

Concentration of Saudi Employees within the Nitaqat Minimum Wage

Chaza Abou Daher, Research Manager at Alnahda Program for Research

December 2020

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In 2011, the Saudi government implemented a new version of the nationalization program called “Nitaqat”, which instituted new quotas for firms to hire Saudi nationals, while also enforcing penalties and incentives for companies to reach the set targets. Nitaqat replaced the previous blanket of 30% Saudization quota introduced in 1994, (Sambidge, 2011), and introduced new requirements for determining quota based on company size and industry (Spivack, 2011). In 2012, the Government set the salary of SAR 1,500 as the minimum criteria for Saudi employees to count towards fulfilling their employer’s Saudization quota, which was later increased to SAR 3,000 in 2013 (Alajlan, 2020). For the remainder of this brief, the salary bracket between SAR 3,000 and SAR 3,500 will be referred to as the “minimum wage” in the context of Nitaqat. The reason why the “minimum wage” includes salaries up to SAR 3,500 is to account for any firm-level decision to bookmark employees slightly above the SAR 3,000 threshold, especially as it relates to ghost employment (Alajlan, 2020).

According to GOSI private employment data in 2018, 52% of Saudi employees reportedly earned the Nitaqat minimum wage. This concentration is exceptionally high when compared to the proportion of the labor force at or below the minimum wage in other countries. In the United States, the percentage of hourly paid workers earning the prevailing federal minimum wage or less reached 2.1% in 2018. In Spain, 3.5% of workers earned the minimum wage in 2018 and 6.6% of private sector workers did so in Jordan in 2010 (Alhawarin & Kerishan, 2017) (Trésor-economics, 2019). Evidence from the US (US Bureau of Labor Statistics, 2018), UK (Dube, 2019). and Canada (Sussman & Tabi, 2004) shows that minimum wage earners are more likely to be young female part-time workers, working in service occupations such as trade & retail, accommodation, and food services.

Although the Nitaqat policy offers a clear motivation for the concentration in wages among Saudis, there is little understanding or empirical evidence of the characteristics of workers hired within this wage bracket. Possible explanations include: 1. low-paying and entry level jobs that do not require skilled workers; 2. misreported salaries, where firms register employees as earning the Nitaqat minimum wage in order to reduce the cost of social insurance paid to GOSI, when in fact their total salary is higher; and 3. ‘ghost employment,’ where employees appear on a firm’s payroll without actually working for the firm. However, none of these profiles have been fully investigated, nor do they offer a conclusive understanding of this prevailing trend in the labor market.

This policy brief aims to offer a better understanding of hiring trend at the Nitaqat minimum wage for the past decade and build a profile of Saudi male and female employees earning this salary bracket in the private sector. **The first section** examines employment of Saudis before and after 2013. **Section two** examines hiring trends from 2009 until 2018. **Section three** focuses on characteristics of male and female employees earning the Nitaqat minimum wage in the year 2018. The last section offers some recommendations and areas for investigation and ends with an evaluation of the three aforementioned possible profiles.

Today, male and female employees earning the Nitaqat minimum wage are young and work mainly within small and medium-sized companies in construction, hospitality, business services and trade & retail. Although the total proportion of men within this wage bracket is higher, the concentration is greater among women when considering the relative size of the female population; accounting for 70% of total female employees compared to 43% of total male employees in 2018. Saudi females in this bracket are seven years older than their male counterparts with the same median years of experience.

When taking a longitudinal view, starting from 2009 to 2018, we find that a large proportion of male and female employees who were employed before the year 2013 at salaries below SAR 3,000 were directly converted into the Nitaqat minimum wage bracket as a direct response to the minimum wage requirement set by Nitaqat in 2013. Between 2012 and 2013, salaries of 63% of male and female employees earning less than SAR 3,000 in 2012 increased year-on-year to the Nitaqat minimum wage. Further, out of total employees earning the Nitaqat minimum wage in 2018, 5% had joined the workforce before 2013 and 8% joined in 2013. This means that since 2013, 14% of employees have not had a change in their salaries and continued earning the Nitaqat minimum wage until 2018.

Examining the growth in the volume of total new hires into the labor force within the last decade (2009-2018) indicates that the labor market response to the implementation of a newer version of “Nitaqat” was more extreme for females compared to males. Since 2013, hiring volumes for male employees have been dropping consistently, while registering larger volatility among females. For both genders, hiring across all wages dropped by around 60% in 2018 on a year-to-year basis. As for the likelihood of earning the Nitaqat minimum wage as the starting salary, the share of male and female new entrants in this salary bracket dropped by 10% within the six-year period between 2013 and 2018.

Examining the exit behavior and salary stagnation of new hires at the Nitaqat minimum wage between 2013 and 2015 indicates that 1) 21% and 28% of male and female new hires at the minimum wage left the market with less than a year of experience, 2) females left the private sector sooner than their male counterparts, with less than two years of experience and 3) among women who did remain in employment for two or more years were more likely to witness salary stagnation over the course of their employment compared to males. The brief employment of new hires at the Nitaqat minimum wage might be a signal that the market responded to Nitaqat through ghost employment as a short-term solution. Further investigation is required to better understand the profile of this group. Additionally, the gender gap in duration of employment and salary stagnation of new hires at Nitaqat minimum can offer additional insights into the behavior of companies regarding ghost employment, although other drivers could contribute to this gap as well, including higher likelihood for intermittent employment for females, and gender gap in salary growth.

Contrasting these trends by firm size, micro and small-sized companies witnessed the steepest year-on-year jump in employment at the Nitaqat minimum wage in 2013 and maintained elevated levels until 2018. Larger companies registered faster decline rates over the years especially with male employees at this salary bracket. The difference in behaviors highlights the pressures on smaller companies to adapt to new Nitaqat policies, and the limitations on the ability to absorb new Saudi hires. The elevated levels of the Nitaqat minimum wage among smaller companies can be explained by all three aforementioned profiles: low skilled employment, misreported salaries and ghost employment.

1) Saudi employment before and after the year 2013

Examining employment before and after 2013 allows us to assess the impact of introducing the Nitaqat minimum wage on the concentration of employment within this bracket. It also provides insight into which industries and firm sizes that had the strongest response to the program, and which ones are experiencing a decrease in this concentration. Figures 1 and 2 show that the growth of the Saudi male labor force between 2009 and 2018 has been much smoother compared to the female labor force, which witnessed an exponential growth between 2011 and 2013 before moving to a more linear growth pattern between 2013 and 2017. Both male and female labor force shrank in the year 2018.

