

## **Developing the Government Subsidy System in the Kingdom of Saudi Arabia:**

# **Determining poverty line and sufficiency line**

**In the Name of Allah  
the Most Gracious the  
Most Merciful**

**“Care for the weak; the strong are  
capable of caring for themselves.”**

King Khalid bin Abdulaziz, May Allah have mercy on him

On the 25th of April 2016, in an interview with

### HRH Prince Mohammed bin Salman bin Abdulaziz Al-Saud

on Al Arabiya Channel, the following question was asked:

"How will the low-income group be determined?"

HRH Prince Mohammed responded:

"That is a very difficult challenge! We cannot adopt a free energy market model without a program that supports low-income groups. We do not intend to affect the middle-income groups because we aim to protect both middle- and low-income groups with the subsidy program".



#### Vision 2030 made the following commitment:

"We will continue modernizing our social welfare system to make it more efficient, empowering and just. Subsidies for fuel, food, water and electricity will be better utilized by redirecting them towards those in need. We will provide our most vulnerable citizens with tailored care and support. Together with the private sector and non-governmental organizations, we will train and qualify those unable to find employment so they can smoothly join the workforce whenever possible."

## Why this publication

The Kingdom is currently undergoing a historical transformation with the reform of government policies and programs. International experience has shown that economic transformations create ideal opportunities for developing and improving government subsidy systems. However, even though these factors provide promising opportunities for a bright economic future in the Kingdom, ignoring the anticipated challenges is unrealistic. Implementing privatization policies and adopting a free market model as well as imposing fees and taxes must go hand in hand with a balanced social protection policy. Such a policy involves developing criteria for eligibility and enhancing the quality of the social protection system. It will also help in clearly determining the categories that will be affected by these structural changes. Social protection policies are generally considered long- and medium-term policies which cannot be drawn up or executed during short periods of time. This is due to the time it takes to provide the financial and administrative financial and administrative space necessary for the implementation of social protection policy programs.

The main challenge lies in adopting efficient and transparent procedures to determine the eligible groups and provide them with the subsidies they need, in addition to enhancing the role of the social protection system in order to guarantee the protection of vulnerable groups. Accomplishing this will help decision-makers move forward with economic restructuring without placing additional financial burdens on low-income groups. The Custodian of the Two Holy Mosques also called for the reform of the government subsidy system with the gradual execution of any policies in order to achieve optimal utilization of resources and limit waste, **ensuring that middle- and low-income citizens are minimally affected**. By issuing this publication, the King Khalid Foundation hopes to achieve this goal by examining the procedures used to determine poverty lines and applying them to the context of the Kingdom. The Foundation also aims to measure minimum standards of living for Saudi households. However, even though the Foundation welcomed the announcement of both the Fiscal Balance Program 2020 and the Citizen's Account Program, it recommends adopting a unified national approach, which can be updated in the future, to measure relative poverty lines. This can be accomplished by using household income and expenditure surveys that are in line with the Kingdom's economy in order to accurately define eligible groups within a comprehensive and integrated social protection system.

Although procedures for measuring poverty lines and sufficiency line vary worldwide, the majority is based on research and statistics to study the dimensions of poverty, its impact, and how it is interconnected with other social issues which facilitates monitoring improvement as well as determining the efficiency of subsidy programs in enhancing living conditions of low-income groups. This is accomplished by identifying the percentage and particularities of the population living below the poverty line, creating programs which target their needs as well as keeping track of them through household income and expenditure surveys.

Establishing procedures to measure poverty promotes confidence in the country's policies and institutions. It also paves the way for a smooth transition from a conventional government subsidy system to a comprehensive social protection system, one which provides detailed information about the subsidy programs that should be offered, including their target groups. This helps government institutions and their non-profit partners provide any necessary complementary services or programs.

