

The Nitaqat Program

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I. Background Information

The Kingdom of Saudi Arabia ("KSA") has seen growing unemployment of the national workforce over the past several years. In response, the Saudi Arabian Ministry of Labor ("MoL") has developed a large portfolio of projects aiming to train and support the local workforce and increase employment rates, many of which are already underway or fully implemented. One of the fully implemented projects is Nitaqat, a policy supported by large ICT investments and e-tools which addresses the growing of expatriate labor by encouraging employers to hire Saudi nationals in the private sector and increasing transparency in the labor market for policy makers through an easily accessible online interface.

In order to incentivize employers to hire Saudi nationals, Nitaqat first categorizes all companies according to how many Saudis they employ in order to allot support appropriately. The four classifications, Platinum, Green, Yellow, and Red, are separated by thresholds measured by percentage of Saudis employed. These thresholds differ between employers based on activity (industry) and size (number of employees). During the implementation of Nitaqat, the MoL expanded the legacy list of 13 activities to 52, and created 5 size ranges. Therefore there are 260 potential activity and size combinations (52 x 5), each with their own set of percentage thresholds. In order to provide fairness to employers, these ranges differ based on the difficulty to achieve Saudization in different activities. For example, a higher percentage of Saudi employees is expected in a bank versus a construction company.

Figure 1 illustrates 4 examples of the Nitaqat rating thresholds: the different size ranges of the Wholesale and Retail Trade activity. As an example, a retail trade employer with 600 employees, 15% of which are Saudis, would be classified as Yellow. Whereas if that same employer increased its percentage Saudi employees to 30, it would be classified as Green.

Activity		Size	No. of workers		Red		Yellow		Low Green		Medium Green		High Green		Platinum	
			From To		From To		From To		From To		From To		From To		From To	
			From	To	From	To	From	To	From	To	From	To	From	To	From	To
12	Wholesale and Retail Trade	Small	10	49	0	4	5	9	10	20	21	23	24	26	27	100
		Middle	50	499	0	4	5	16	17	27	28	30	31	33	34	100
		Large	500	2999	0	9	10	23	24	30	31	32	33	34	35	100
		Mega	3000		0	9	10	24	25	32	33	34	35	36	37	100

Figure 1. Classification thresholds for differing sizes of the Wholesale and Retail Trade activity

Note that figure 1 only shows 4 size ranges; employers in the smallest size range (0-9 employees) for all activities are effectively exempt from Nitaqat, although are required to have at least 1 Saudi national.

Several exceptions exist to incentivize employment of disabled job seekers and students and to encourage fair compensation of employees. A disabled male or female employee is counted as 4 people in the nationalization equation, thus hiring a disabled Saudi is an attractive way to improve one's Nitaqat rating. On the other hand, students are counted as 0.5 people in the equation. The same mechanism is used to enforce salaries as outlined in figure 2; Saudi's paid less than 3,000 Riyals are counted as a decreasing fraction of 1 person in the Nitaqat classification until a lower limit of 1,500 Riyals, below which they are not counted at all. Other exceptions exist for rehabilitated prisoners and relatives of Saudi nationals in accordance with the objectives of MoL.

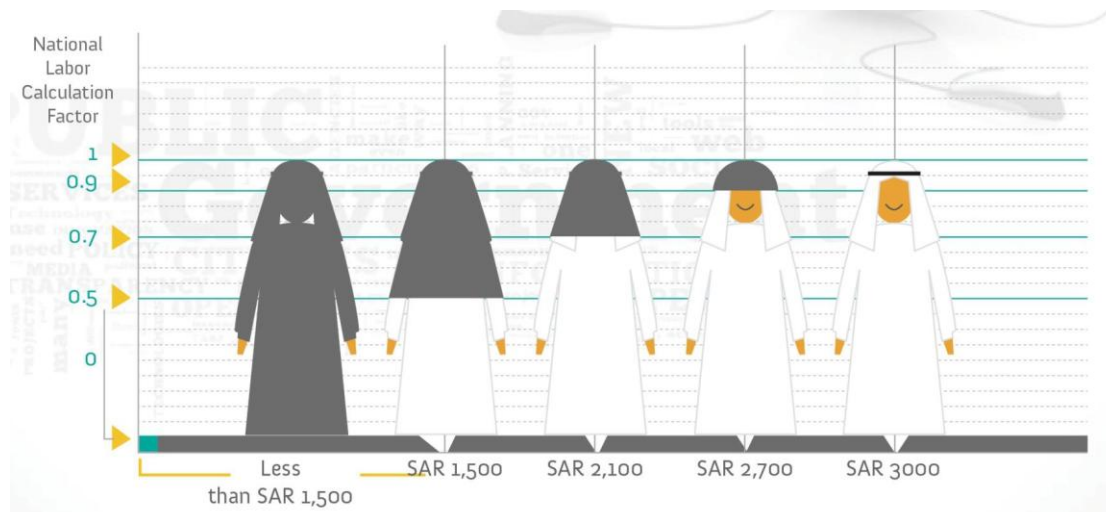


Figure 2. Below a salary of 3,000 SAR, a Saudi employee is counted as less than 1 in the nationalization equation.

