



Nitaqat – The Second Wave of Saudi-isation: Implications for India

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On September 12, 2011, Saudi Arabia’s Ministry of Labour (MoL) passed Resolution 4040, announcing a new wave of Saudi-isation, termed Nitaqat, which translates as “ranges” or “zones”.¹ The primary aim of this policy initiative is to create scope for employment of Saudi nationals in the private sector. According to the MoL, there are 8-9 million foreign workers in the country employed in the private sector, but Saudi nationals account for less than 10 per cent of those employed in this sector.² Joblessness is making the Saudi youth restive,³ a development that is alarming the regime, given the current volatile socio-political environment in and around the country.⁴

This issue brief discusses the following aspects of Nitaqat: (a) objectives and salient features; (b) how Nitaqat varies from the previous attempts at Saudi-isation; and (c) implications for India.

I. Objectives and Salient Features

The primary aim of Nitaqat is to reduce unemployment among the youth through “nationalisation of jobs in the private sector”.⁵ In recent years, the Kingdom has witnessed a contradictory trend: while unemployment has been growing among its national workforce, it has also issued an increasing number of work permits to expatriates (see Figures 1 and 2). According to the MoL, the private sector employs more than 90 per cent of the foreign workers.⁶ According to official statistics, there are more than 550,000 Saudi job seekers, including women; and according to official thinking, if

half of the expatriate workers are replaced by Saudi nationals in the private sector, the Kingdom would be relieved of the pressing problem of unemployment.

Figure 1. Rate of unemployment in Saudi Arabia, total and Gender-wise
Figure 2. Work permits issued to foreign workers by the Saudi Authorities

Fig 1.

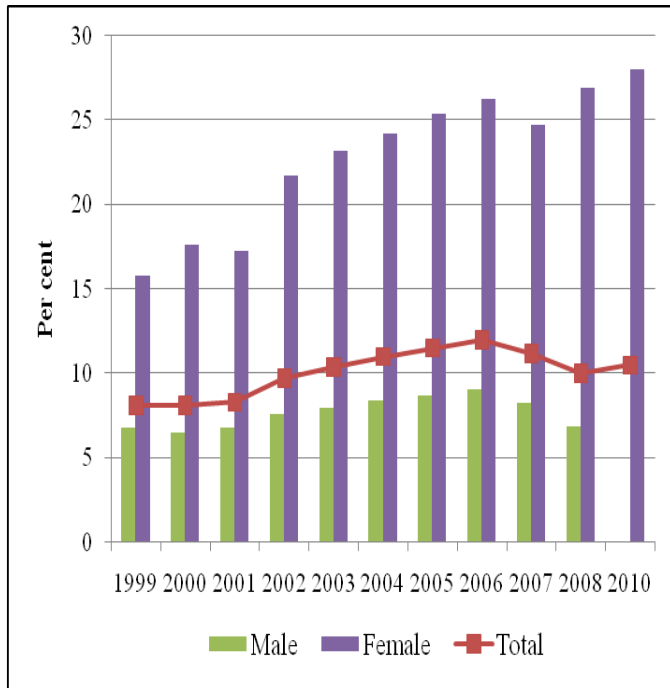
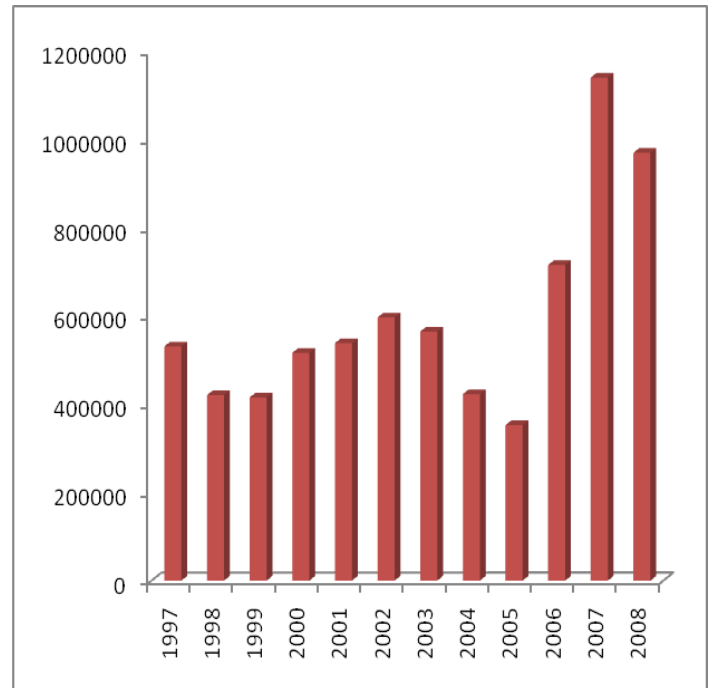