## Executive Summary

By issuing this publication, the King Khalid Foundation aims to provide means for developing and rationalizing the government subsidy system in the Kingdom of Saudi Arabia through the analysis of current subsidy programs and the different components of the social protection system. It also evaluates the procedures used to provide subsidies and identifies those who are eligible for them. The report draws on the review and analysis of official statements and policies, concluding with recommendations. The King Khalid Foundation aspires to assist decision-makers develop an alternative efficient and transparent mechanism to determine groups which are eligible for government subsidies and aid from the Citizen's Account Program by examining international standards used to measure poverty lines, and applying them to the Kingdom of Saudi Arabia. The Foundation recommends the adoption of a unified national approach, which can be modified in the future, to determine the Kingdom's relative poverty line by using household income and expenditure surveys in line with the Kingdom's developed economy, and to determine more specifically the groups deserving support. The Foundation also recommends measuring minimum standards of living using a sufficiency line measurements to identify the middle-income bracket in order to monitor living conditions and develop subsidy programs to protect them from the negative impacts of economic change. The Foundation believes that identifying a sufficiency line along with the relative poverty line will help decision-makers and subsidy providers identify gaps, shortcomings or deficiencies as well as expand the group of beneficiaries to include the middle-income groups.

The Foundation calls for establishing clear, comprehensive, and cohesive social protection policies and systems in the Kingdom to target eligible groups and discontinue benefits that are being paid to those who are well off. Accordingly, it is necessary to determine the components of existing subsidy programs and to establish a national registry for all subsidy programs and their beneficiaries, locate discrepancies, limit payment of multiple subsidies to the same entity, and ensure that eligibility requirements are consistent and comprehensive. The Foundation also recommends that indirect government subsidies should be lifted gradually and that potentially affected groups should be identified. Subsidies should be granted to these groups before structural economic changes are implemented. Further, the Foundation believes that the Citizen's Account Program should be one of the components of a comprehensive social protection system and not an alternative to such a system, even after other subsidy and support programs are merged within it. This social protection system includes other components, such as social insurance programs and labor force procedures.

This report includes information about the characteristics of poverty in the Kingdom based on official data and available studies. However, since available data are insufficient, it is difficult for researchers and decision-makers to closely examine poverty in the Kingdom and formulate the policies needed for its elimination. Official data that are available indicate that the most significant characteristic of poverty in the Kingdom is the low educational attainment of low-income groups. The data indicate a correlation between higher levels of education and higher incomes, while poverty correlates with groups with lower levels of education and high illiteracy rates. It was also found that household expenditure increases as the educational level of the head of the household improves. For example, families of those who can only read and write spend SR 10,729 per month, while those supported by individuals who have graduate degrees spend SR 44,556 per month, and those supported by individuals who only have undergraduate degrees spend SR 19,169 per month. Poor families suffer from the lack of educational opportunities and the need for family members to join the labor force at an early age even before completing their education. Prioritizing education and making it accessible to everyone is one of the most successful means to combatting poverty worldwide.

The report also reviews the increasing poverty rates among women both in Saudi Arabia and around the world. These increasing rates are due to the inequality of social and economic opportunities that are essential to the improvement of living standards for both men and women. Official data indicate that there is a gap between the wages of female Saudi workers and their male counterparts in the private sector. In 2015, the average difference between the wages of female and male Saudi workers was SR 2,101 per month. Accordingly, the expenditure of families that are financially supported by males exceeded that of families supported by females by SR 6,349 per month. In addition, the report discusses the distribution of wealth and expenditure rates within society, as well as the official statements that support the diminishing spending gap among Saudi households. For example, Najran has recorded the best level of equality in expenditure among the population (i.e., a Gini coefficient of 35.4%), while the highest level of inequality in expenditure was recorded in Riyadh (i.e., a Gini coefficient of 53.6%). Finally, the report concludes with a number of recommendations that support a transition from a conventional incoherent subsidy system to a comprehensive social protection system.

# Current Government Subsidy Programs in the Kingdom

The social protection system in the Kingdom is based on principles outlined in the Basic Law of Governance:

- Article 27: The State shall guarantee the right of the citizen and his family in emergencies, sickness, disability, and old age, and shall support the social security system and encourage institutions and individuals to participate in charitable work.
- Article 28: The State shall facilitate the provision of job opportunities to every able person, and shall enact laws that protect the workman and the employer.
- Article 30: The State shall provide public education, and shall be committed to combating illiteracy.
- Article 31: The State shall be responsible for the care of public health, and shall provide health care to every citizen.

## Current Government Subsidy Programs in the Kingdom

No **comprehensive** social protection policy or program exists in the Kingdom at the present time. There are, however, a number of different programs sponsored by different government bodies. Combined, these programs create a social protection system through which subsidies are provided. But because poverty lines have not been defined and household income and expenditure surveys have not been used to determine the needs of the Saudi household, the subsidies provided by the social protection system are not based on well planned criteria, nor is there a clear definition of eligibility. Moreover, the current situation in the Kingdom also lacks an identification of the characteristics and needs of vulnerable groups.