A Platinum or Green Nitaqat status affords employers certain hiring benefits. Platinum and Green employers are able to obtain and renew work permits for foreign employees through an expedited online process, change the profession of foreign employees, and hire foreign employees from Red and Yellow companies without requiring the previous employer's approval. Yellow employers are only allowed to renew visas for employees with less than 6 years of service in Saudi Arabia, and can only apply for 1 new work visa after the permanent departure of 2 other expatriate employees. Red employers are the most restricted; they are unable to hire new expatriate employees, renew current work permits, or open a new company or branch within KSA until they improve their Nitaqat rating. Furthermore, employees of Yellow and Red companies with expired permit can be hired by Platinum and Green companies without the original employer's permission, addressing the concern of guest workers that this program would force them out of KSA.

The primary objective in delivering this new system has been to ensure accuracy and fair treatment for all involved stakeholders through accessible e-services. In order to meet that goal, the Nitaqat Program offers web and SMS interfaces that address the needs of all stakeholders. Employees and employers alike can quickly look up their company's Nitaqat rating, allowing foreign laborers to see if they are at risk of not being able to renew their work permit. In order to support employees of a Red or Yellow company, the interface provides services to assist laborers in changing their employer, labor branch, or profession in order to avoid unpredictable and unwanted termination of their work visa. For employers, these services provide information on current Saudization and the criteria to be met to improve Nitaqat status, as well as support services to obtain or renew visas. These services offer transparency and support to all involved stakeholder in order to provide fair treatment to both employers and the workforce.

II. Goals & Timeframe

After initially introducing Nitaqat to the market, MoL started a number of campaigns to increase the awareness among the private sector. All of this was in coordination with the Chamber of Commerce, in order to address each topic to the right audience of the concerned parties. During this, the list of benefits and privileges was explained, as well as the deadline concerning the correction period.

Nitaqat implementation has run smoothly since June 2011. Three key objectives were reached:

- Correction of employer data & introduction of benefits
- Enforcement of penalties for red entities
- Enforcement of penalties for yellow entities

As next steps, Nitaqat team has already been working on how to make the system even more fair and effective, and this will be achieved through Nitaqat 2.0 & Nitaqat 3.0.

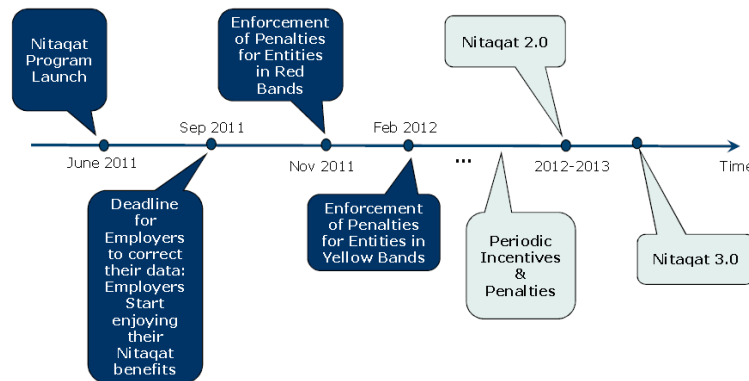


Figure 2. Number Goals and timeframe of Nitaqat implementation

III. Project's Added Value and Importance

The Nitaqat Program improves the general quality of life in KSA by bolstering employment of Saudis and by providing the services to do so in an easily accessible e-service format. The Saudization classification system provides an activity- and size-dependent rating so Nitaqat can support higher rated employers, incentivizing companies to hire unemployed Saudis. This has seen immense success, with a 58% increase in Saudi private sector employment since implementation as shown in figure 2, overall more than 400K Saudis.

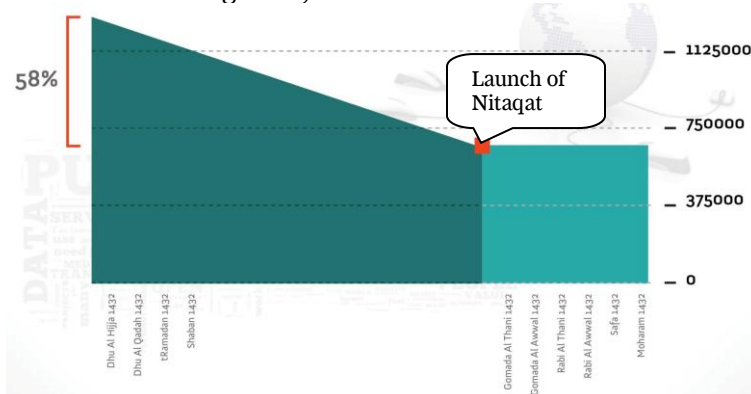


Figure 3. Number of employed Saudis in private sector before and after launch of Nitaqat.

Because Yellow employers are unable to renew work permits for more than 6 years, and Red employers are not able to renew at all, guest workers were initially concerned that this program would cause massive deportation of current expats. Nitaqat addressed these concerns by allowing Platinum and Green employers to hire these guest workers, and by providing services to connect these expats and job providers and to assist them in transferring work visas.