Fig 2.



Source: Fig. 1: Central Statistical Organisation (CSO), Saudi Arabia.

Fig 2: Data taken from: Steffen Hetog. *Prince, Broker, and Bureaucrats*, (US: Cornell University, 2010), p. 264.

Nitaqat also intends to end illegal visa trading.⁷ In the long term, the government also wants to use the policy to protect the health of the workers; ensure a healthy competition in the labour market and maintain an accurate database of the workforce in the country, besides getting rid of unwanted expatriate workers. Nitaqat also intends to plug the economic drain in the form of remittances, which account for approximately 5-9-per cent of GDP.⁸ Reduced foreign workforce will also reduce the pressure on heavily subsidised utility services such as electricity, water, health, infrastructure, municipality and agriculture, etc., which consume around 20-30 per cent of the national budget.⁹ In

the medium to long term, the government also expects to train and nurture skilled national workers, thus reducing the country's dependence on foreigners.¹⁰

Nitaqat broadly has three basic features: (a) identifying business/market activities; (b) creating Nitaqat zones/bands; and (c) fixing the percentage of Saudi-isation.

(a) Identification of Business/Market Activities: The MoL has identified 41 business/market activities, each consisting of five business units (giant, large, medium, small and micro), which depend on the number of persons employed in the unit, i.e. (41×5=205). Visas for micro units (with nine or less employees) (units) and employment in the household sector are exempted from the implications of Nitaqat. This limits the ambit of Nitaqat to 164 (41×4) market activities (see Table 1 for details).

Table 1. Application of Nitaqat by Types of Business Units

Business Unit	Labours Employed
Micro	Less than 9
Small	10-49
Medium	50-499
Large	500-2999
Giant	3000- more

Source: Labour Bureau, Saudi Arabia.

(b) Nitaqat Zones: Depending upon the degree of their compliance with Nitaqat, the business units are segmented into four zones or bands, as excellent or silver, green, yellow and red (see Table 2; see Table 3 for details).

