



# The Saudi Chain Of Public Policy Challenges

Looking At The Retail  
Sector And Beyond

BAIN & COMPANY



Developed by Mukatafa in collaboration  
with Bain & Company

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“

**FIRST OBJECTIVE IS FOR OUR COUNTRY TO BE A PIONEERING AND SUCCESSFUL GLOBAL MODEL OF EXCELLENCE, ON ALL FRONTS, AND I WILL WORK WITH YOU TO ACHIEVE THAT.** ”

**CUSTODIAN OF THE TWO HOLY MOSQUES  
KING SALMAN BIN ABDULAZIZ AL SAUD**



“

**WE WILL IMPROVE THE BUSINESS ENVIRONMENT, SO THAT OUR ECONOMY GROWS AND FLOURISHES, DRIVING HEALTHIER EMPLOYMENT OPPORTUNITIES FOR CITIZENS AND LONG-TERM PROSPERITY FOR ALL.** ”

**HRH PRINCE MOHAMMED BIN SALMAN  
CROWN PRINCE, DEPUTY PRIME MINISTER,  
AND CHAIRMAN OF THE COUNCIL OF ECONOMIC  
AND DEVELOPMENT AFFAIRS**



# Contents

- | **04.**  
Highlights
- | **05.**  
Chief Executive  
Officer statement
- | **06.**  
Examining the  
Regulatory Chain
- | **07.**  
Examining the  
Regulatory Chain
- | **08.**  
About the  
Survey
- | **09.**  
Main  
Challenges
- | **14.**  
HR and  
Licensing
- | **17.**  
Product Registration,  
Customs, Tax and Zakat
- | **20.**  
Rent, Other Operations  
and e-commerce
- | **22.**  
Sector  
Growth
- | **24.**  
Consulting the  
Private Sector
- | **25.**  
Project  
Team
- | **26.**  
About  
Mukatafa
- | **27.**  
Proudly  
Managing
- | **29.**  
Glossary



# Highlights

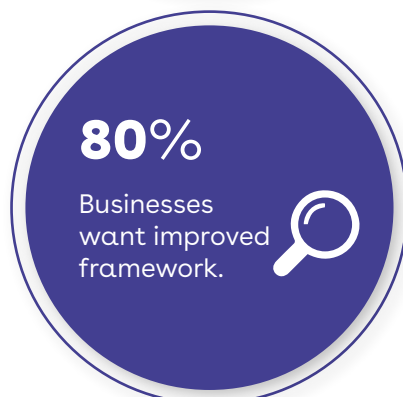
## Retail Sector



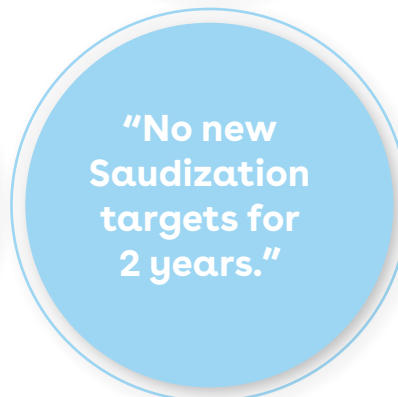
## Post COVID-19



## Regulatory Change



## Involve Retailers



# Regulatory Changes Crucial to Post-Covid Recovery



Since the launch of Vision 2030, the Kingdom of Saudi Arabia has focused on increasing the contribution of the private sector and empowering the third sector. Such efforts have been directed towards the development and diversification of the economy, and the reduction of the dependence on oil, which aims to transform the structure of the Saudi economy into a diversified and sustainable one.

Public policy development is the foundation for business creation, growth, and overall economic prosperity. The study of public policy development, their implementation, the role of the private sector in framing them, their limitations, and how all these impact businesses is very important to improve the economic business ecosystem.

We have been witnessing an unprecedented cross-sectoral collaboration between the public, private, and third sectors.

*The public sector has been increasingly looking at the private sector as an active partner in the development and it's not just for local investors, but foreign investors too.*

Top-down policies are being met with bottom-up engagement. All resulting in more developed approaches to the engagement of stakeholders in the world of policy development.

This study focuses on the end-to-end regulations chain that regulates the retail sector, with the aim to develop policy recommendations that will enable the sector to better contribute to Vision 2030's realization.



**Public policy development is the foundation for business creation & growth”**

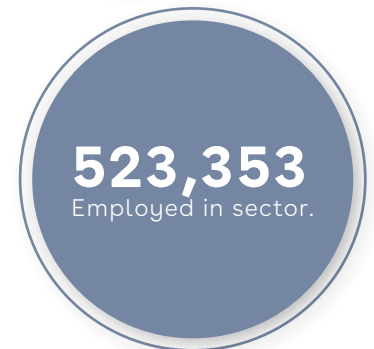
Waleed bin Nasser Al Saud  
Chief Executive Officer, Mukatafa

# Examining the Regulatory Chain

The retail sector plays a pivotal role in Saudi society, not just for the significant contribution it makes to GDP and job opportunities, but also for the critical role it can play in achieving Vision 2030 objectives of improving the quality of life.

The purpose of this study by Mukatafa and Bain Company was to contribute to the sustainable success of the sector by examining the end-to-end regulatory chain, identifying possible obstacles to sector growth and making policy recommendations to overcome them.

