
Emaar Square in the financial district of Downtown Dubai, United Arab Emirates.

# Boosting Employment of Nationals in the Financial Sector: A Comparative Analysis of the GCC

***by Sophie Olver-Ellis***

## Towards the post-oil development agenda

Oil has been the elixir of life for many in the Gulf region because over the last five decades the rentier social contract has enabled the ruling elites to offer their citizenry free education, healthcare and life-long public sector employment. Indeed, despite getting used to high energy revenues that fill the coffers of the state, as the global oil market has become increasingly volatile with more boom and bust cycles, the Gulf Cooperation Council (GCC) states have had to finally act upon the fact that they can no longer depend on oil rents to be their predominant source of government revenue.[1] Reinforcing the urgency to diversify their economic base is the fact that of the 56 million total population including migrants, half of the region's estimated 26 million GCC national population comprise youth aged between 15 and 24.[2] With a youth unemployment rate of approximately 27 percent and more than 2.8 million people entering the labour market on an annual basis,[3] there is an alarming youth bulge that needs to be absorbed.

In response, across the GCC, new economic 'visions' have been adopted, seeking to transform the role of the private sector and certain industries such as the financial sector. They are also looking to increase the employment rate of the national citizenry, alongside reducing their extensive dependence on migrant labour. To achieve this ambition, in many cases by 2030, policymakers are launching initiatives that will restructure the regional economies towards being led by the private sector and a relevantly skilled and capable national workforce. Therefore, the implementation of manpower replacement strategies such as the nationalisation policy has never been more relevant, especially as the integration of GCC nationals in the private sector labour market is one of the most critical socio-economic challenges that policy makers must address if they are to diversify towards a post-oil dependent economy. The article analyses the various 'nationalisation' policies adopted throughout the GCC and highlights the progress they have made in boosting the employment of nationals in the financial sector.

As the GCC member states seek to diversify their economic base and encourage the private sector to spearhead the socio-economic transformations, the financial sector will have to play a central role.

## The path to nationalisation of the financial sector

Over the decades of oil-fuelled development and ample revenues, the national citizenry of the GCC were guaranteed public sector employment as part of the largesse social contract which subsequently led to the private sector drawing upon a migrant workforce. These trends permanently distorted the structure of the labour market between both the public and private sectors and national and migrant workforce. Indeed, as the GCC member states seek to diversify their economic base and encourage the private sector to spearhead the socio-economic transformations, the financial sector will have to play a central role. According to the World Bank, a thriving financial sector will lead to the creation of more enterprises that attract investment and in doing so, will generate employment opportunities and contribute to the economic diversification process.[4] This perspective is even shared by the GCC governments—the development of the financial sector has been at the forefront of the policy agenda for the last two decades and with new Visions in place, this has given the governments greater impetus in regulating the sector's activity.[5] This is evident in the case of the nationalisation policy, with each of the six GCC states embarking on a tailored path.

The overarching objective of the nationalisation policy is to increase the number and share of nationals in the labour market, especially the private sector, whilst reducing the socio-economic presence of the migrant workforce and reducing the public sector wage bill. As shown in Table 1, the migrant population is the dominant demographic across most of the GCC states.

**Table 1: Demographic Distribution in the GCC: Nationals Vs Non-Nationals[6]**

| GCC State | National Population (%) | Non-National Population (%) |
|---|---|---|
| Saudi Arabia | 62.2 | 37.8 |
| Kuwait | 30.1 | 69.8 |
| Qatar | 12.7 | 87.3 |
| UAE | 12.6 | 87.4 |
| Bahrain | 45.1 | 54.9 |
| Oman | 56.0 | 44.0 |

To meet this objective, the quota system has been adopted as a central regulatory mechanism and is aimed at incentivizing private sector companies to hire more workers from the national labour pool.[7] Indeed, as each state has a different socio-economic profile, this is reflected in the specific nationalisation quotas they have set for their financial sector. For example, as shown in Table 2, the quota applied significantly varies from 4% in the UAE to 94% for platinum companies in Saudi Arabia. In the case of the UAE, which has a small national labour pool to draw upon, the government have only applied a small quota to the financial sector to realistically reflect their demographic profile. While in Kuwait and Qatar, although their quota is higher, they both have a blanket country-wide (non-industry-specific) quota, and therefore have been to date pursued on an ad hoc basis. But in the case of Bahrain and Saudi Arabia, there have been attempts to pursue the nationalisation policy with more rigour, by designing financial sector specific quotas as part of their range-based system which is determined by the size of the private sector company. Moreover, the Saudi Arabian nationalisation strategy, *Nitaqat*, goes further by situating financial sector companies in a specific band of nationalisation. The size of the company determines their quota target and is placed within one of four *Nitaqat* bands which comprises of platinum, green, yellow and red.