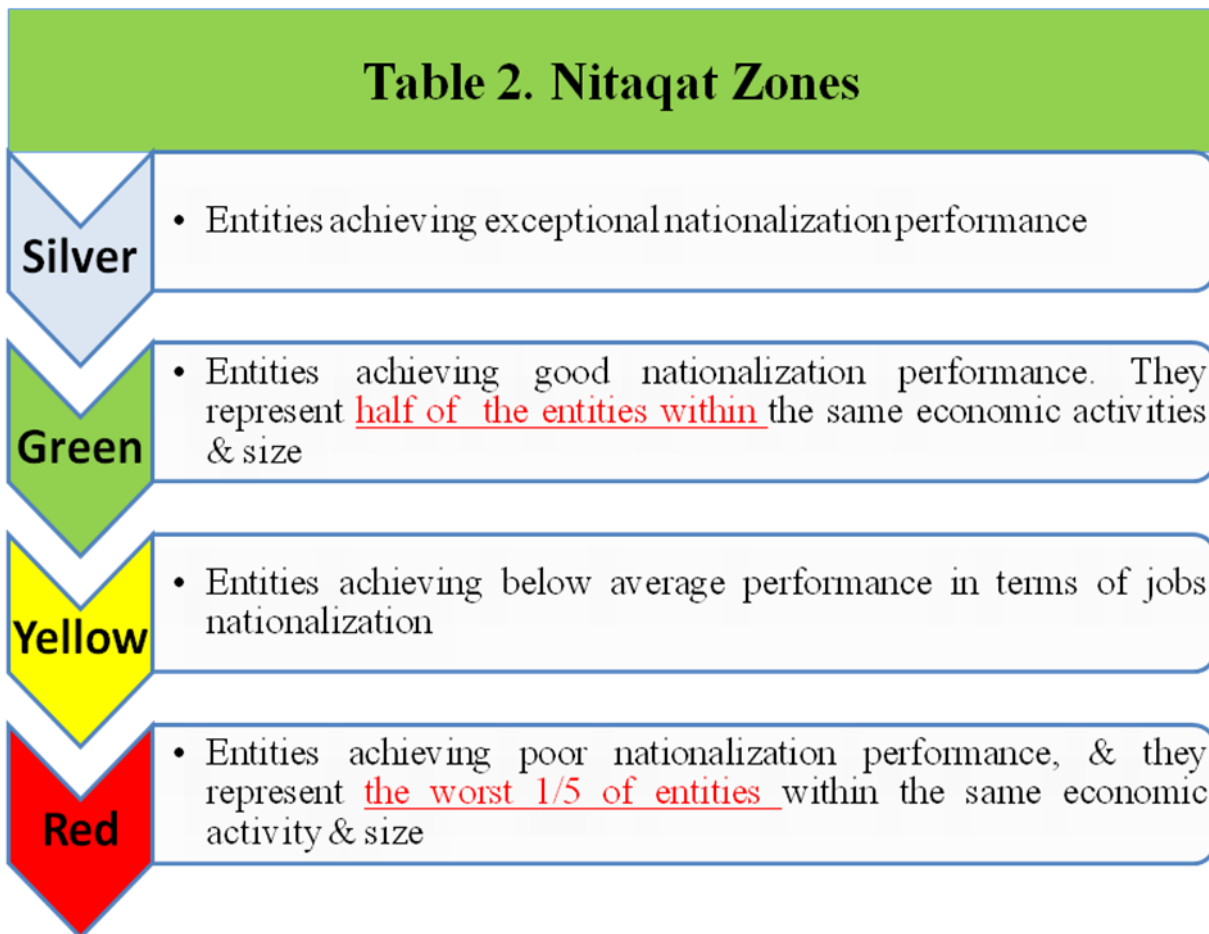
Companies which come under the silver zone (100 per cent compliance) enjoy a number of advantages. They can issue fresh visas, transfer visas, renew the *iqama* (work permits) and open new branches. They can also sign up directly expatriate workers of the 'Red' and 'Yellow' categories without taking permission of their current employers. They also enjoy preferential treatment in getting loans, contracts, tenders and other concessions from the government. In case they falter, they are given a grace period of one year to improve their record.

Green Zone companies (100 per cent compliance) also can transfer or change the services or professions of foreign workers and can also renew the *iqama* irrespective of their period of stay in the Kingdom. They are also authorized to sign up directly expatriate workers of the 'Red' and 'Yellow' categories.

They are given a grace period of nine months to improve their record.

Yellow Zone companies (50 to 60 per cent compliance) are given six months grace period to improve their performance. They hardly enjoy any privileges.

Red Zone enterprises are deprived of all benefits. If they do not improve their Nitaqat compliance within six months, they face closure. According to the MoL, around 30-40 per cent enterprises in the Kingdom fall in this category. Their expatriate workers would not be allowed residency of more than six years.



Source: FAQs Document: Nitaqat- Incentive Programme for Entities to Nationalise Jobs, Ministry of Labour, Kingdom of Saudi Arabia.