\* The above figures are based on Q3 of 2021, according to the General Organization Social for Insurance and the World Bank



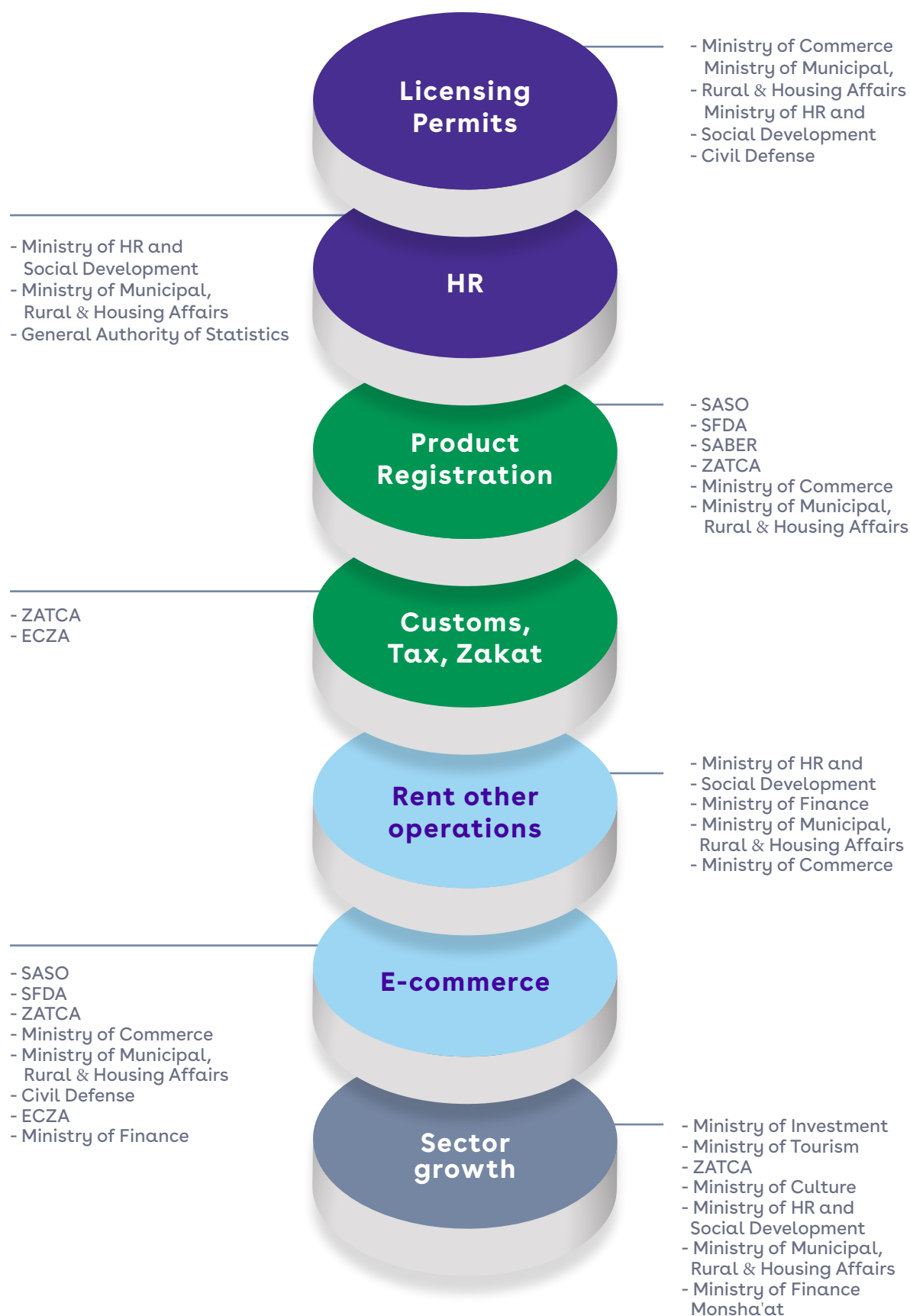
## Vision 2030

Over recent decades the retail sector has become an increasingly important part of the fabric of Saudi society, not just for the revenue it generates, but also for the experiential, societal and entertainment possibilities it offers.

As a consequence, the retail sector is a fundamental part of achieving Vision 2030 objectives of reducing the Kingdoms reliance on oil, diversifying the economy and building a thriving economy and a vibrant society that offers a better quality of life and empowers its citizens.

The retail sector truly is key to these aspirations. Certainly, for the direct economic contribution it generates, but also because of its ability of attracting local, regional and international brands and introducing cutting-edge processes, practices and experience.

In fact, Saudi Arabia is ahead of the majority of the world in recognizing retail to be much more than a transactional process. As the country emerges from the effects of Covid-19 and looks forward to a recovering economy, it is likely that we will see a great deal of growth and innovation in the sector.



The chain of government regulations and interfaces and responsible ministries and agencies.

\*This breakdown is a non-official structure, and it has been developed by the Mukatafa Team when studying the investor's journey in the legislative challenges.

## About the Survey

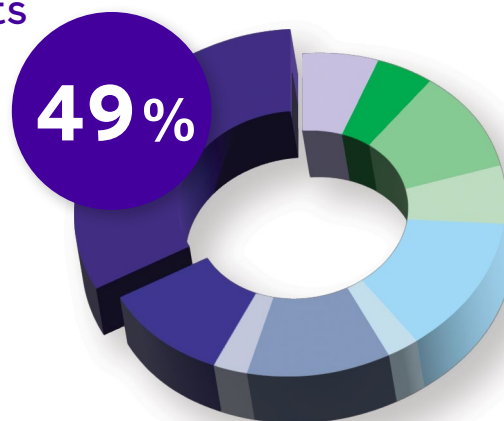
A total of 75 businesses took part in the survey, over 40 percent of whom were very large sized (>1000) employees). The grocery sub-sector was the exception, where more than 40% of respondents were medium-sized businesses (50-249 employees).

The largest participating subsectors were restaurants (49%), e-commerce (20%) and cafes (17%).

