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A New Way of Mandating Saudization?

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Key takeaways

- In early February, Saudi Arabia's Communication, Space, and Technology Commission (CST) announced updates to its regulations regarding Saudization requirements for telecom companies operating in the Kingdom.
- The updated regulations are notable in that they provide more detailed, specific, and targeted requirements for increasing Saudi employment in the telecom sector compared to previous CST guidelines and similar regulations in other sectors.
- This development is most likely coordinated with the Saudi Ministry of Human Resources and Social Development (MHRSD) that provides the overall regulatory framework for Saudization and coordinates sector-specific requirements with industry regulators.
- While these regulations target the telecom sector, they may provide insight into how Saudization requirements in other sectors may evolve, as sector regulators move to introduce their own requirements.

Summary of the new regulations

On February 8, 2024, the Communication, Space, and Technology Commission (CST), Saudi Arabia's telecom regulator, issued several updates to its regulations that are directly related to the country's overarching Saudi Nationalization Scheme, colloquially referred to as "Saudization".

Quotas

The updated regulations require that telecom company CEOs be Saudi nationals. A minimum of 75% of first-level employees, which are the most senior employees reporting to the CEO, must be Saudi nationals and a minimum of 80% of second-level, managerial employees must be Saudi nationals. Overall, a telecom provider's workforce can be no less than 80% Saudi.

Reporting

Telecom providers going forward must provide more granular information on their Saudization plans. Regular disclosures must include the percentage of Saudi employees, details on senior officials in key roles, and information on the career paths of Saudi nationals. With an eye on upskilling the local workforce, companies must also disclose details on training and professional development programs, and data on the names and numbers of employees trained, total expenditure on training, and overall spending on local content.

Roles

Specific roles will now be reserved for Saudi nationals, including:

- Regulatory affairs
- Government relations
- Human resources

- Technical support
- Call centers
- Legal affairs
- Internal auditing

Enforcement and Monitoring

The new regulations include provisions for compliance and mechanisms for inspections by the sector regulator, in addition to the existing inspections by MHRSD. While the regulations outline a procedure for escalation of violations that involves warnings and correction notices, the CST reserves the right to impose penalties after proceeding with the escalation process.

Looking Ahead: will other sectors follow suit?

While the new regulations apply only to companies that provide telecommunications services, they align with a broader policy direction toward stricter Saudization requirements, overseen by the Ministry of Human Resources and Social Development (MHRSD). The MHRSD has stated on many occasions that introducing sector-specific Saudization targets is the responsibility of corresponding sector regulators, of which CST is one.

These new regulations taking effect in the telecommunications sector could foreshadow a broader trend of sector regulators introducing their own Saudization requirements. What companies can expect from these new regulations, especially if other regulators follow suit, is an increased compliance burden. Stricter Saudization quotas may increase recruitment and training costs while reducing hiring flexibility. Regular reporting and data collection on Saudization efforts creates an elevated administrative burden. While companies in the telecom industry will bear the initial brunt of these changes, companies in other sectors should prepare for the potential challenges and opportunities that stricter Saudization requirements will bring.

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Our Middle East and North Africa Practice has extensive experience applying a systematic approach and a strong understanding of the region's complex economic, political, and regulatory climates to help clients navigate markets, with our offices in Dubai and Riyadh serving as hubs for the firm's operations.

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