ASG Analysis: Saudi Arabia Increases Emphasis on Localization With New Saudization Measures

October 31, 2022

Key takeaways

- Saudi Arabia's Ministry of Human Resources and Social Development recently announced "Saudization" requirements for the consulting industry.
- The decision further signals the direction of change in the country – Saudization and other forms of localization are here to stay.
- These new requirements could pave the way for localization requirements affecting other cross-sector industries.

Overview

In line with Vision 2030 goals, Saudi Arabia continues its push towards job nationalization – also known as Saudization – across industries. What has historically been a straightforward, industry-specific, quota-based system is becoming more nuanced. Cross-sector industries such as consulting and project management now face Saudization requirements. This is part of a broader trend towards localization of specific industries that provide high-value jobs (and includes localization of employment, content, and data). Government procurement plays a key role in localization efforts; the Kingdom wants to ensure that any company working directly with the government meets Saudization quotas. These localization efforts have far-reaching implications for multinational companies looking to continue or expand their work in the Kingdom.

History of Saudization

Saudization, officially known as the Saudi Nationalization Scheme, is, in short, a policy requiring companies working in the Kingdom to hire Saudi nationals on a quota basis. While Saudization of the workforce has been a goal since the Kingdom's Fourth Development Plan in the mid-1980s, an increased emphasis on localization under Vision 2030 has sparked a renewed effort towards Saudization. Today, a large number of young, well-educated Saudis cannot find jobs; according to the World Bank, youth unemployment hovers around 29 percent. Saudization aims to address this persistent economic and social challenge.

The Saudi Ministry of Human Resources and Social Development (MHRSD), created in 2019 from the merger of the Ministry of Labor and Social Development and the Ministry of Civil Service, is the driving force behind Saudization efforts in the Kingdom. However, Saudization requirements are set and implemented at the sector level. For example, the information technology sector is regulated by the Ministry of Communications and Information Technology (MCIT), the transportation sector by the Transport General Authority (TGA), and the banking sector by the Saudi Central Bank (SAMA). As each sector has a different regulator, Saudization quotas vary across industries. To date, the most successfully Saudized sector is the banking sector; nearly 100 percent of employees in the industry are Saudi nationals.

Cross-sector Saudization efforts

For the past few years, cross-sector industries such as consulting were not a focus of targeted Saudization efforts and were only subject to general Saudization quotas, as there was no clear industry regulator or means of enforcement. With the broader increase in localization efforts, however, this is changing. On October 11, the MHRSD and the Ministry of Finance (MOF) issued an announcement (in Arabic) that Saudization requirements will now apply to any consulting companies that employ what the Ministry defines as financial consulting specialists, business consulting specialists, cyber consulting specialists, and project management specialists. By April 2023, 35 percent of these consulting professionals working in the Kingdom – not just those with government contracts – must be local Saudis. This percentage will increase to 40 percent by March 2024. The decision aims to provide career opportunities for Saudi nationals, and the MHRSD will offer support packages for employment and training. Consulting firms, which largely employ expats who fly in and out of the Kingdom, regularly work with government agencies. This recent Saudization announcement is an effort to localize an industry on which the Saudi government spends tens of billions of dollars per year and shift the "fly-in-fly-out" dynamic.

Given the cross-sector nature of consulting, there is no clearly identified regulator. While in the past the government attempted to limit its contracts with consulting agencies that did not meet Saudization quotas, there was no mechanism of enforcement. Now, the MHRSD is attempting to crack down on such loopholes and granting ministries without a clear link to a cross-sector industry, such as the MOF in this case, the authority to enforce Saudization requirements through the government procurement process. Should a consulting company wish to work with a Saudi government entity, the company would not be eligible to do so unless they meet the quota requirement. Notably, we are also seeing enforcement of other localization efforts through government procurement processes (see previous analyses on local content requirements and on the Saudi Regional Headquarters Program).

The recent consulting decision reinforces the direction of change in the Kingdom – the government is serious about nationalizing jobs and is using the government procurement process to do so.

Considerations for companies doing business in the Kingdom

To prepare for continued job nationalization and Saudization efforts, companies in the Kingdom should:

- **Build relationships with sector regulators.** Identifying key stakeholders at relevant regulatory bodies will ensure clarity and insight into Saudization efforts and lay the groundwork to foster effective partnerships.

- **Anticipate further Saudization requirements and develop an internal strategy.** Begin thinking through talent acquisition plans, internal human resources needs, and budget allocation.

- **Keep an eye on the broader context.** The direction of change in the Kingdom is clear – localization efforts are here to stay. Companies should consider how increased Saudization plays into other local content requirements and the Saudi push for regional headquarters.

About ASG

Albright Stonebridge Group (ASG), part of Dentons Global Advisors, is the premier global strategy and commercial diplomacy firm. We help clients understand and successfully navigate the intersection of public, private, and social sectors in international markets. ASG's worldwide team has served clients in more than 120 countries.

ASG's Middle East and North Africa practice has extensive experience helping clients navigate markets across the Middle East. For questions or to arrange a follow-up conversation please contact Juliana Rordorf.