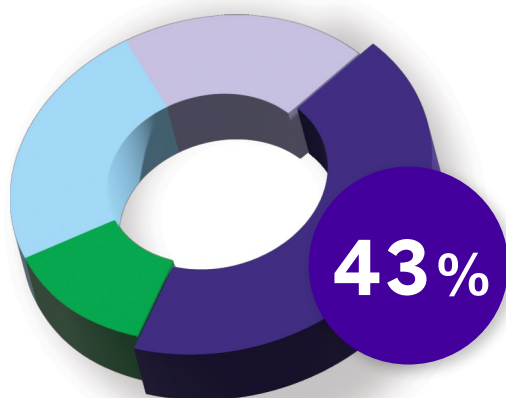


### Survey participants by subsector

**49%**  
Of survey respondents from restaurant sub-sector.



16% Grocery  
49%)Restaurant  
09% Fashion and Jewelry  
07% Beauty and Health  
16% Electronics & Telecom  
09% Furniture and home)DIY  
20% Ecommerce  
04% Automobiles  
17 % Caf's  
04% Pharmacies



### Survey participants by business size

**43%**  
Of survey respondents from companies with >1000 employees.

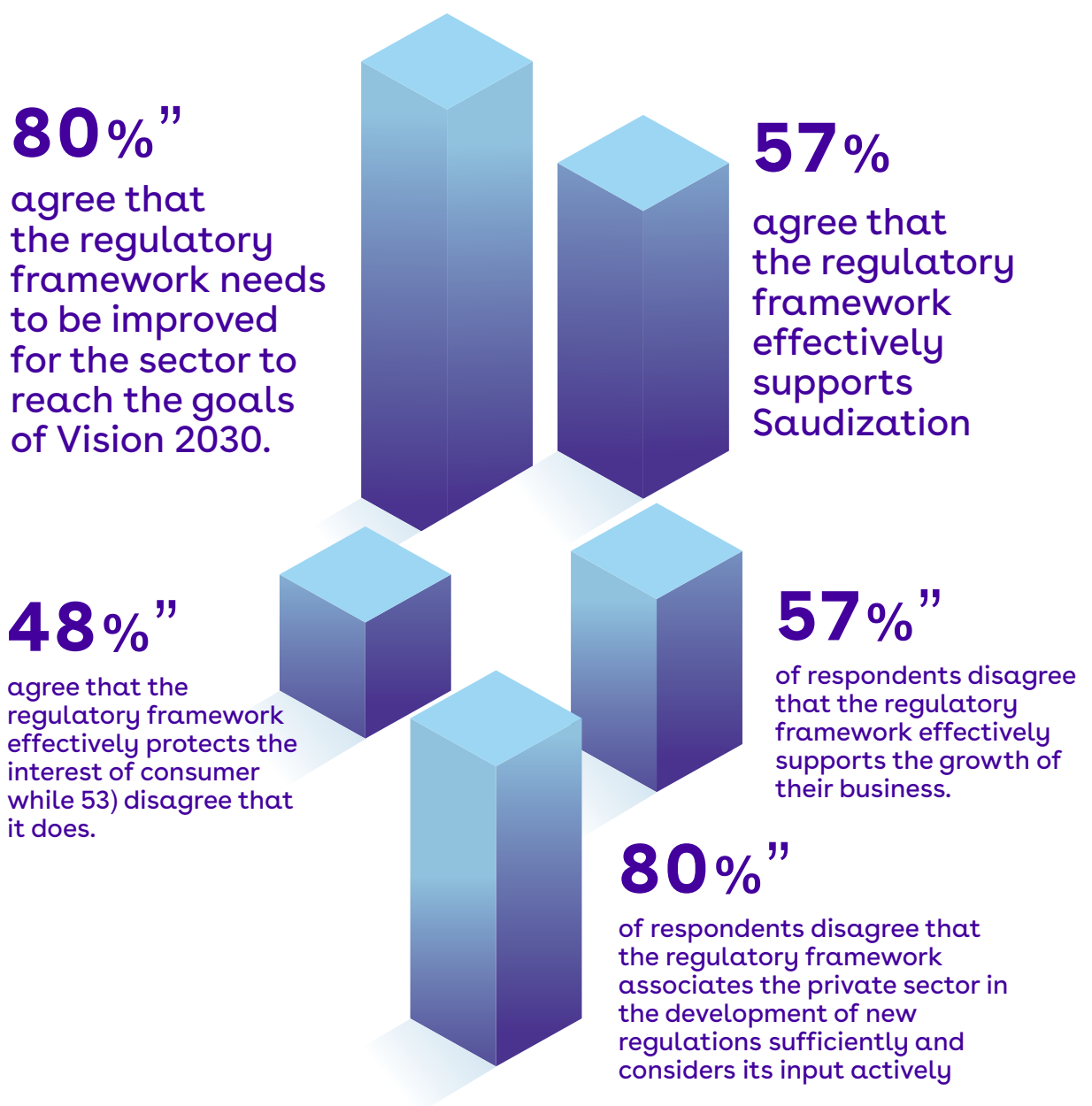
13% Small(1-49 employees))  
24% Medium(50-249 employees))  
20% Large(250-999 employees))  
43% Very large(1000 employees)



# Main Challenges for the Retail Sector

The fall-out from Covid-19 has undoubtedly been the dominant factor affecting retail revenues over the past 18 months ) and usually

## Regulatory Framework and Vision 2030



# Main Challenges for the Retail Sector (continued)

According to respondents, there are 3 overriding areas of government regulation that need to be addressed to enable the sector to deliver Vision 2030 goals, namely)



Government taxes and fees, and high operational costs



Regulatory uncertainty and consolidation



Increased Saudization requirements and difficult talent management.

**We asked the CEOs of some of the largest retail companies in the Kingdom of specific suggestions, and below we share their main responds in quotes directly from them:"**

Under Government taxes and fees and high operational costs, these were the most common responds:



Taxes, fees and fines: ex(VAT & labor fees) diminish purchasing power.