From 2009 to 2012, most Saudi employees in the private sector were earning salaries below SAR 3,000, which was especially true for female employees compared to their male counterparts. Looking specifically at the salary bracket of SAR 1,500, as in the graphs below show, there was a year-on-year growth of up to five percentage points in 2012, as an immediate response to the minimum quota requirement that was then enforced. The year 2013 represents a discontinuity in the time trend, which constitutes a sharp decline in the proportion of employees earning salaries below SAR 3,000 to almost null levels coupled with a sharp rise in the minimum salary bracket (figures 1 and 2).

Figures 1 and 2 marked 2013 as the pivot year in terms of the emergence of the dominant salary bracket. This is led by a year-on-year increase in the salaries of existing employees earning less than SAR 3,000, and a rise in hiring at the Nitaqat minimum wage and above. Salary data shows that 59% of Saudi female employees and 64% of Saudi male employees earning below SAR 3,000 in 2012 and remaining in the labor market after 2013, were earning the Nitaqat minimum wage in 2013; only 10% of male and female employees were earning more than that¹. Comparing these findings to 2018, we find that the proportion of male employees earning Nitaqat minimum wage has declined to constitute 43%, while female employees have remained at 70% (figures 1 and 2).

¹ These employees have remained in the workforce after 2013

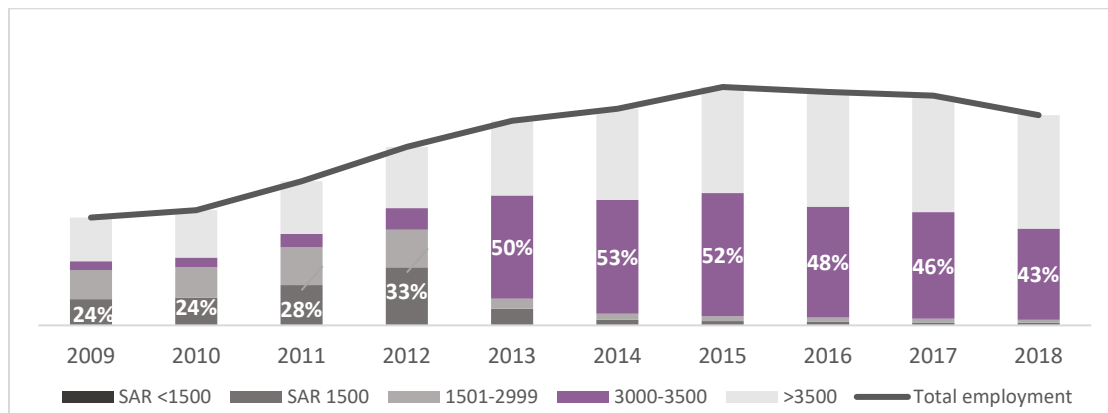


Figure 2: Employment and salary distribution of Saudi male employees in the private sector, from 2009 to 2018

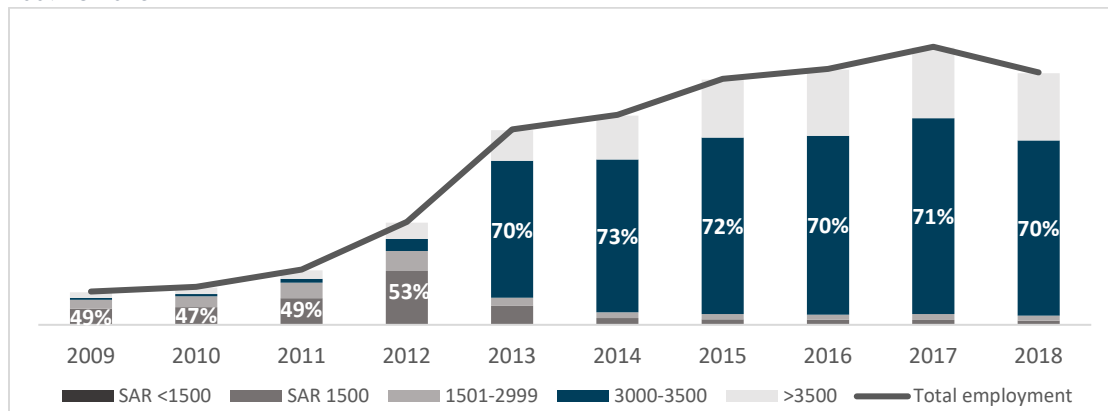


Figure 1: Employment and salary distribution of Saudi female employees in the private sector, from 2009 to 2018

Distribution by Industry

Figures 3 and 4 show the change in the distribution of Saudi male and female employees across industries and salary brackets between the periods 2009-2012 and 2013-2018. As can be seen from the charts, most male employees earning less than SAR 3,000 and working in hospitality, construction, business services and trade and retail before 2013 were likely registered as earning the Nitaqat minimum wage after 2013. In other industries such as education, health activities and social services, male employees earning less than SAR 3,000 before 2013 were more likely to earn salaries higher than the Nitaqat minimum wage since then. As for female employees, they moved from earning less than SAR 3,000 to the Nitaqat minimum wage across most industries in 2013, except for petrol and mining, and finance and insurance, where female salaries have historically been mostly higher than SAR 3,500, and education where female employees were already earning more than the Nitaqat minimum wage since 2013.

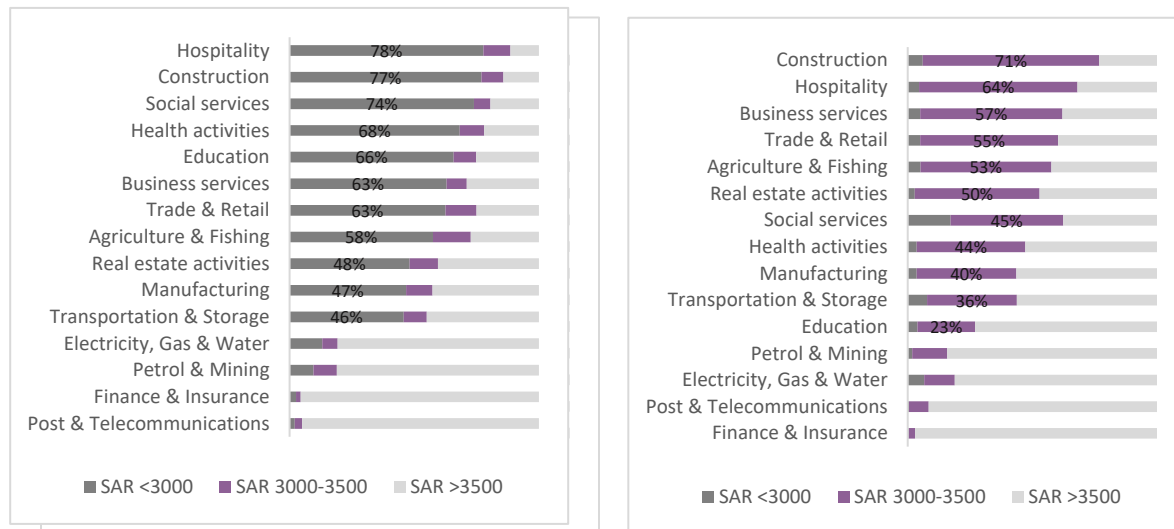


Figure 3: Average distribution of Saudi male employees across industry and salary bracket, in the period 2009-2012 (left) and 2013-2018 (right)