Table 3. Implications for Business Units in Different Nitaqat Zones

Silver	Incentives	<ul style="list-style-type: none"> • Complete freedom in hiring employees • Easier visa processing • Freedom to issue new visas • Freedom to change profession of employees • Condition-free visa transfer: Freedom to hire employees from Red and Yellow zones and transfer their visas <p>Grace period: One year to improve Nitaqat record</p>
Green	Incentives	<ul style="list-style-type: none"> • Freedom to apply for new visas • Freedom to change foreign workers’ profession • Freedom to renew work permits • Freedom to recruit employees from Red and Yellow zones and transfer their visas <p>Grace period: Nine months to improve Nitaqat record</p>
Yellow	Incentives	<ul style="list-style-type: none"> • None • Not free to issue new visas • Free to issue one visa after the departure of two expatriates
	Punitive Measures	<ul style="list-style-type: none"> • Not free to transfer visas and change professions • Employees barred from renewing their work permit after completing six years <p>Grace period: Six months to improve Nitaqat record</p>
Red	Punitive measures	<ul style="list-style-type: none"> • Banned from: changing profession, transferring visas, issuing new visas and opening files for new branches. <p>Grace period: Six months to improve Nitaqat record</p>

Source: Compiled and processed by the author from varied sources.

(c) **Saudi-isation Percentage:** A company that wants to be in the silver category has to reserve 40 per cent of its jobs for Saudis. Depending upon the nature of the professions, however, the Green Zone companies have to reserve 10-39 per cent of the jobs.(see Table 4). Ultimately, a company has to attain silver status if it wants to continue its business the Kingdom.

Table 4. Percentage of Saudi-isation under Different Nitaqat Zones

Business Size	Silver/Excellent	Green	Yellow	Red
Small (10-49)	40	10-39	5-9	0-4
Medium (50-499)	40	12-39	6-11	0-5
Large (500-2,999)	40	12-39	7-11	0-6
Giant (3000+)	40	12-39	7-11	0-6

Source: Tala Al-Hejaila: “Be Aware: Focus on Kingdom of Saudi Arabia”, Be Aware Newsletter, June (2012).

Mandatory Saudi-isation – Profession-wise

The new law also bans employing more than 10 per cent Saudis as part-time employees. Exempted from this rule are retail, nutrition, wholesale activities, trade sectors, etc., which can employ up to 50 per cent Saudis as part-time employees. Table 5 shows the nationalisation level for companies employing 3000 and more people. The bulk of the professions are divided into three categories: Category I includes white colour professions such as printing, media and communication, public services, financial institutions, banking, petrochemical, coal, rubber, oil and gas extraction, community service, etc.; Category II incorporates medium-level occupations such as nutrition services, laboratory, manufacturing, health services, accommodation and tourism, trading in gold and jewellery, insurance business, etc.; Category III consists of those professions that involve manual work such as construction, agriculture, fishing, animal husbandry, maintenance, security guards, etc. In Category I employment for non-Saudis is tight. In Category II professions, the employment of expatriates depends mostly upon the availability of local workers, while in Category III, expatriates are welcomed.

Table 5. Percentage Saudi-isation Bands Across the Select Business Lines

Category	Profession Category	Red	Yellow	Green	Silver
Category I (preferred by Saudis)	Personal Services	4%	12%	64%	65%
	Printing, Publishing & Media	14%	34%	64%	65%
	Electricity, Gas & Water	7%	19%	69%	70%
	Kindergartens, Institutes & Colleges	14%	34%	69%	70%
	Maritime Transport	9%	29%	74%	75%
	Communications	9%	29%	74%	75%
	Community Services & Social	9%	21%	74%	75%
	Petrochemical, Coal & Rubber	19%	44%	74%	75%
	Private & Public Schools Girls	39%	49%	79%	80%
	Oil & Gas Extraction	14%	34%	84%	85%
	Employment Agencies	51%	76%	86%	87%
	Financial Institutions	49%	64%	89%	90%
	Offices of Public Services	9%	29%	89%	90%
Recruiters Eligibility	9%	29%	89%	90%	
Category II (mixed response)	Nutrition Services	4%	15%	30%	31%
	Manufacturing	7%	19%	34%	35%
	Wholesale & Retail Trade	9%	24%	36%	37%
	Private & Public Schools Boys	14%	19%	39%	40%
	Accommodation & Tourism	5%	17%	41%	42%
	Ground Transportation to Passengers, within Cities	4%	11%	44%	45%
	Insurance & Business Services	4%	19%	54%	55%
	Cement Industry	7%	29%	59%	60%
	Trading Gold & Jewellery	9%	28%	59%	60%
	Air Transport	9%	29%	59%	60%
Collection Offices & Real Estate Services	4%	17%	59%	60%	
Category III (Predominantly for expatriates)	Transport of Goods within Cities	7%	11%	21%	22%
	Farmers & Fishermen & Herdsmen	1%	8%	26%	27%
	Agriculture, Fishing, Grazing & Horse raising	4%	13%	26%	27%
	Agriculture & Livestock Production	5%	9%	26%	27%
	Pharmacies & Drug Stores	9%	14%	29%	30%
	Foreign Schools	6%	14%	29%	30%
	Building Materials & Construction	4%	7%	30%	31%
Construction Maintenance, Operation & Subsistence	3%	6%	30%	31%	