Increased operating costs lead to constant cost base increase:

- High supply chain costs driven by high aggregator costs, higher prices of imported goods, rising freight cost.
- High regulation costs such as work permit and Iqama renewal fees and municipality regulation fees.

Under Regulatory uncertainty and consolidation, there was a general agreement on Excessively dynamic and confusing regulations, and here are direct statements:

“Rapidly changed government regulations without giving enough time for all stakeholders to adapt and accommodate.”

“Confusing and tough regulations make life more difficult (Saudization of Malls and lack of exceptions for back-office staff).”

CEOs also commented that there is a challenge on having multiple government agencies to deal with, and here are direct statements:

“Very high expensive government policies post Corona and requirements from too many government entities at one time.”

“No specific governmental agency for the fine dining sector.”

“No supervisory body for the retail sector.”



Under Increased Saudization and difficult talent management:

CEOs stated on Rampant Saudization:)

“Stringent and difficult to implement frontline Saudization requirements without proper phasing.”

“Saudization and administrative complexities in getting skilled labor into the country.”

CEOs also stated on difficult talent management as:)

“Local population needs to be trained better.”

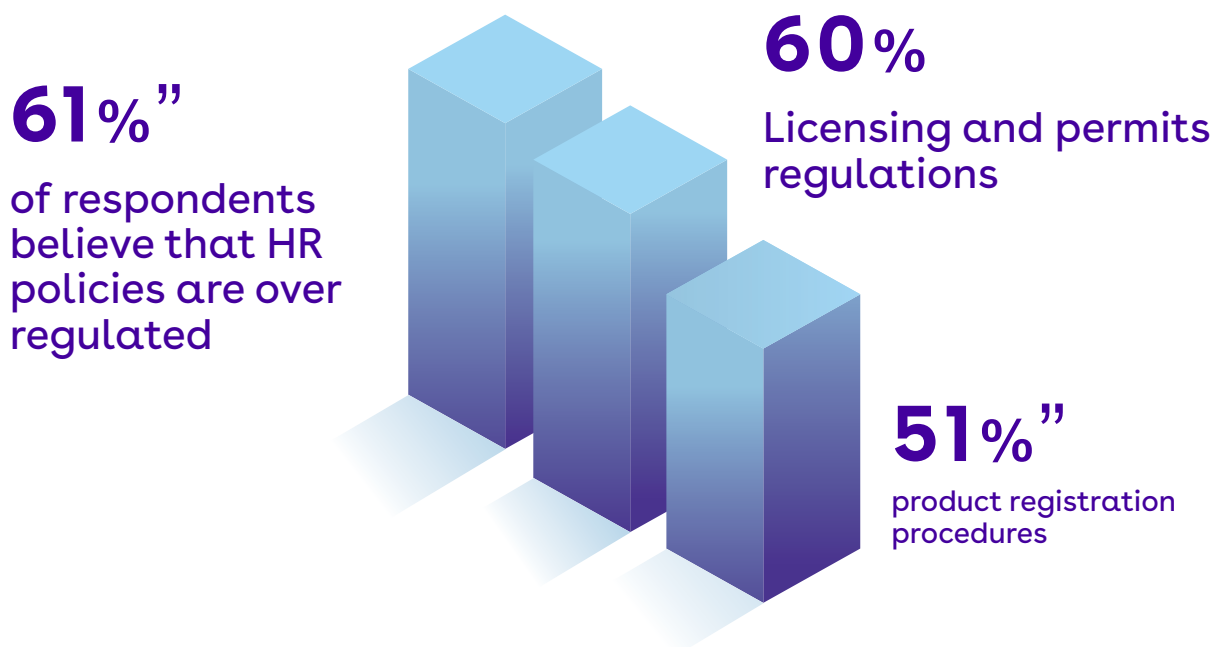
“Saudization and finding the right sustainable Saudi employee.”

“High Saudization turnover.”

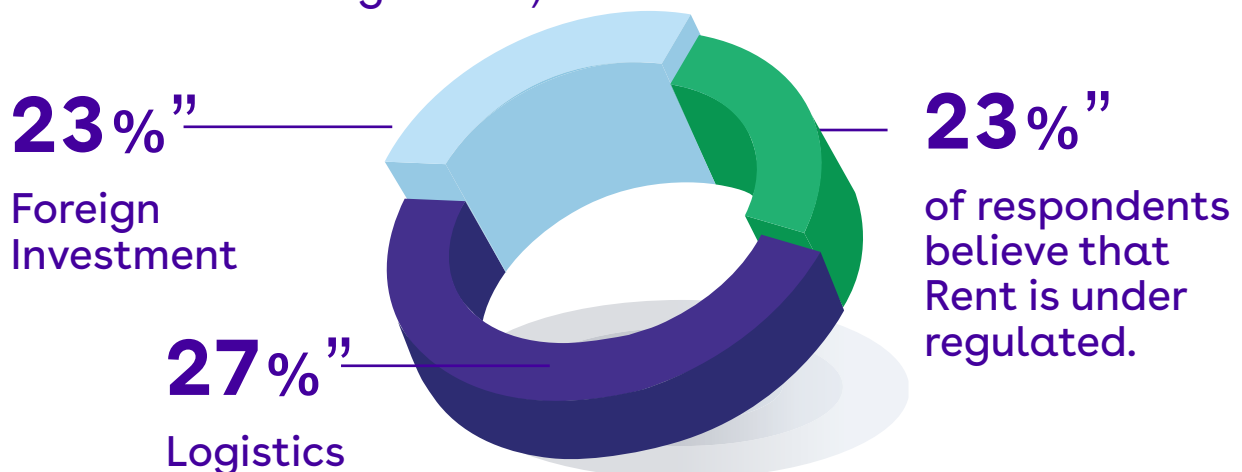
## Main Challenges for the Retail Sector (continued)

The survey also rated the regulatory areas that participants considered to be over-regulated and under-regulated, prioritizing which areas should be tackled first.