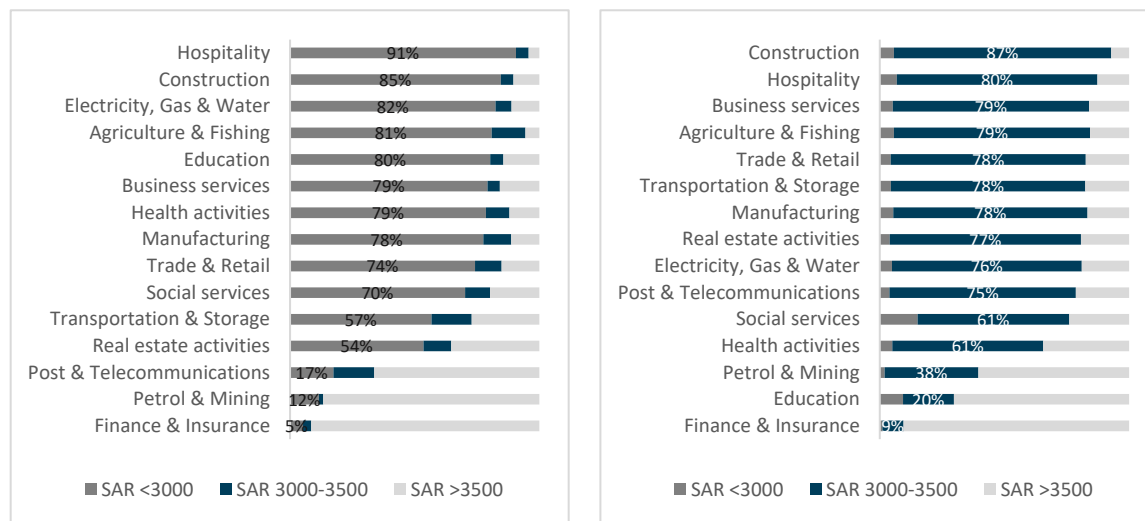


Figure 4: Average distribution of Saudi female employees by industry and salary bracket, in the period 2009-2012 (left) and 2013-2018 (right)

Distribution by Firm Size

Figure 5 illustrates the proportion of Saudi employees earning the Nitaqat minimum wage across firm sizes in the last decade and offers several key observations: 1) The share of Saudi employment at this salary bracket witnessed a significant jump in 2013, especially within micro and small-sized firms, with large and mega firms seeing the most modest rise; and 2) Between 2013 and 2018, large firms registered the largest drop in the share of Saudis earning the Nitaqat minimum wage, with an 11 percentage point drop, followed by mega and medium-sized firms. Small and micro-sized firms on the other hand continued seeing a slight rise in 2014 before plateauing. Breaking this analysis down by gender (figure 6) shows that female proportions at the Nitaqat minimum wage witnessed higher jumps in 2013 and maintained higher levels since, compared to males, especially within large and mega-sized firms. Female proportions at this salary bracket remained relatively stable in medium-sized firms since 2013, compared to a ten-percentage point drop with male employees. Looking at mega-sized firms, female proportions at this salary bracket have been oscillating since 2013 compared to males with a drop of ten percentage points.

The decline in the proportion of employees earning SAR 3,000 may point to a possible response to the Wage Protection System (WPS) launched by the General Organization of Social Insurance that enforces disclosure of employee salaries. It may also indicate a change in the culture of hiring of Saudi employees in the private sector, and a willingness to pay higher salaries.

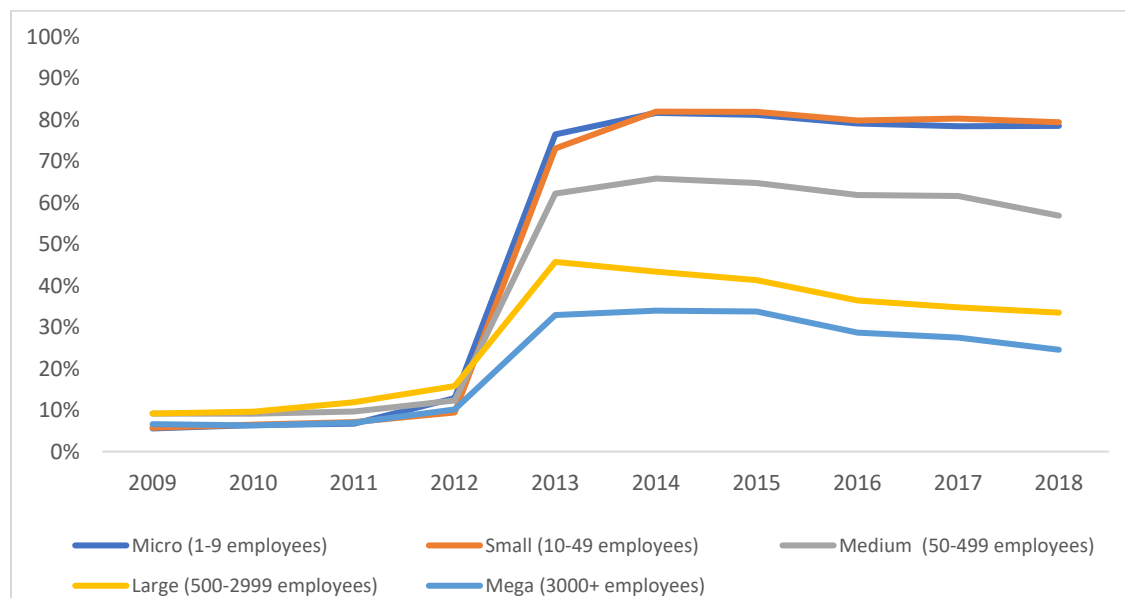


Figure 5: Proportion of Saudi employees earning the Nitaqat minimum wage by firm size, from 2009 to 2018