**Table 2: Nationalisation Quotas of the Financial Sector**

<table>
<tr><th>GCC State</th><th colspan="9">Financial Sector Nationalisation Quota (%)</th></tr>
<tr><td>Kuwait[8]</td><td colspan="9">40</td></tr>
<tr><td>Qatar[9]</td><td colspan="9">50</td></tr>
<tr><td>Oman[10]</td><td colspan="9">45</td></tr>
<tr><td>UAE[11]</td><td colspan="9">4</td></tr>
<tr><td rowspan="6">Bahrain[12]</td><td colspan="5">Company Size (number of employees)</td><td colspan="4">Quota</td></tr>
<tr><td colspan="5">6-9</td><td colspan="4">30</td></tr>
<tr><td colspan="5">10-19</td><td colspan="4">40</td></tr>
<tr><td colspan="5">20-99</td><td colspan="4">40</td></tr>
<tr><td colspan="5">100-499</td><td colspan="4">50</td></tr>
<tr><td colspan="5">500+</td><td colspan="4">50</td></tr>
<tr><td rowspan="6">Saudi Arabia[13]</td><td colspan="2">Platinum Band</td><td colspan="2">Green Band</td><td colspan="2">Yellow Band</td><td colspan="2">Red Band</td><td>Company Size</td></tr>
<tr><td>Max</td><td>Min</td><td>Max</td><td>Min</td><td>Max</td><td>Min</td><td>Max</td><td>Min</td><td></td></tr>
<tr><td>100</td><td>88</td><td>87</td><td>51</td><td>50</td><td>34</td><td>33</td><td>0</td><td>6-49</td></tr>
<tr><td>100</td><td>91</td><td>90</td><td>56</td><td>55</td><td>36</td><td>35</td><td>0</td><td>50-99</td></tr>
<tr><td>100</td><td>91</td><td>90</td><td>56</td><td>55</td><td>36</td><td>35</td><td>0</td><td>100-499</td></tr>
<tr><td>100</td><td>94</td><td>93</td><td>71</td><td>70</td><td>51</td><td>50</td><td>0</td><td>500+</td></tr>
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To encourage financial sector companies to meet their set quota, each GCC state has adopted incentives and punitive measures. For example, if companies succeed in implementing the nationalisation policy, they are able to apply for government contracts, economic grants and continue to recruit migrant workers. If they fail to meet their quota, they face punitive measures such as economic penalties (fines) and restrictions on recruiting migrant workers.

## Aiding the nationalisation process: the human capital and manpower requirements of the financial sector

In order for the GCC states to diversify their economic base and successfully nationalise the workforce in industries such as the financial sector, it is imperative that each government proactively address the structural barriers that have and continue to impede their socio-economic transformation efforts. One such area, critical to the success of the policy, is developing a highly skilled national workforce which can compete and meet the needs of businesses in the private sector.[14] This has been a longstanding issue, because due to the rapid growth of the oil economy in the mid-20th century and the boom in the early 21st century, GCC governments relied on recruiting migrant workers to help develop their economies. Through the social contract guaranteeing the national citizenry a lifelong public sector job, education was not prioritized, while recent catch-up efforts have failed to keep up. As a result, there is now an alarming skill and education mismatch between GCC jobseekers and the requirements of private sector employers—the majority of students throughout the region undertake higher education in the social sciences, humanities and arts rather than in technological, scientific and economic disciplines, the latter of which are in great demand by the financial sector.[15] Therefore, for migrant workers to be genuinely and productively replaced by the national workforce, the governments need to drastically improve the quality of their national human capital by investing in relevant education and skill development and training programmes that are geared towards the needs of the job market. As for the financial sector, there needs to be particular focus on providing education and skill development training in areas such as financial and debt management, risk, accounting, banking and microfinancing.

Indeed, if a well-educated and appropriately skilled national human capital is to be utilised in the post-oil dependent economies of the GCC, there also needs to be a change in perspective of private sector employment, both from the employer and national worker. According to human resource managers, they continue to fail to hire workers from the national labour pool because they view nationals as lacking the necessary qualifications, skills or experience to meet the demanding workload of the industry.[16] On the other hand, nationals have been reluctant to work in private sector industries such as the financial sector due to a lower salary, less flexible working conditions and lower social status in comparison to that of similar roles in the public sector.[17] Further exacerbating these issues is the wage differential between the public and private sector, whereby nationals can expect to receive a 50% higher salary in the public sector than they would if they worked for a private company.[18]

## Conclusion

Although GCC states are attempting to diversify their economies and create genuine employment opportunities for the national workforce in the private sector, the rentier constructed labour markets continue to be extremely distorted with the overwhelming majority of nationals working in the public sector and the majority of migrant labour working in the private sector. Despite increased effort from the region's governments to make financial sector companies increase their employment rate of nationals through the quota system, the nationalisation agenda has a long way to go until it can be deemed a success in altering the dynamics of the six labour markets. Indeed, despite its limited success to date, with new development 'Visions' in place, nationalisation strategies look set to continue to dominate the policy agenda of the GCC. This will inevitably put pressure on private sector companies, because despite not having a sufficient and appropriately-skilled national labour pool to draw from, they will need to adhere to their nationalisation quota or face punitive measures. However, until the legacy of rentierism is addressed in the national political economies of the GCC, it remains to be seen as to whether the nationalisation strategies can make real structural changes to the national labour markets and boost employment of nationals in financial based industries and indeed, across the whole private sector.

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