In this sector we highlight that Regulatory areas that are over-regulated and under-regulated as per the CEOs responds:



Regulatory areas that are under-regulated:)





On prioritizing change, here we highlight a ranking by the CEOs of the areas that they aim to focus on when working on policy priorities on developing and growing the private sector

**56%**

of respondents prioritize reform in Licensing and permits (municipalities, MoC, and civil defense)



**59%**

of respondents prioritize HR regulations (Saudization policies with the sector's participation in their development, visas, and female employment)

The following are the respondents' priorities in reform in order)

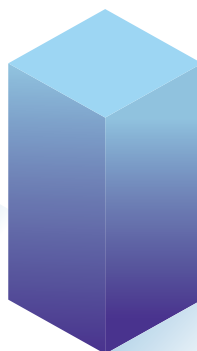
**53%**

Tax(Zakat and VAT))



**39%**

product registration (SASO, SFDA, SABER)



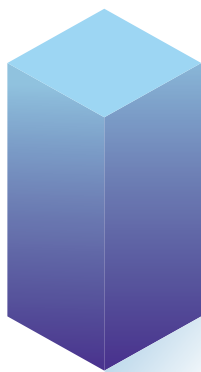
**31%**

Rent and other retail operations



**43%**

Customs clearance and import duties



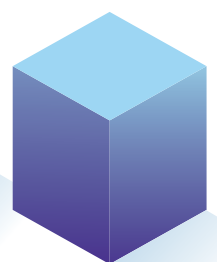
**20%**

E-Commerce.



**15%**

foreign investment



## Focus on HR and Licensing

Reforms to Human Resource and Licensing and Permits regulations would be of most value to the retail sector, according to respondents.

Changes to Saudization policies and introducing a warning system before licensing) permit non-compliance fines are issued are the most popular possible improvements in those respective categories, according to our survey.

Key potential  
policy changes:



Change  
Saudization  
regulations  
and policies



Introduce  
a warning  
system before  
penalties issued

On HR policy changes, here we highlight a ranking by the CEOs of the areas that they aim to focus on HR policies when working on policy priorities on developing and growing the private sector in order of importance:

**81%**

of respondents  
prioritize reducing  
cost of foreign  
labor when no  
Saudi replacement  
option

**80%”**

support increasing  
time to implement  
Saudization rules  
when scarcity  
of talent

**68%**

believe that there  
should be a develop  
of an electronic  
system for health  
certificates and rollout  
to municipalities

**69%**

believe that when Vi-  
sas are available elec-  
tronically then Nitaqat  
should be unaffected  
until employees arrive  
in Saudi

**79%**

believe that regulatory  
bodies should Inform retailers  
earlier of planned changes in  
Saudization rules (1 year)

## Focus on HR and Licensing (continued)

**64%**  
prioritize

- Revising the occupation classifications to better match sector and harmonize across regulatory authorities
- Facilitating part time and temporary employment
- Allowing higher percentage of foreign employees as store managers

**63%**

of believe that there should be a revision of contracts with Saudi nationals including stricter rules for attendance, termination for under-performance)

**47%**

call for labor regulations to be harmonized for men and women.

**53%**

of respondents believe that there should better development information accessibility for Qiwa and Mudad

**59%**  
prioritize

- Consulting the private sector on Saudization rules
- Boosting training of national workforce
- Improving procedure to object to violations
- Enabling employees with health certificate requirements to move between supermarket and restaurant depts
- Limiting financial responsibilities toward employee after termination of contract

## Focus on HR and Licensing (continued)

On Licensing and Permit Reform, here we highlight a ranking by the CEOs of the areas that they aim to focus under Licensing and Permit Reform regulations when working on policy priorities on developing and growing the private sector in order of importance)





# Focus on Product Registration and Customs, Tax and Zakat

After HR and Licensing Permits, Product Registration and Customs, Tax and Zakat regulatory reforms would be of most benefit to the retail sector to enable it to achieve Vision 2030 aims, according to our research.

## Key potential policy changes)



Reduce cost  
of product  
Registration



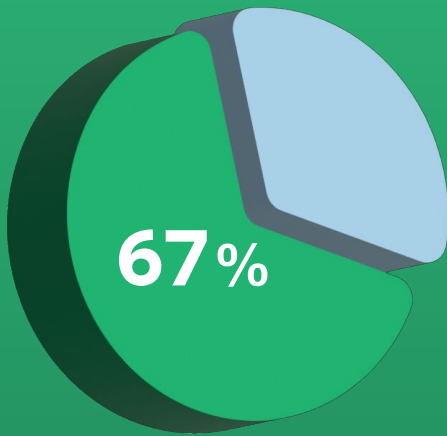
Advanced  
notice of  
changing  
specifications



Reduce  
VAT for  
necessities

**70%**  
of respondents  
believe VAT on  
necessities should  
be reduced.

## Under products Registration:



67% of respondents believe that)

- cost of product registration should be reduced.
- There should be advanced notice of changing specifications.

44%”

call for harmonization and clarification of requirements and standards across authorities.

61%”

believe that there should be an acceptance of European specs for European standards.

64%”

believe that Saudi product standards should align with international standards.

60%”

call for an extension of product registration validity.

59%”

hope to create communications channel between retailers and SASO

56%”

believe that import of spare parts for maintenance of products which can no longer be imported but have not been withdrawn should be allowed.

51%”

believe that there is a need to eliminate multiple registration at GCC and Saudi level.