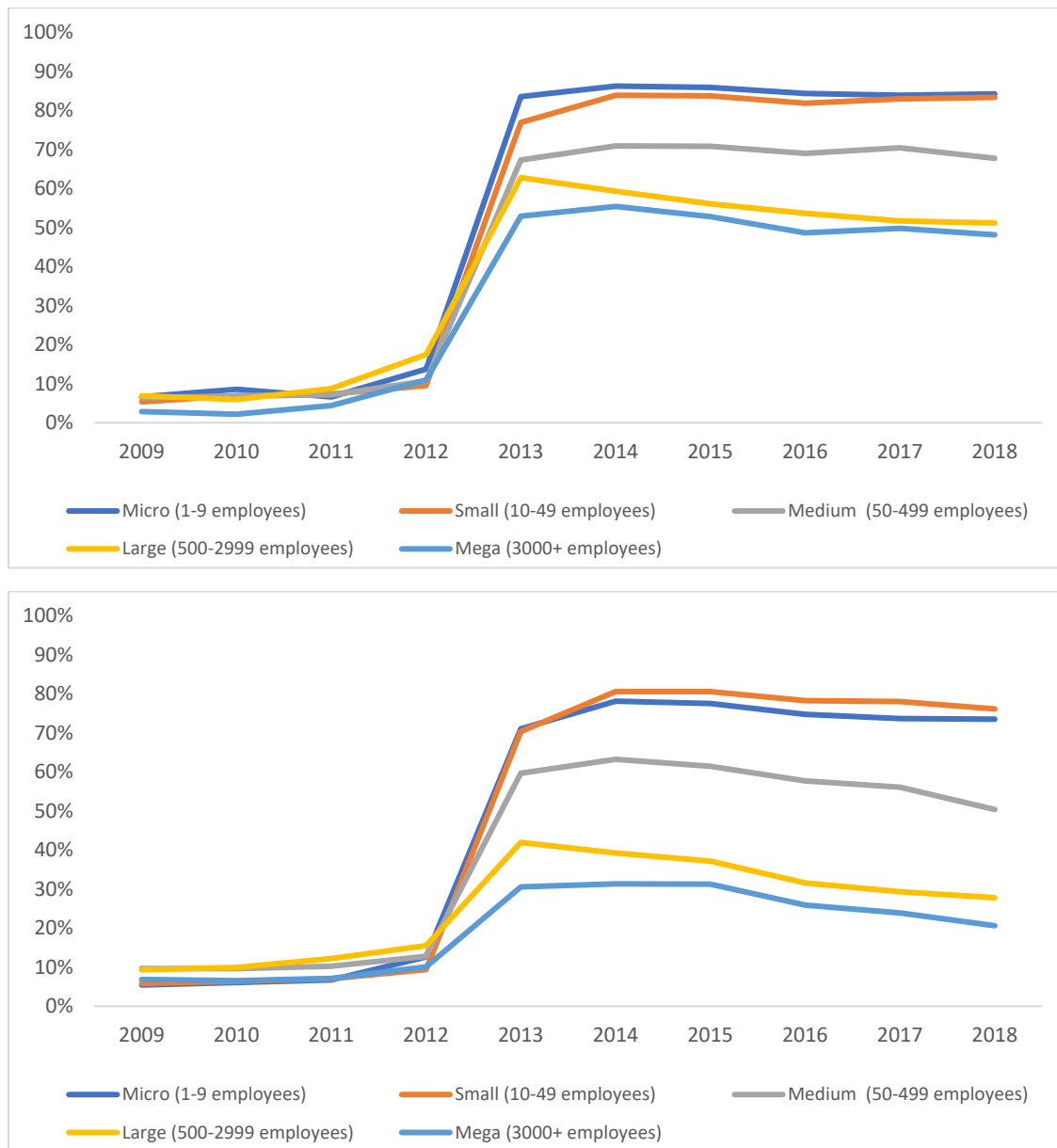


Figure 6: Proportion of Saudi female (top graph) and male (bottom graph) employees earning the Nitaqat minimum wage by firm size, from 2009 to 2018

2) The Nitaqat minimum wage and new entrants since 2013

Focusing our analysis on new entrants into the private sector since 2013 aims to understand the overall pipeline of employment overall and at the minimum wage bracket. It allows us to focus on groups that were hired into the Nitaqat minimum wage, excluding the groups whose salaries were directly converted as a result of Nitaqat. We will also track salary growth of new hires, distribution across industries and firm sizes, and the exit points and duration of male and female employees following the introduction of the minimum wage.

Examining hiring trends across all wages in the past ten-year period, around 64% of new Saudi hires each year were males, although the share of female new entrants has increased over the years, from a mere 15% in 2009 to 51% in 2018. For both genders, hiring across all wages dropped by around 60% in 2018 on a year-to-year basis. This is potentially driven by employers' caution to hire following an economic contraction since 2016 (Jadwa Investment, 2017, 2018).

As figure 7 shows, the hiring trend across all wages of all male and female employees into the private sector between 2011 and 2013 looks very different. Comparing yearly growth rates within this three-year-period indicates that the labor market response to the implementation of a newer version of "Nitaqat" was more extreme for females compared to males. For male employees, the highest year-on-year growth was in the year 2011 at a level of 71%. Hiring remained relatively stable between 2012 and 2013, and then followed a consistent almost linear downward trend after 2013. As for Saudi female new hires, the year-on-year growth rate went from 6% in 2010, to 101% in 2011, 134% in 2012, possibly as an immediate reaction to reforms that enforced female employment in the retail and manufacturing sectors (Allqtisadiyah, 2011, Alghaythi, 2012), and 92% in 2013. The exponential rise in female hiring between 2011 and 2013 was followed by a sharp drop in 2014 and continued its downward trend but with higher volatility compared to males. Again, the sharp increase in hiring Saudis in 2011 is likely the result of the announcement of Nitaqat early in the year, especially since private sector firms were given until the end of the year to increase Saudi employment before Nitaqat quota penalties would come into effect (Sambidge, 2011).

As for salary distribution, an average of 79% and 84% of male and female new hires between 2009 and 2012 were offered less than SAR 3,000, respectively. In 2012, the share of employees hired at SAR 1,500 increased, potentially as an immediate response to setting this salary level as the Nitaqat minimum criteria for the Saudization quota, which was then increased to SAR 3,000 in 2013. The latter explains the rise of the average starting salaries since 2013, with 74% and 78% of male and female new hires offered the Nitaqat minimum wage. The share of new hires earning the latter salary bracket dropped by 10% between 2013 and 2018 for both male and female employees. Between genders, female employees have historically been more likely to be hired at the Nitaqat minimum wage, compared to their male counterparts.