Source: MENA: *The Great Job Rush: The 'Unemployment' Time Ticking Bomb: How to Fix It*, http://almasahcapital.com/uploads/report/pdf/report_23.pdf. Accessed: November 12, 2013. Categorisation of professions has been done by the author.

In labour-intensive professions the demand for nationalisation is low, while white collar jobs are much in demand. For instance, in the banking sector, 70 per cent employment will be reserved for Saudis, while in the media field 19 per cent and in the construction sector it will be 10 per cent. Besides, the sectors like commercial establishments, insurance companies and public schools will have 19 per cent quota for the Saudis, according to the *Al-Madinah* newspaper.¹¹ Some job categories do not have quotas, while others are reserved exclusively for Saudis. The Riyadh Chamber of Commerce and Industry has ordered immediate Saudi-isation of shops selling women's clothing, including *abayas* and lingerie. The Chamber urged that these shops should employ only Saudi saleswomen. In addition, there are exclusive working zones for women. A total of 49 new economic activities have been added to the existing Nitaqat list. These include four categories that have been recently added, namely, petrol stations; work related to stone, granite and tiles; transport of goods outside cities; and transport of passengers outside cities.

B. How Nitaqat is different from previous Saudi-isation Policies

The first serious attempt at Saudi-isation was taken up in 1994, when the *Majlis al Shura* passed Decree 51. The decree reserved 30 per cent of jobs for Saudis in 11 business activities. Some professions such as jewellery shops, travel agencies, etc. were also exclusively reserved for Saudis. Some professions such as *abaya* and lingerie shops were exclusively reserved for Saudi women.¹² This policy did not, however, succeed to the expected level. In 2001, the government introduced some significant reforms such as separating the MoL from social affairs and tried to streamline the process of issuing work permits, which hitherto was handled by multiple agencies, such as MoL and the Ministry of the Interior. However, Wikileaks revealed in 2006 that again there was a retreat from Saudi-isation. King Abdullah instructed his government to reduce nationalisation from 30 to 10 per cent in four key sectors, namely, education, hospitals, industry and construction, which benefited two Chinese construction firms working in the Kingdom.

C. Implications for India

Saudi Arabia hosts approximately 2.8 million Indian workers¹³, which is around 35 per cent of the 8 million foreign workers present in the Kingdom. It was therefore expected that Nitaqat would retrench the number of Indians considerably.¹⁴ However, the number of Indians who have returned

so far is relatively small. It was noticed that during the two grace periods, July and November in 2013, Indian workers availed the maximum benefits. According to one estimate, Saudi Arabia regularised 4 million immigrants by July 2013,¹⁵ of which 1.4 million were Indians.¹⁶ While informing the Lok Sabha, the Indian Minister for Overseas Affairs, Vayalar Ravi said that Nitaqat “has not had any significant adverse impact on Indian workers in Saudi Arabia except on those who were working there without proper valid documents. The grace period allows even workers without valid papers to have their status regularised.”¹⁷ Out of 1.4 million Indians who regularised their status in the Kingdom, around 434,667 transferred their services from non-Nitaqat-compliant business units to compliant units; 481,233 changed their profession; and 470,000 renewed their *iqama* (job permits). According to the Minister, 141,301 Indians availed the grace period on Nitaqat and returned to India. They left the Kingdom without facing any penal action and are eligible to return on a new visa.¹⁸

