

Increasing Female Employment by Investing in Up-Front Costs: The Critical Lesson in Nitaqat's Success

By Alex Domash, May 2017

Project: The Effects Of Nitaqat on Aggregate Employment And Earnings

KEY INSIGHTS

- **Female employment increased significantly after Nitaqat.** Growth in female employment has continued each year since the policy was rolled out. Male employment saw a one-time increase.
- **This increase happened because firms invested in the high upfront costs of hiring females,** not from “fake Saudization.” Much of the growth in female employment happened at firms that had never hired women before. As a result of Nitaqat, it made sense for more businesses to invest in the infrastructure needed to start hiring women.
- **This reveals a powerful tool for policies and programs to increase female employment: Help offset the initial cost of hiring women.** Firms that started hiring women didn't hire just one or two women, they hired many. This shows that subsidies and other policies that offset the initial cost of hiring women can have a powerful effect on female employment, a Vision 2030 objective.

Firms that started hiring women after Nitaqat didn't hire just one or two women—they hired many.

Investing in Fixed Costs: A Powerful Tool for Policymakers

Firms that hired their first female employee after Nitaqat (dashed line) saw large increases in the share of their workforce made up of female Saudis. There was no corresponding increase for firms that already had female staff before Nitaqat (solid line). This is due to the upfront costs that firms face when hiring their first women.

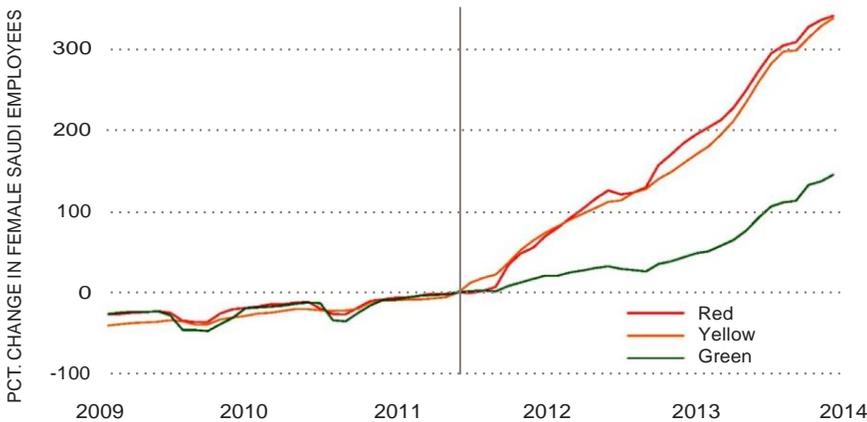


FEMALE EMPLOYMENT GROWS AFTER NITAQAT

Recent research by Professor Jennifer Peck, Professor Conrad Miller, and Mehmet Seflek explored the effect of Nitaqat on Saudi employment. Using a rigorous regression discontinuity design to evaluate the impact of Nitaqat, Peck, Miller, and Seflek show that the Nitaqat quota caused a change in hiring patterns for firms, especially when it comes to hiring women. Unlike the growth rate in male employment, **the increased growth rate in female employment did not revert back to the pre-Nitaqat rate, but rather has been sustained year after year.**



Consistent Growth in Female Employment for all Firm Sizes



UPFRONT COSTS OF HIRING FEMALES

A significant constraint to getting more female Saudis in the workforce is the high upfront costs (fixed costs) faced by firms that have never before hired a female employee. If firms are accustomed to hiring and working with only males, they may not be willing to invest in the physical space, production methods, and new hiring process that are required for firms to hire their first female employee. According to economic theory, once firms make these initial investments to cover the fixed costs of hiring their first female employee, it will become significantly easier for them to hire each additional female worker.

FIRMS INVESTED IN UPFRONT COSTS AND OPENED THE DOOR TO FEMALE EMPLOYEES

Peck, Miller and Seflek's findings show that firms that hired their first female employee after Nitaqat, on average, now have almost 30% of their workforce made up of female Saudis. It appears that making the upfront investment in fixed costs allowed these firms to tap into a valuable resource: female labor. This points to a potential permanent impact of Nitaqat since firms will be able to continue hiring more and more women without paying these fixed costs again.

What does this mean for policymakers?

Post-Nitaqat hiring patterns show that there are high upfront costs that make it expensive for firms to hire their first female worker. Government programs can increase female employment by offsetting those fixed costs. Examples include:

1. Offering firms a credit to help with creating a female-suitable workplace. These credits could be applied to building the physical space needed or supporting programs such as childcare.
2. Providing a direct subsidy to firms based on the number of women that they hire. A larger subsidy could be provided for the first few female hires in order to encourage firms to make the switch.
3. Creating a centralized recruitment platform so that firms can more easily adjust to recruiting females for the first time.

These potential programs are similar in that they work by making it less costly for firms to start hiring female employees.