Going beyond Saudization in absolute numbers, Nitaqat has been developed with a special focus on female labor, since this topic will represent one of the major challenges for the national labor market in the coming years. In fact, a female employee is counted as 100% in the nationalization equation, and this has led to a significant boost in the number of employed Saudi females. Only 13 months after Nitaqat introduction, 103,962 new jobs for Saudi females were created. As a consequence, share of national female employees increased from 40.6% to 65.3%

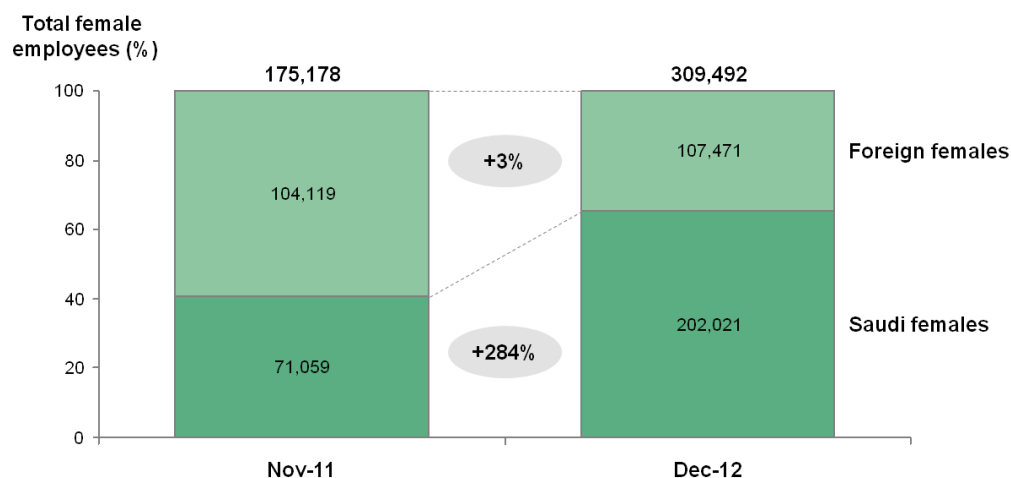


Figure 4. Evolution in number of Saudi female employees after first year with Nitaqat

While the content of the program addresses the MoL's fairness and equality objectives, the key to Nitaqat's success has been the transparent delivery of the system through accessible online and SMS interfaces. This approach allows all entities to quickly access accurate information regarding Nitaqat status and services to assist employees and employers address their respective needs. These services have been extremely attractive so far: nearly 6 million transactions were completed in just this past year.

IV. Challenges

So far Nitaqat has addressed many challenges; however, there are 3 major issues that are ongoing to which the program must continue to seek resolution. These are:

- The increasing number of Saudi graduates in KSA
- The large eligible yet unemployed female population
- The imbalanced geographic distribution of job opportunities

The number of individuals entering into the labor market from the secondary school is about 330,000 male and female per year. The number of graduates will increase even more, which entails more nationalization and more job opportunities to be created. Hence, Nitaqat will periodically review the thresholds in order to accommodate the number of individuals entering the labor market.

As stated in paragraph III, in order to proactively address the challenge represented by women entering the labor market in the coming years, employers benefit from hiring a woman with maximum credit (100%). This has proved to be a winning strategy, since the number of employed Saudi women has been growing steadily.

The Ministry of Labor is also taking into consideration the Geographical changes as per different regions among Saudi Arabia. Therefore, it has been developing a program for a Regional Nitaqat. This will mean addressing each region on a different Saudization rates, based on number of factors – I.e. mega projects (both government and private), number of unemployed, main industries and average size of entities in the region.

V. Relevance of the Project to the Respective Action Line (E-employment)

The Nitaqat Program is an attempt to reduce unemployment nationwide through electronic services. By providing these services through commonly used technology, the MoL can reach a wider range of employees and employers to deliver consistent and accurate messages and information. Considering the possible consequence of terminated work visas for guest workers, accessible information and transparency are critical.

Nitaqat's main interface, the website www.emol.gov.sa/Nitaqat, provides information and services relevant to all entities. Employers and employees can access Nitaqat general or company-specific information, and can use the online resource to help obtain or renew visas, change professions, or transfer employees from a Yellow or Red company to a Platinum or Green company. In addition to a standard website offering, Nitaqat offers a simple way to receive rating information through SMS, as outlined in figure 3. These two interfaces make Nitaqat information and tools easy to access and use for the vast majority of KSA.



Figure 5. Nitaqat web login portal and SMS instructions.

VI. Conclusion

The Nitaqat Program is effectively addressing unemployment through a unique and fair system design and an accessible e-services interface. By tailoring its classifications of employers by their industry and size as well as their Saudization level, Nitaqat takes into account the relative difficulty of hiring Saudis for employers with different characteristics. The incentive

structure encourages employers to hire locally while alleviating the potential forced displacement of current guest workers.

Nitaqat has been able to quickly and effectively roll this project out nationwide by leveraging electronic services to maintain transparency between employees, employers, and the program and to reach out to as broad a base as possible.