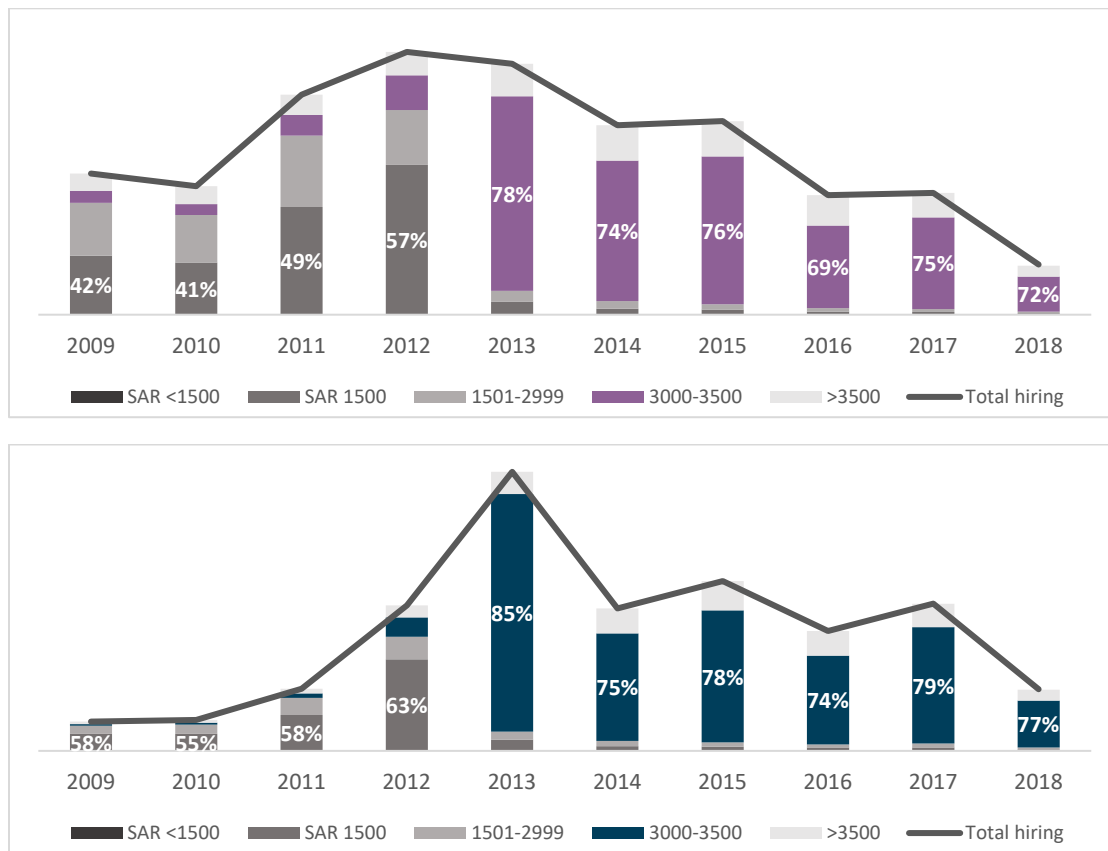


Figure 7: Number of new hires and distribution of male (top graph) and female (bottom graph) new hires by salary bracket in the private sector, in the period 2009-2018

Salary growth and market exit of new hires at the Nitaqat minimum wage since 2013

Following the exit points and salary growth of male and female employees hired since 2013 at Nitaqat minimum wage may offer some insights into the prevalence of ghost employment in the market as a response to Nitaqat. Between the years of 2013 and 2015, 21% of male new hires exited the market, with less than a year of experience. And another 18% worked for more than a year but exited before their second. Female new hires within this period were even more likely to leave, with 27% exiting before their one-year mark and another 17% exiting with less than two years of experience (figure 8).

To trace the salary growth of new hires, we look closely at male and female employees who entered the private sector between 2013 and 2015 at the Nitaqat minimum wage, and who remained in the workforce for two or more years. Gender disparity is evident in this group, where 58% of males earned stagnant salaries over the course of their employment compared to 72% of females. On the other hand, 36% of male new hires experienced a raise compared to 23% of females.

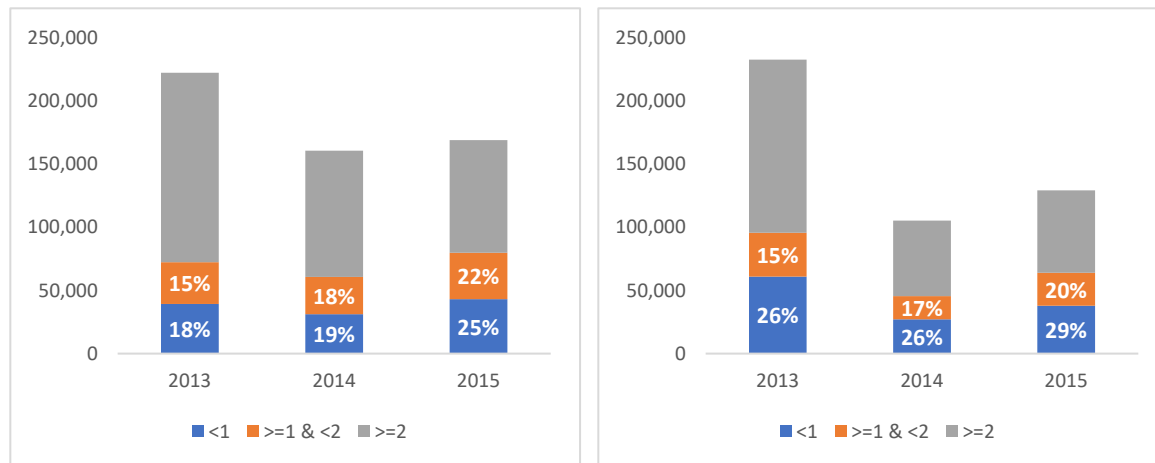


Figure 8: Experience breakdown of male (left graph) and female (right graph) new hires earning the Nitaqat minimum wage, by year in the period 2013-2017

Distribution by Industry

in construction, hospitality and business services were most likely to hire male and female employees at the Nitaqat minimum wage between 2013 and 2018 (figures 9 and 10). Among females, utility industries, agriculture and fishing were also top recruiters at this salary bracket, while trade and retail were large recruiters for males. Recruitment at the Nitaqat minimum wage seems to be declining across most industries, apart from education, which witnessed a solid growth for male and female employees during this period. This is also the case for utility industries in the case of males.