The current subsidy system is fragmented and disconnected making it incapable of meeting the requirements of those in need even though the support provided by the Saudi government to social protection and healthcare programs represents 3.64% of GDP compared to the global average of 8.6% of GDP, according to the IMF's 2011 estimate. ILO's studies indicated that comprehensive social protection programs only cover approximately 27% of the world's population. <sup>1</sup>

In 2015, 872,766 social assistance accounts were terminated, 89% of those accounts were terminated after verifying that the beneficiaries were no longer eligible for social assistance. They had started working, or obtained a commercial license or real-estate. <sup>2</sup>

It has become vital that decision-makers carefully examine the existing network and work on identifying its shortcomings in order to limit the payment of multiple benefits to some groups. In addition, the components of the social security system and its beneficiaries need to be determined and recorded in a unified national registry. Finally, a unified and comprehensive social protection policy must be drafted.

## Organizations and Institutions that Offer Government Subsidy Programs

Government subsidy programs are offered by the following agencies: The Ministry of Labor and Social Development, the Ministry of Education, the Social Development Bank, the Social Charity Fund, the Ministry of Housing, the Ministry of Health, the Ministry of Energy, Industry, and Mineral Resources, the Public Pension Agency (PPA), the General Organization for Social Insurance (GOSI), the Human Resources Development Fund, and the Ministry of Environment, Water, and Agriculture.

## International Criteria for Social Protection Systems

(Based on ILO and World Bank Criteria)



### Social safety nets

include a variety of subscription-free subsidy programs, such as social assistance and social welfare programs



### Social insurance programs

programs that require beneficiaries to pay subscription fees, such as health insurance, pension, and unemployment insurance