Looking at the trend in the Saudi labour market, India does not need to worry. The current Nitaqat policy is being enforced without preparing the Saudi nationals to take up the new job responsibilities. Similar to the past, the current Nitaqat flush out also seems to be only a temporary phenomenon. In 1994, the first time Saudi-isation was announced, which imposed a 30 per cent blanket job reservation across the industries, had to ultimately invite larger number of expatriates to run the economy. Since 1994, the total number of foreign workers increased from 6 to 8 million in the country. Again, it has been observed by the Saudis themselves that Nitaqat would not be able to remedy the growing problem of joblessness in the Kingdom; indeed, its implementation is adversely affecting the economy. This is because of the fact that the unemployment problem in the Kingdom is more in the nature of being ‘voluntary’: many Saudis themselves do not want to take up available jobs. Second, there is a huge skill mismatch among the Saudi workforce. Every year about half a million Saudis enter the job market but their qualifications as well as skills hardly match the requirements of the market. As Lippman observed that the “issue is not unemployment... The issue is mismatch between the skills and capabilities and salaries demands the Saudis bring to the labour market and what the needs of the employers are”.¹⁹ Third, Saudis are not only expensive in terms of remuneration but are also less competent than expatriates. Fourth, unemployment in Saudi Arabia is structural in nature: it is inherent in the socio-political, economic, educational and psychological factors, which have been perpetuated by the *rentier* economy.²⁰ If Riyadh wants to be among the top ten economies of the world by 2025, it needs to follow a sustained policy of education reform and

weed out skill mismatch²¹ for at least a decade to address the problem of unemployment.²² Table 6 explains the factors, which force the private companies to hire the non-Saudis. From the table it is observed that demand for higher wages, non-interest in the available jobs and low skills among Saudis are the major factors which induce private sector to employ foreign workers.

Table 6. Reasons of Hiring Non-Saudis (%)

Saudis are not available	14.2
Available Saudis are not qualified	25.4
No-Saudis require lower wages	47.4
Non-Saudis are more experienced/skilled	34.5
Saudis are not interested in these jobs	48.3
Lack of employment agencies	3.4
Saudis insist on management positions	0.4
Saudis are not committed to work	1.3
Other	3.9

Source: Maurice Girgis, 2002.

New Delhi needs to undertake some of the following measures if it wants to maintain its dominance in the Saudi guest labour market.

- (a) Around 2.8 million or nearly half of the Indian expatriates present in the Kingdom currently, were without proper documents. The Saudi labour authorities give preference to Indian workers and have generally corrected their documents without much ado, while the workers from Pakistan, Bangladesh and workers from some African countries do not get that kind of preference.²³ If New Delhi wants to maintain its credibility in Saudi Arabia, it has to check illegal migration and control the problem of Indians overstaying in Saudi Arabia.
- (b) The current fallout of Nitaqat clearly shows the changing dynamics of the Saudi economy, including the labour market. Riyadh has renewed its emphasis on diversification and promoting the non-oil sectors of the economy. This needs different kinds of labour force. New Delhi needs to grasp the reality and nurture its own potential emigrants accordingly. It needs to focus on medium-term training programmes to prepare them for employment opportunities. Based on the Nitaqat mandate, it is expected that most of the jobs for expatriates would be available in maintenance and

labour-intensive occupations (See table 5, category III &II), which needs elementary level diploma training. The Indian government needs to focus on establishing ITIs and other training institutes in migration-prone pockets and prepare the potential emigrants for the Saudi labour market. Looking at the growing needs of specific kind of workforce in the economy, the Saudi government may also join the Indian side in establishing such training centres. This is important because the quality of Indian workers would decide the productivity level there. As noticed that although the expatriate workers are better skilled and qualified than the native Saudis, they are not at par with international standard.²⁴ Participation of the Kingdom in funding and deciding the curriculum of these institutes, in fact, will not be a new thing. The European Union, which has also shown greater inclinations to invite the Indian workers, has identified the professions and the training institutions through which it would recruit the workers. As a result, with their cooperation the Indian government has planned to start a training programme to the potential migrants.