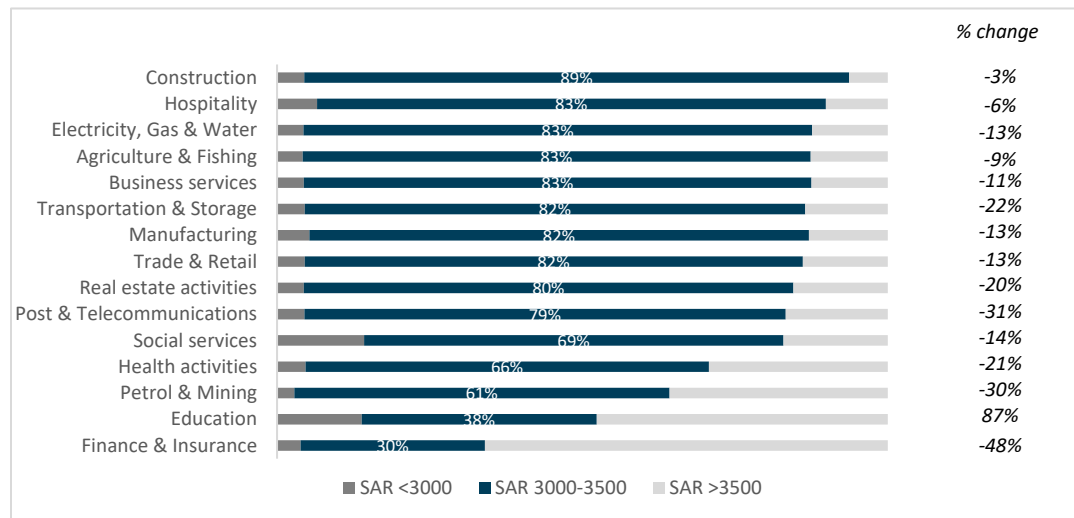


Figure 9: Average distribution of Saudi female new hires by industry and salary bracket, in the period 2013-2018. The column “% change” indicates the change in the share of new hires earning Nitaqat minimum wage between 2013 and 2018

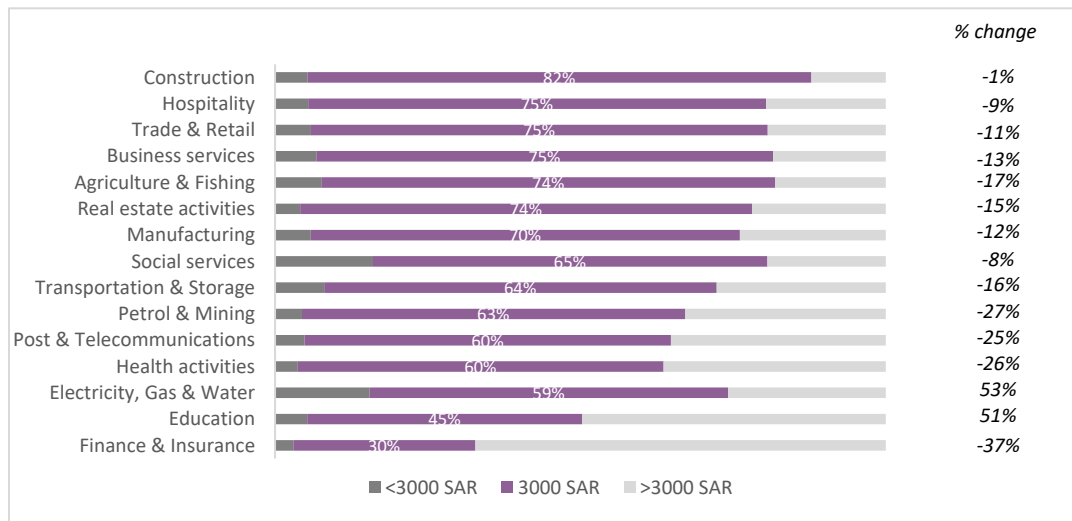


Figure 10: Average distribution of Saudi male new hires by industry and salary bracket, in the period 2013-2018. The column "% change" indicates the change in the share of new hires earning Nitaqat minimum wage between 2013 and 2018

3) Closer look at the year 2018

General Profile

The profile of employees working within the Nitaqat minimum wage in 2018 helps explain a proportion of this bracket. The majority are young males, with a high school degree and occupy entry and mid-level jobs² (figure 11, 12, 13, 14). It is worth noting that, although the total proportion of men within this wage bracket is higher, the concentration is greater among women when considering the relative size of the female population in the job market, where 70% of total employed women compared to 43% of employed men earn the Nitaqat minimum wage. Additionally, while employees in this bracket tend to be young overall, comparing the median age between males and females, we find that males are almost seven years younger than females (figure 12).

To measure the extent to which the initial introduction of Nitaqat still influences the composition of the labor market, we examined the date of entry of employees in this wage bracket. Out of total employees earning the Nitaqat minimum wage in 2018, 5% had joined the private sector workforce between 2011 and 2012 (4% of females vs 5% of males) while 8% joined in 2013 (10% of females vs 6% of males). While it is unclear how to profile ghost workers, it is worth understanding the profile of these employees as they have joined the labor market at the introduction of Nitaqat and continue to be employed at the Nitaqat minimum wage.

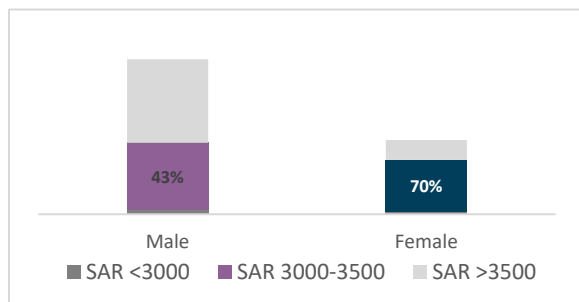


Figure 5: Salary breakdown by gender in the private sector in 2018

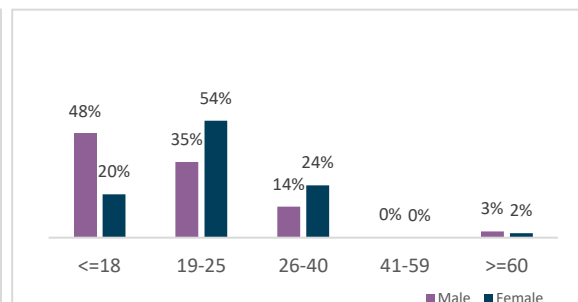


Figure 12: Age breakdown of Saudis earning the Nitaqat minimum wage in the private sector in 2018

² The overall experience is calculated using the end date of "August 1st, 2019", whenever the employee had an ongoing employment.