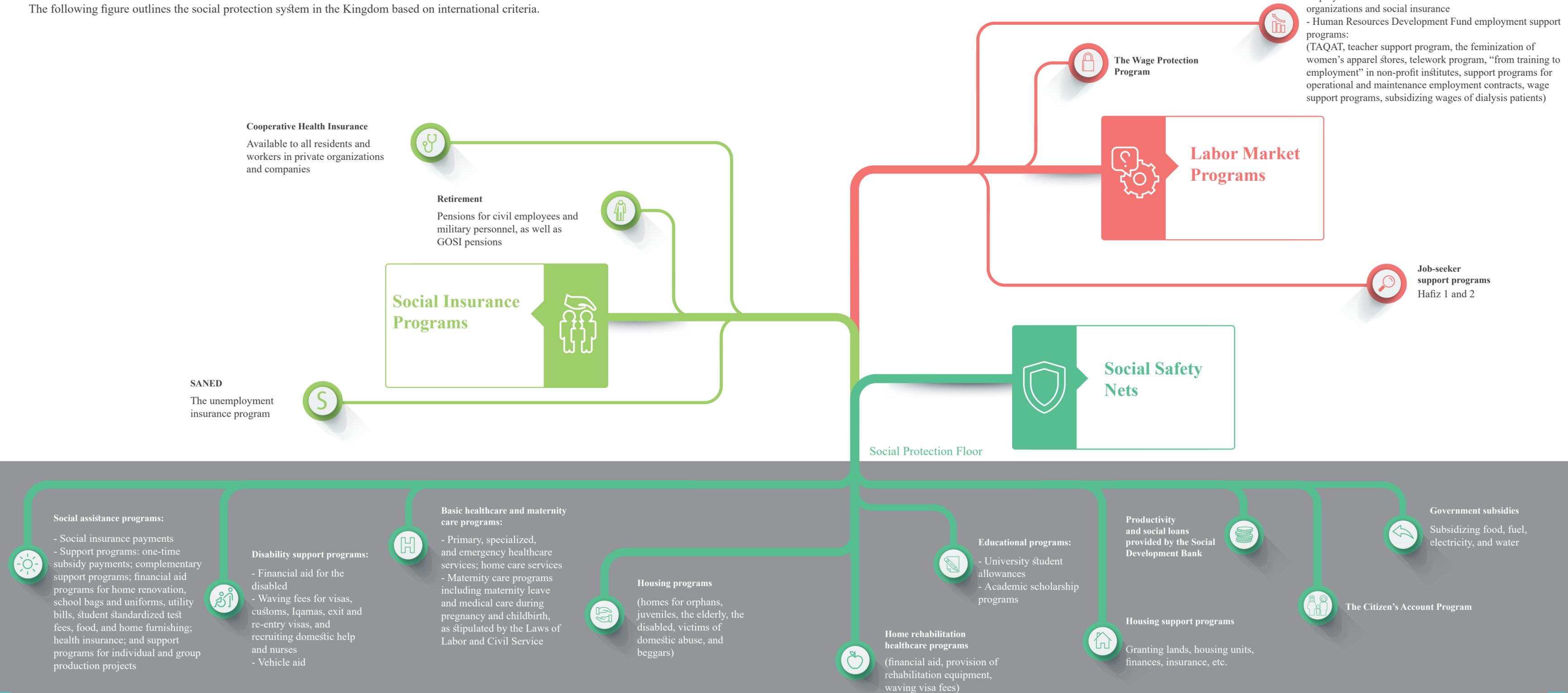


### Labor market programs

include employment support programs and job-seeker support programs

# The Social Protection System in the Kingdom

The following figure outlines the social protection system in the Kingdom based on international criteria.



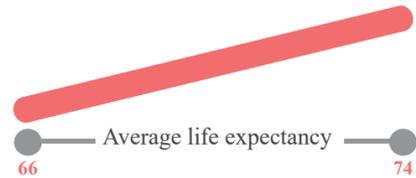
# The Social Protection System

## Evidence Review

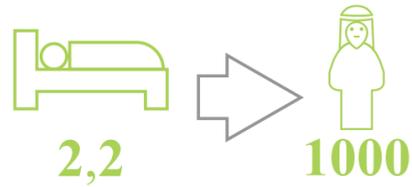
By the end of 2015, the number of social assistance beneficiaries increased to 1,158,448 <sup>3</sup>



Average life expectancy has increased from 66 years to 74 years during the last three decades <sup>4</sup>



The ratio of hospital beds per 1,000 people is 2.2 <sup>5</sup>

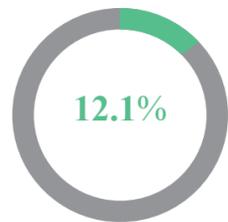


By the end of 2015, the total number of retirees from the public sector had jumped to 710,672 with an increase of 48,783 or 7.4% <sup>6</sup>



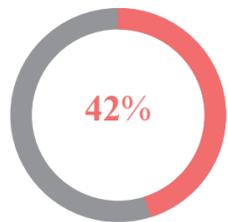
Rate of public sector retirees

Saudi unemployment rates had risen by 12.1% by the end of the third quarter of 2016 <sup>7</sup>



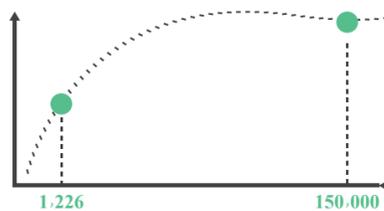
Saudi unemployment rates

Private sector compliance to the Wage Protection Program is 42% <sup>8</sup>



Private sector compliance to the Wage Protection Program

The National Transformation Program 2020 aims to increase the number of those who are no longer in need of social assistance benefits from 1,226 to 150,000, provided that they are capable of working and are of employment age



## Policy Review

The government allocates huge sums of money to government subsidies through the following channels:

<p><b>Health and Social Development</b></p> <p>SR 82 billion of the 2015 budget were dedicated to health and social development.</p>	<p><b>Social assistance</b></p> <p>SR 12.4 billion of the 2015 budget were approved for social insurance, in addition to SR 11.1 billion in Zakat, which amounts to a total of SR 23.5 billion.</p>	<p><b>Disability Support</b></p> <p>A total of SR 5.7 billion was provided as aid to those with disabilities.</p>	<p><b>Orphan Support</b></p> <p>A total of SR 360 million was provided as aid to orphans.</p>
<p><b>Support Programs</b></p> <p>These are programs that are designed to support and complement social assistance. A total of SR 8.3 billion was spent on support programs.</p>	<p><b>PPA Pensions</b></p> <p>By the end of 2015, the PPA spent what amounted to SR 55 billion in retirement pensions distributed among civil employees and military personnel. <sup>9</sup></p>	<p><b>GOSI Pensions</b></p> <p>By the end of 2015, GOSI spent what amounted to SR 17 billion in retirement pensions. <sup>10</sup></p>	