47%”

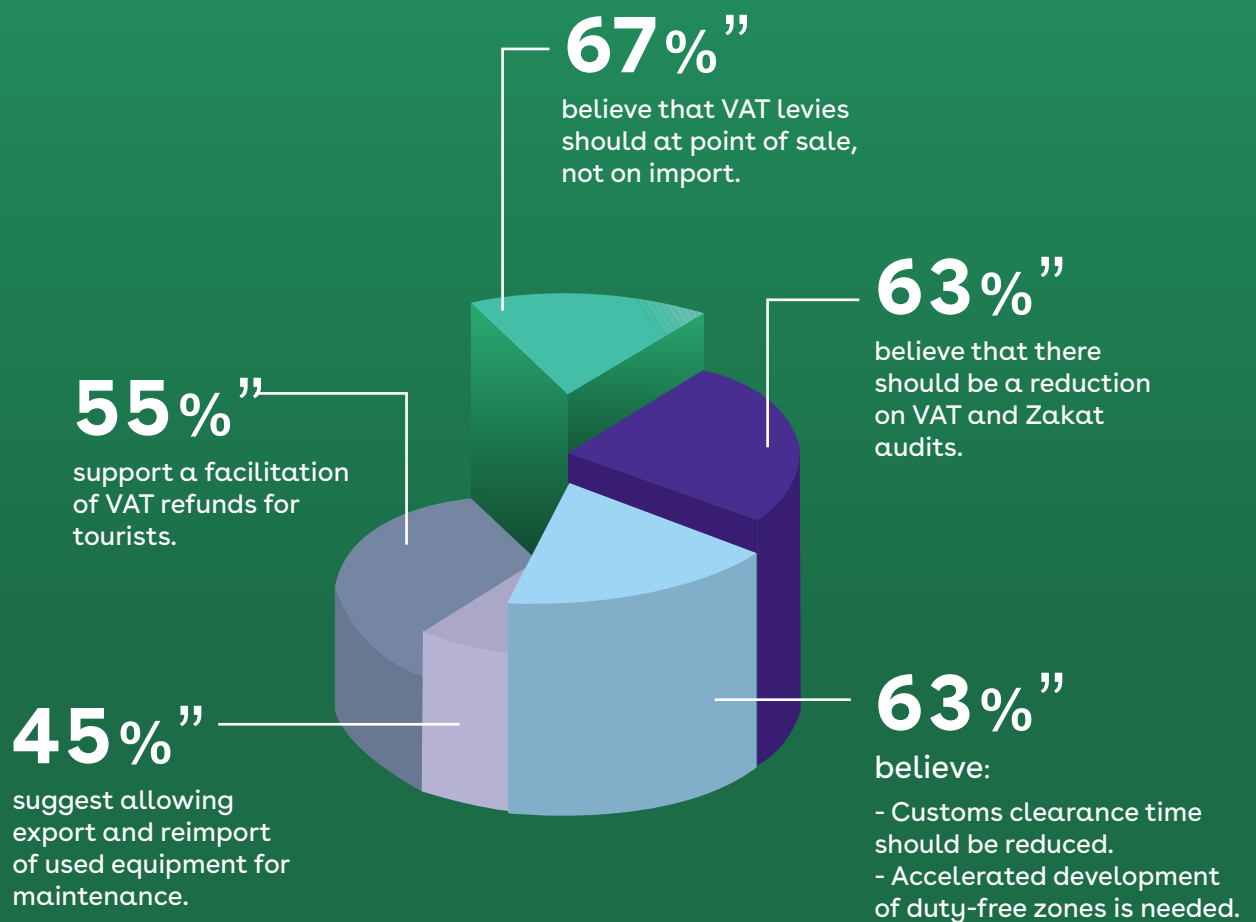
believe that there should be less frequent changes to registration process and specifications

## Under Customs, Tax, and Zakat Reform:



**70%**

of respondents believe that there should be a VAT reduction for essential products.



# Focus on Rent & Other Operations and E-commerce

Respondents were more split on possible rental and operational and e-commerce regulatory reforms, reflecting the varied requirements of the different sub-sectors.

In terms of Rent reform, just over half of respondents would prioritize an impartial consumer complaint process - with a clear appeals process - while regarding e-commerce regulatory reform, a similar proportion would prioritize a reduction in the credit card refund times down from the current 14 days.