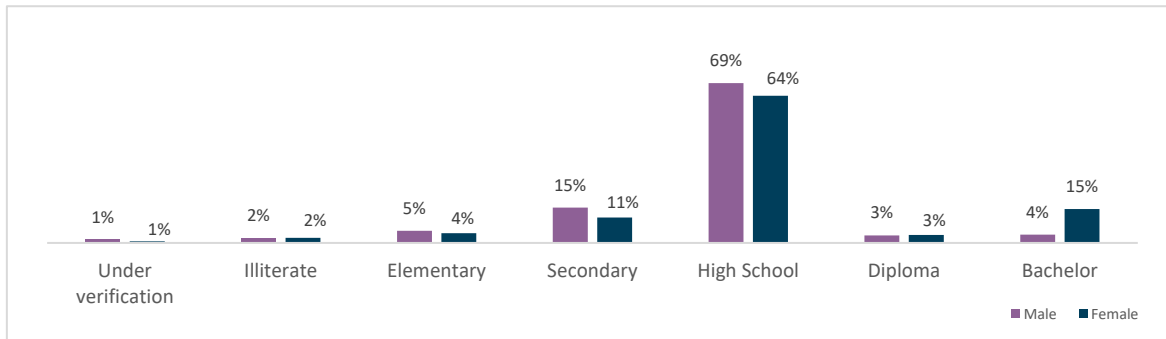


Figure 6: Education breakdown of Saudi employees earning the Nitaqat minimum wage in the private sector in 2018, by gender

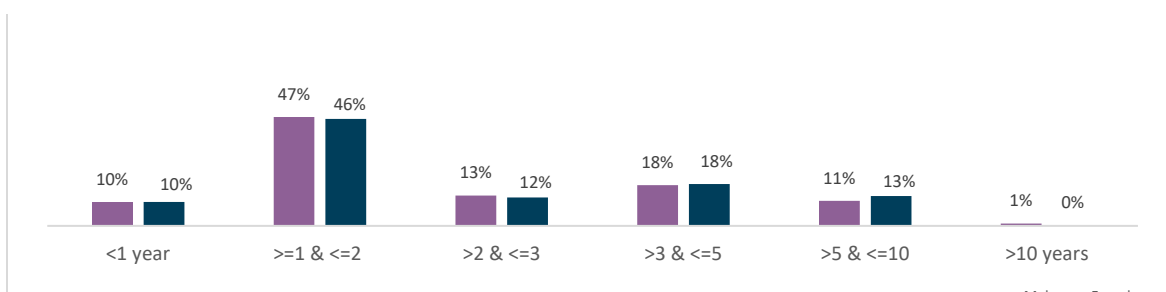


Figure 14: Experience of Saudi employees earning the Nitaqat minimum wage in the private sector in 2018, by gender

Industry and Firm Size Breakdown

Both Saudi male and female employees are most likely to earn Nitaqat minimum wage in micro and small companies (figure 15). The distribution across industries remains consistent with the trend in the last five years (refer to section 2): Both male and female employees are most likely to earn the Nitaqat minimum wage in construction, hospitality and business services (figure 16). Most notably, the cross-distribution between size and industry shows that employees earning the Nitaqat minimum wage within large and mega companies are most likely employed in post & telecommunication, petrol & mining, utility industries and business services (figures 17 and 18).

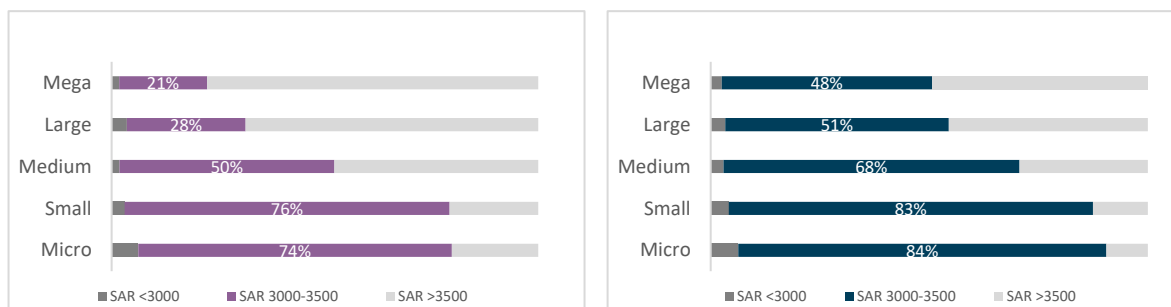


Figure 15: Distribution of Saudi male (left graph) and female (right graph) employees by firm size and salary bracket in the private sector in 2018 (representation)

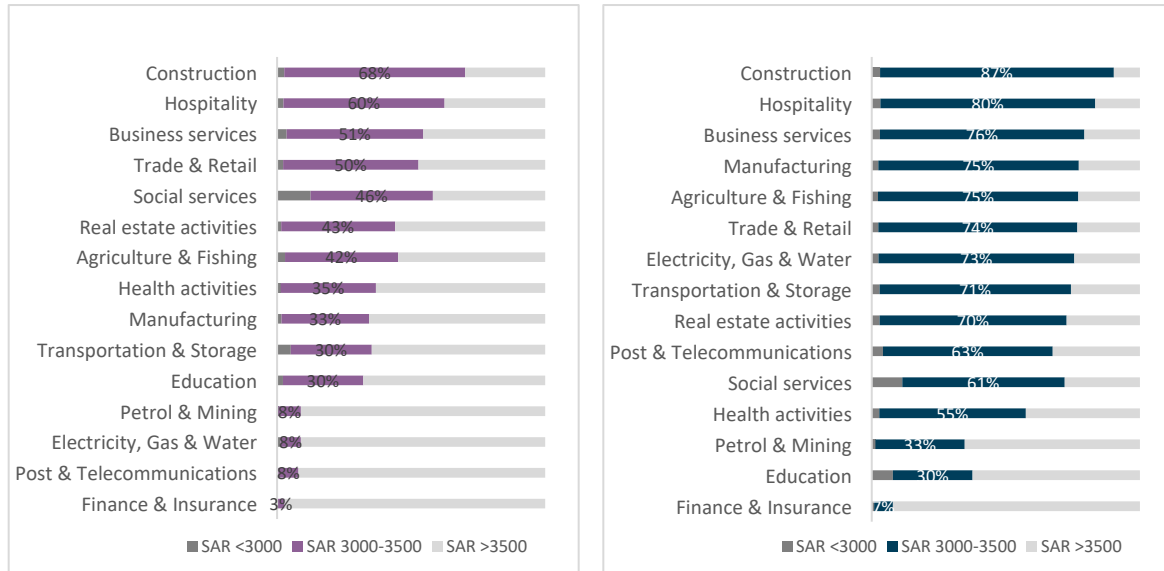


Figure 16: Distribution of Saudi male (left graph) and female (right graph) employees by industry and salary bracket in the private sector in 2018 (representation)