- (c) International migration is a two-way flow. An effective and legalised flow of migrant workers needs cooperation from the sending, receiving and transit countries. For both India and Saudi Arabia, the first goal should be to curb the malpractices of recruitment agencies and the *Kafala* system. Most of the problems emanate from these two sets of agencies. Saudi Arabia needs to plug fake visa issuance, while the Indian side needs to implement more stringent laws against fraudulent recruitment agencies. Nitaqat may be taken as an opportunity to correct its emigration process by the Indian government.

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Disclaimer: Views expressed are of author and do not reflect the views of the Council.

Endnotes:

¹ “Nitaqat”, October 24, Ministry of Labour Saudi Arabia, 2013. <http://www.safanksa.com/be-careful/> (Accessed January 20, 2014).

² John Sfakianakis: 2011, “New employment rules to shake up Saudi private sector”, 15 June, *Arabnews*. <http://www.arabnews.com/node/380796> (Accessed January 20, 2014).

³ Schlaffer and Ulrich Kropiunigg. “*Saudi Youth: Unveiling the Force for Change*” (Washington, US: Centre for Strategic and Strategic Studies (CSIS), 2011).

⁴ For a detailed discussion, see Zakir Hussain. “Nitaqat-Second Wave of Saudi-isation: Is it answer to the Domestic Discontent”, in Irudaya Rajan (ed.), 2014. *Indian Migration Report 2014* (New Delhi: Routledge, 2014).

⁵ <http://philembassy-riyadh.org/images/documents/Nitaqat-FAQ.pdf> (Accessed September 20, 2013).

⁶ John Sfakianakis. 2011, "New employment rules to shake up Saudi private sector", 15 June, *Arabnews*. <http://www.arabnews.com/node/380796> (Accessed January 20, 2014); Mohammud Asad Sadi. "The Implementation Process of Nitaqat Workforce in Saudi Arabian Private Sector: A Review of Nitaqat Scheme," *American Journal of Business and Management*, vol. 2, no. 1, (2013).

⁷ MD Al-Sulami: 2011. "Nitaqat to end trade in work visas: Fakeih," *Arab News*, July 12, <http://www.arabnews.com/node/383533> (Accessed January 30, 2014).

⁸ Saudi Arabia is the third largest remittance-paying country, next to the US and Switzerland in the world. According to Gauss in the second quarter of 2011, Saudi Arabia paid \$28 billion in the form of remittances, which is around 5 per cent of the economy. This is a great economic loss to the country.

⁹ In 2012, budget, Saudi Arabia allocated 24 per cent education and manpower training, 13 per cent on health social affairs, 4.2 per cent municipal activities and 8.3 per cent on water, agriculture and infrastructure activities.. "Saudi Arabia's 2012 Budget Report," *NCB*, December 2011, <http://blogs.mubasher.info/sites/default/files/%20%D8%A7%D9%84%D8%B3%D8%B9%D9%88%D8%AF%D9%8A%D8%A9%202012.pdf> (Accessed January 30, 2014).

Saudi Arabia meets more than 90 of its potable water requirements through desalination processes and almost 100 per cent of its electricity are produced by oil-fed power plants. This is rapidly growing consuming substantial part of its exportable oil income. For detailed discussion on water see: Zakir Hussian. *Water Resource Management in GCC: Challenges and Remedies* (Saarbrücken, Germany: Lambert Publishing, 2014).

¹⁰ **In 2012 budget education and manpower sectors occupied the highest share in the total expenditure of the national budget.** "Saudi Arabia's 2012 budget," *Jadwa Investment*, December 26, 2011, http://www.bbaep.org/sitecore/wp-content/uploads/Jadwa/Jadwa_2012_Budget.pdf (Accessed January 30, 2014).

