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 an undergraduate or postgraduate degree program.

Graduates who receive the KASP scholarship are expected to enhance their skill acquisition at the tertiary level and return to the Kingdom to contribute to its growth and prosperity, however there is no data tracking scholarship recipients' job placement upon the potential return to Saudi Arabia. Such information is crucial to understanding if the program is actually effective in training a skilled workforce.

Saudi workers generally expect more favorable pay, working conditions and career objectives than firms are willing to offer. 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 offered by the TVTC, can also assist indirectly by steering students toward the most promising college majors and vocational opportunities.

Even if a job seeker has the right skills, they face the additional challenge of being able to signal to their potential employer that they are a good match for the position. Firms are unable to effectively screen job candidates when they do not have information about their qualifications. One survey from 2017 of more than 500 Saudi employers found that they screen candidates by CV-screening, competency-based interviews, and checking qualifications.

Currently, there is no information about how universities collect feedback from employers about the quality of their graduates. Understanding the formal and informal feedback loops between firms and universities would illuminate the flaws in the communication that has led to the supply-demand mismatch.

Finally, another way of ameliorating the effects of market mismatching issues is to incentivize entrepreneurship. Saudi Arabia is doing relatively well regionally in terms of prominence of small and medium enterprises (SMEs) compared to the other GCC countries, but is **lagging behind globally**.

7. Regional Unemployment amidst Rapid Urbanization

How does urbanization link to unemployment in Saudi Arabia?

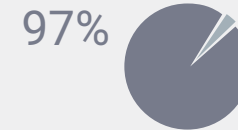
1.

80 percent of the Saudi population lives in cities



2.

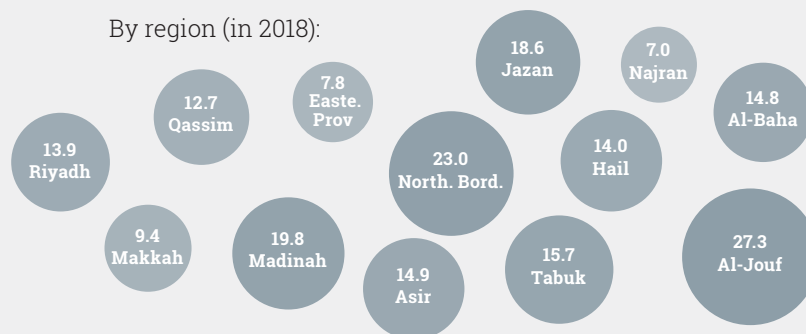
This is expected to exceed 97 percent by 2030.



3.

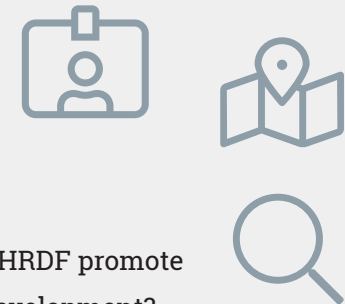
Unemployment is higher in smaller cities, ranging from 8 percent to as high as 23 percent in some regions

By region (in 2018):



4.

How does HRDF promote regional development?



Regional Job Placement Centers – provide regionally tailored job search consultations to areas across Saudi

Incentivize firms – provide private firms hiring small-city Saudis with extra incentives in Saudi Upskilling Program

Sources: United Nations, 2017; UN-Habitat; and Labor Market Q3 2018, General Authority for Statistics

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