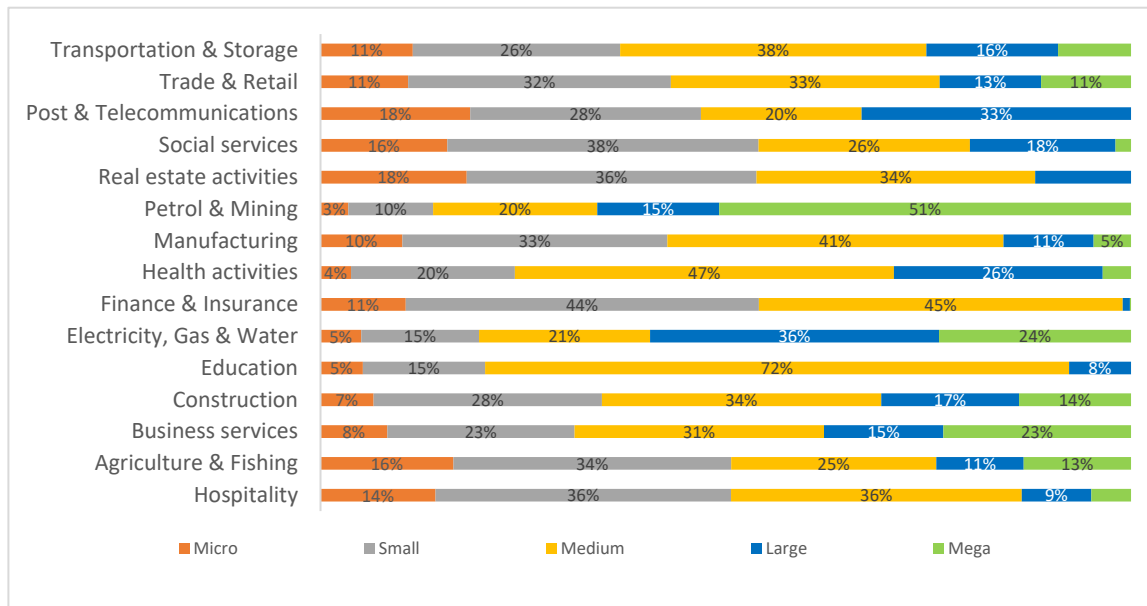


Figure 17: Distribution of Saudi male employees earning the Nitaqat minimum wage in the private sector in 2018, by industry and firm size

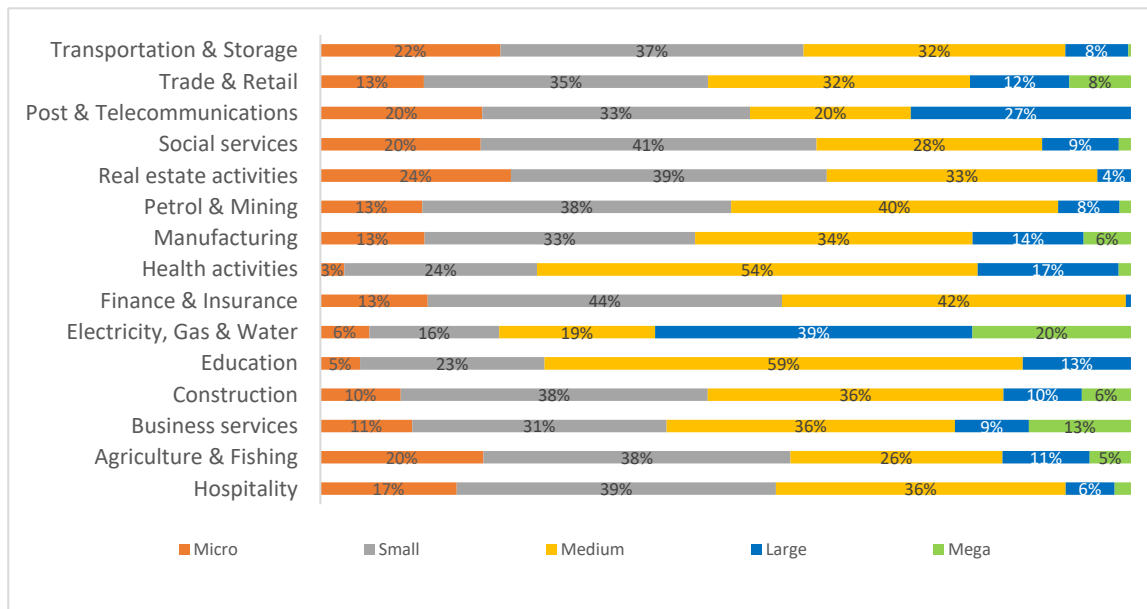


Figure 18: Distribution of Saudi female employees earning the Nitaqat minimum wage in the private sector in 2018, by industry and firm size

4) Areas for future investigations

Our analysis of the history, trends and profile employees within the Nitaqat minimum wage bracket aims to explain one of the largest and least understood employed segments in the private sector. The findings discussed in this brief show that, as of 2018, employees earning the Nitaqat minimum wage are young (36% are 25 years old and younger), mainly hold a high school degree or less (88%) and have limited work experience (57% with 2 years or less). Together, these characteristics may explain a large segment of the population concentrated within the Nitaqat minimum wage.

Another explanation for this group could be caused by misreporting of salary by employers, which is being addressed through the enforcement of the Wage Protection System (WPS) launched by GOSI (HRDF, 2020). As we have seen, the share of new hires earning the Nitaqat minimum wage dropped by 10% between 2013 and 2018 for both male and female employees. This decrease was greatest among large companies, followed by mega sized companies, which were the first recipients of the WPS, specifically the first four phases in 2013 and 2014. The more recent enforcement of WPS on smaller companies since 2017 may reduce the concentration event more. Conducting regular evaluation of the share of employment and hiring at the Nitaqat minimum wage and industry/firm size distributions is necessary to address risks of misreporting.

While it remains unclear what the profile of ghost workers is, there is merit in tracing three employee groups:

- 1) employees that were hired between 2013 and 2015 at the Nitaqat minimum wage with a brief employment history
- 2) employees who were hired since 2013 (8%) or prior (5%) and continue to earn the Nitaqat minimum wage in 2018, as well as
- 3) employees who continued earning the Nitaqat minimum wage throughout their employment, especially those who have been in the marketplace for two or more years.

Examining the profile of those employees as well as the profile of the firms and industries they work within may offer some clues. This is especially true for female employees as hiring in 2013 almost doubled the size of the female workforce; and in 2018, trade & retail (34%), construction (23%) and manufacturing (11%) were the top three industries where female earners of the Nitaqat minimum wage were concentrated.

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