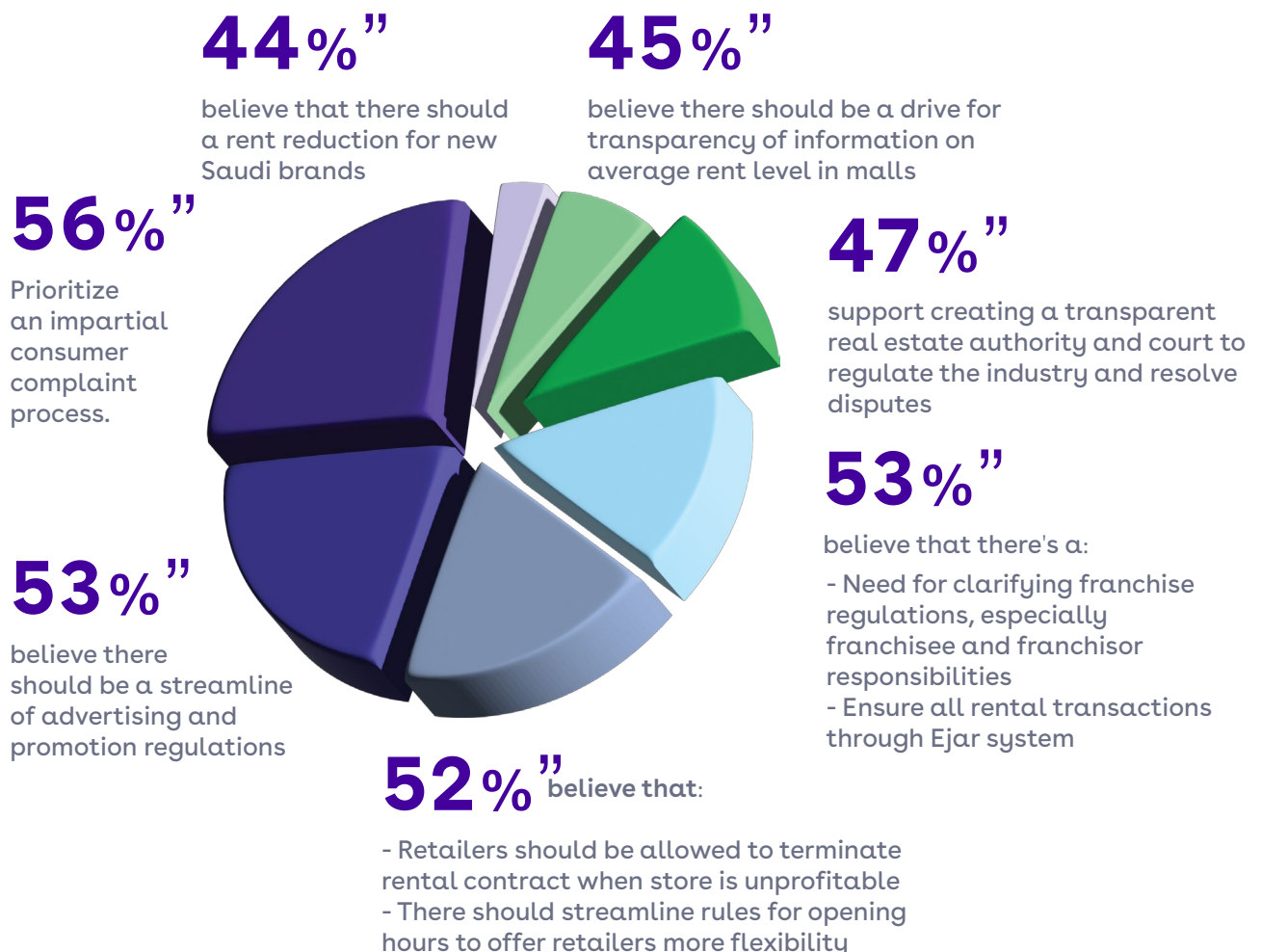
Key potential policy changes:



Impartial consumer complaint and appeal process



Reduce credit card refunds from current 14 days.





## Focus on Rent & Other Operations and E-commerce (continued)

**59%**

believe that reducing the 14-day period for banks to refund credit cards after cancellations is the most important

**57%”**

call for ensuring the imported products cross-border comply with the same regulations as those bought locally

**57%”**

request the acceleration of Free Zones development

**56%”**

call for returns to be recognized as 'duty paid' to avoid double payment

**49%”**

hope for the removal of threshold or added duty stamp on all e-commerce imports to align duties/VAT

**55%”**

call for the development of quality warehouses suitable for e-commerce

**48%”**

call for clarification of responsibilities of marketplace and seller in customer complaint process

**52%”**

call for ensuring seamless movements of shipment in/out of free zones with consolidated payment of duties and VAT

**47%”**

hope to allow visas for e-commerce experts to transfer knowledge to local talent

**52%”**

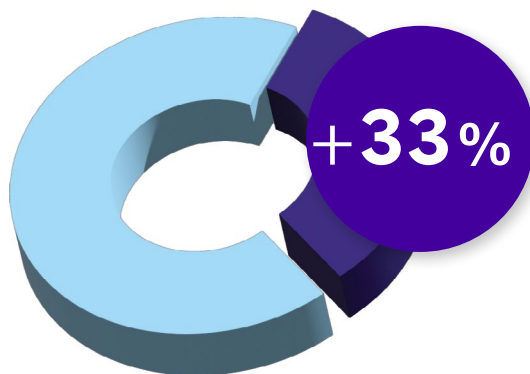
call for ensuring that global brands export products to KSA at the same price as other markets

**43%”**

believe it is important to encourage the development of local sellers

## Sector Growth

Nearly two-thirds of respondents suffered a downturn in revenue in 2020 compared to - 2019 a trend primarily driven by hospitality businesses, many of which were forced to close despite several important and effective support programs put in place by the government to mitigate the economic downturn caused by the pandemic.



of businesses are more cautious, not expecting recovery until 2022-2023

### Support program usage 2020

**57%**

believe that Saned was the most important government support program.



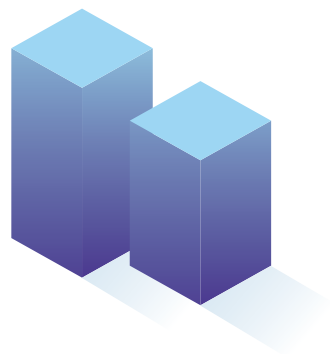
**41%**

used the employees' salary support, especially in the grocery and fashion and jewellery subsectors.

### Pandemic Profit and Loss

**24%**

found that profit fell by 40% ) (restaurants & cafes)



**19%**

found that profit has risen 1-19% (e-commerce, grocery, electronics and telecom)

# Consulting the Private Sector to Improve the Regulatory Framework

A regulatory framework that involves close cooperation between the private and public sectors is the ideal way forward to enable the retail sector to grow and to contribute to fulfilling the aims of Vision 2030.