¹¹ "Labor Ministry outlines Saudization percentage," *Arab News*, June 14, 2011, <http://www.arabnews.com/node/380653>, (Accessed January 26, 2014).

¹² Robert Loonet. "Saudization: A Useful Tool in the Kingdom's Battle Against Unemployment," *Journal of South Asian & Middle Eastern Studies*, vol. 27, no. 3 (2004), pp. 13-33.

¹³ "Over 2.8m Indians now in Saudi Arabia," *Saudi Gazette*, , November 5, 2013, <http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=20131106185891>. (Accessed January 30, 2014)

¹⁴ For detailed discussion of the impact of Nitaqat on Kerala see: Jeril Tom and Seeden Roy. "Implications of Saudization and Nitaqat Drive for Gulf-reliant Kerala", *Journal of Economics and Management*, vol. 2, no. 9, 2013.

¹⁵ "Saudi Arabia regularises status of 40 lakh expatriate workers," *The Economic Times*, July 13, 2013, http://articles.economictimes.indiatimes.com/2013-07-17/news/40635242_1_new-saudi-labour-law-food-sector-illegal-foreign-workers, (Accessed January 28, 2014).

¹⁶ T. Ramaverman: 2013, "Nitaqat: Uncertainty ahead for Indian expats in Saudi Arabia", November 4, *The Times of India*, http://articles.timesofindia.indiatimes.com/2013-11-04/middle-east-news/43657316_1_sibi-george-saudi-arabia-grace-period (Accessed January 30, 2014)

¹⁷ "Nitaqat in Saudi Arabia had no major impact on Indian workers: Govt," *Times of India*, December 11, 2013.

¹⁸ "Nitaqat in Saudi Arabia had no major impact on Indian workers", December 11, 2013, *The Economic Times*, http://articles.economictimes.indiatimes.com/2013-12-11/news/45080926_1_grace-period-nitaqat-indian-workers (Accessed January 30, 2014).

¹⁹ David Arnold, 2012. "Seeds of Saudi Discontent: Unemployment Festers In Kingdom With No Sign of Reversal" *Middle East Voices*, January 9, <http://middleeastvoices.voanews.com/2012/01/seeds-of-saudi-discontent-unemployment-festers-in-kingdom-with-no-sign-of-reversal/#ixzz2rrp2Xo4v>, (Accessed January 30, 2014)

²⁰ See: Mohammad Ramady. "Gulf Unemployment and Government Policies: Prospects for the Saudi Labour Quota or Nitaqat System," *Economic and Business Research*, Vol. X No. YXXXX, 2000.

²¹ Diana Al-Jassem: 2013. Business-friendly bureaucracy key to boosting Saudi market, *Arab News*, April 6, <http://www.arabnews.com/news/448267>

²² See: "Saudi Arabia: Forecast Highlight 2013-17" Country Report, *Economic Intelligence Unit Report*, 2013.

²³ "Saudis expel 100,000 Ethiopians," *Aljazeera*, December 6, 2013, <http://www.aljazeera.com/news/africa/2013/12/saudis-expel-100000-illegal-ethiopians-201312591727221329.html> (Accessed January 21, 2014); "Open Letter to King Abdullah of Saudi Arabia" sent by the Ethiopian Chief Executive Officer, Ethiopian Global Initiative, Samuel M. Gebru on 14 November 2011. Gebru argued the case of Ethiopian workers in Saudi Arabia and requested to treat them favourably against the Nitaqat rules. <http://smgebru.blogspot.in/2013/11/open-letter-to-king-abdullah-of-saudi.html> (Accessed January 21, 2014).

²⁴ For detailed discussion see: Maurice Girgis: 2002. "Would nationals and Asians replace Arab workers in the GCC?", draft paper submitted to the *Fourth Mediterranean Development Forum, Amman, Jordan*, October 2002 <http://www.mafhoum.com/press4/117S22.pdf> (Accessed January 30, 2014)