**63%**

call for private sector inclusion in policy development  
prioritize reducing cost of foreign labor when no Saudi replacement option

**60%”**

want continued investment in tourism

**56%”**

call for the facilitation of finance access for SMEs

**56%**

hope to simplify regulations for expansion, promotion, festivals and regulation

**53%”**

hope for the facilitation of VAT refund for tourists

**49%**

believe the importance of enhancing Saudi festivals and other retail mega-events

**37%**

call for the acceleration of mega-malls development for tourists

**40%**

wish to accelerate migration from traditional trade to modern trade

As well as ranking potential reforms included in our survey, many Chief Executive Officers we spoke with were eager to suggest their own ideas.

# Input from survey respondents

## Open and structured regulatory framework

Include the private sector  
in policy formulation

“All the ministries should actively listen to private sector feedback before implementing new laws and regulations”

Labor

“We should all implement our development plans to ensure our colleagues gain the necessary skills. We believe no new Saudization targets should be implemented for at least 2 years”

## Adopt best practices from mature economics

Develop global benchmarks and follow them

“Please benchmark processes that different jurisdictions in developed mature markets follow. The findings should be a model to follow and improve upon over time. This will enhance the growth of the e-commerce sector in the Kingdom and will generate a positive multiplier effect in the Saudi economy.”



# Project Team

This survey into the regulatory framework of the Saudi retail sector was performed by a joint Mukatafa-Bain Company team, combining Bain's leadership in retail sector analysis with Mukatafa's expertise in public policy advocacy and private sector engagement.



## Razan Farhan Alaqil

Senior Director of Advocacy, Mukatafa

Razan leads the public policy advocacy and communications teams by leading Mukatafa's team efforts to advocate for public policy development. She leads policy reviews, representation of the private sector to the public sector, and the development of sectoral legislative solutions.



## Dr Hiba Amr Rajab

Senior Advocacy Manager, Mukatafa

Hiba leads advocacy efforts with several public sector bodies including the Ministry of Investment, Ministry of Finance, Zakat, Tax, and Customs Authority, focusing on investment, VAT, and economic growth. She also leads Mukatafa's research and benchmarking with G20 embassies in the Kingdom.



## Cyrille Fabre

Director and Head of Consumer Products Retail Middle East, Bain & Company

Cyrille leads Bain's consumer products and retail practice and family businesses in the Middle East, primarily advising retailers and consumer product companies on strategy, customer experience, and digital and performance improvement.



## Anne-Laure Malauzat

Partner, Bain & Company

Anne-Laure is a leader in the global retail and public sector's social impact practices and works with retail, leisure and entertainment, and consumer products clients on issues including turnaround and growth strategy, performance improvement, omnichannel strategy, customer experience and advanced analytics transformations.

# About Mukatafa

**We are a for-profit policy development company, targeting sustainable economic and social impact.**

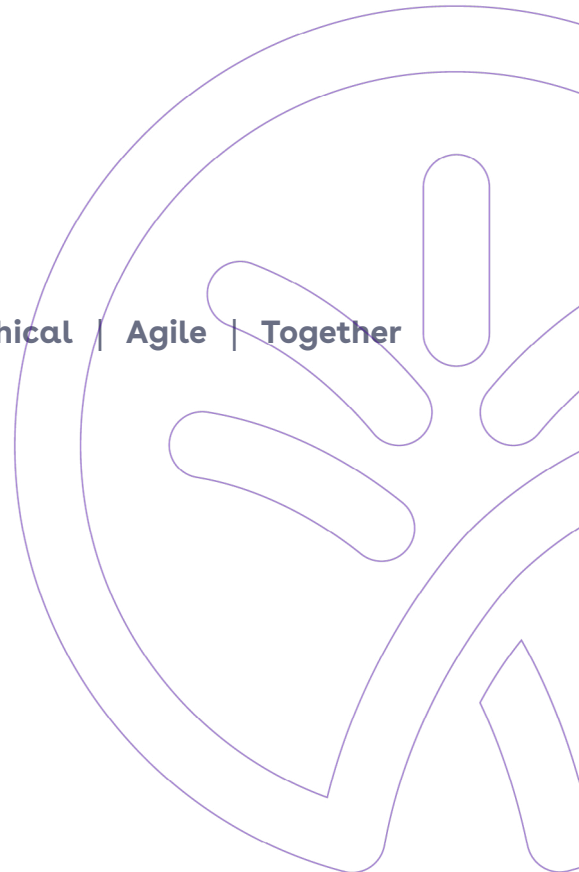
Throughout the years, we have been developing robust systems to **identify challenges, develop recommendations,** and **support the implementation** of business-related policies.

We do this by organizing and managing industries, and business communities to contribute to the development and elevation of business practices through different solutions aimed at enabling the private sector to become an active contributor to Vision 2030's realization.

## Our Values

**We are''**

Compassionate | Committed | Dependable | Ethical | Agile | Together



# Proudly Managing



## Resturants & Cafes Association (Qoot)



## Grocery Stores Association(MO'AN)



# Proudly Managing



Electronics and Home Appliances Association (**JAHAZ**)



Fashion Jewelry, and Beauty Association (**ZY**)



# Glossary

## | GDP

Gross Domestic Product.

## | Ejar

A housing and real estate platform.

## | MHRSD

Ministry of Human Resources Social Development.

## | MUDAD

A payroll compliance system for Small and Medium Establishments.

## | SABER

An electronic certification and conformity assessment certificate for importers/manufacturers.

## | SASO

Saudi Standards, Metrology and Quality Organization.

## | ZATCA

Zakat, Tax and Customs Authority.

## | ECZA

Economic Cities and Special Zones Authority.

## | GOSI

General Organization for Social Insurance.

## | Monsha'at

Small and Medium Enterprises Authority.

## | QIWA

An electronic platform that provides MHRSD services and solutions to the labor sector.

## | SANED

An insurance program designed to support Saudi workers and their families financially during a period of unemployment for reasons beyond their control.

## | SFDA

Saudi Food and Drug Authority.





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