## The Citizen's Account Program

The Fiscal Balance Program 2020 (an executive program of Vision 2030) launched the “Citizen’s Account Program” which is one of the components of the social protection system. It is basically an online platform that enables citizens to benefit directly from the optimal utilization of resources and government subsidies instead of the direct subsidization of energy products and water. Subsidies will be redistributed based on eligibility by transferring financial allowances to households that meet eligibility requirements. Saudi households can benefit from the Program based on the size and income of each household. Procedures for determining eligible groups have not been disclosed as of yet. Nevertheless, it is anticipated that, by 2020, allowances distributed by the Program will reach between SR 60 and 70 billion a year. The Program’s vision for the future is for all forms of government aid and subsidy to be accessible via a single portal (e.g., social benefits, housing, and education).

## The Characteristics of Poverty in the Kingdom

This section of the report is dedicated to highlighting some of the characteristics of poverty in the Kingdom as well as discussing the needs of the poor, since establishing a social protection system plays a vital role in eliminating poverty. Official information from the General Authority for Statistics does not provide comprehensive data on the regional level, nor does it account for the different demographic, social, and economic variables in the Kingdom. In addition, information from city urban observatories is insufficient, when available. All these factors make it difficult to set policies on a regional level. That is why this report outlines the characteristics of poverty in the Kingdom based on available documentation and evidence. This does not necessarily mean, however, that there are no other characteristics.

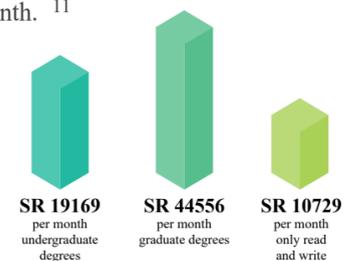
Providing accurate information on the regional level is a crucial element to enable researchers to map poverty in the Kingdom, examine its characteristics, and identify poverty pockets. Taking these measures will help target those in need in all of the Kingdom's regions, whether through government subsidies or through the support of non-profit organizations.

## Low Educational Attainment of Low-income Groups

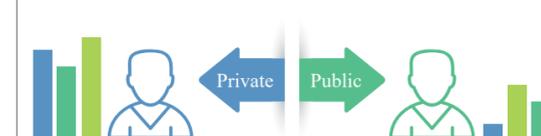
Correlation between education and poverty exists since higher incomes are associated with higher educational levels, while higher poverty rates correlate with higher illiteracy rates and lower educational levels. Poor households suffer from the lack of educational opportunities due to the need for family members to join the labor force at an early age even before the completion of their education. Prioritizing education and making it accessible to everyone is one of the most successful means to combatting poverty worldwide.

### Evidence Review

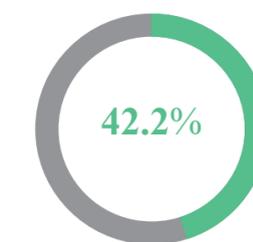
It was found that household expenditure increases as the educational level of the head of the household improves. For example, families supported by individuals who can only read and write spend SR 10,729 per month, while those supported by individuals who have graduate degrees spend SR 44,556 per month, and those supported by individuals who only have undergraduate degrees spend SR 19,169 per month.<sup>11</sup>



According to the Education Evaluation Commission's 2016 analysis, third and sixth grade students in private schools achieved significantly higher scores in both science and math compared to their public school counterparts. This means that the children of families capable of paying the fees of private schools are receiving a better education which in turn increases their admission chances at the university level, especially in the specialties that have promising careers.



The King Khalid Foundation's "feminine poverty" study of low-income women indicates that 42.2% of the study population suffered from high illiteracy rates and lack of educational opportunities.



Illiteracy rate among low-income women

### Policy Review

Article 30 of the Basic Law of Governance states, "The State shall provide public education, and shall be committed to combating illiteracy".

The State issued a Child Protection Law by Royal Decree No. M/14 dated 3/2/1436H (corresponding to 25/11/2014). The Law stipulates that every child is entitled to an education and that depriving any child from an education is a form of abuse punishable by law. Furthermore, general education is considered compulsory in the Kingdom for children between the ages of 6 and 15 years pursuant to Council of Ministers' Resolution No. 139 dated 26/4/1425H (corresponding to 14/06/2004).

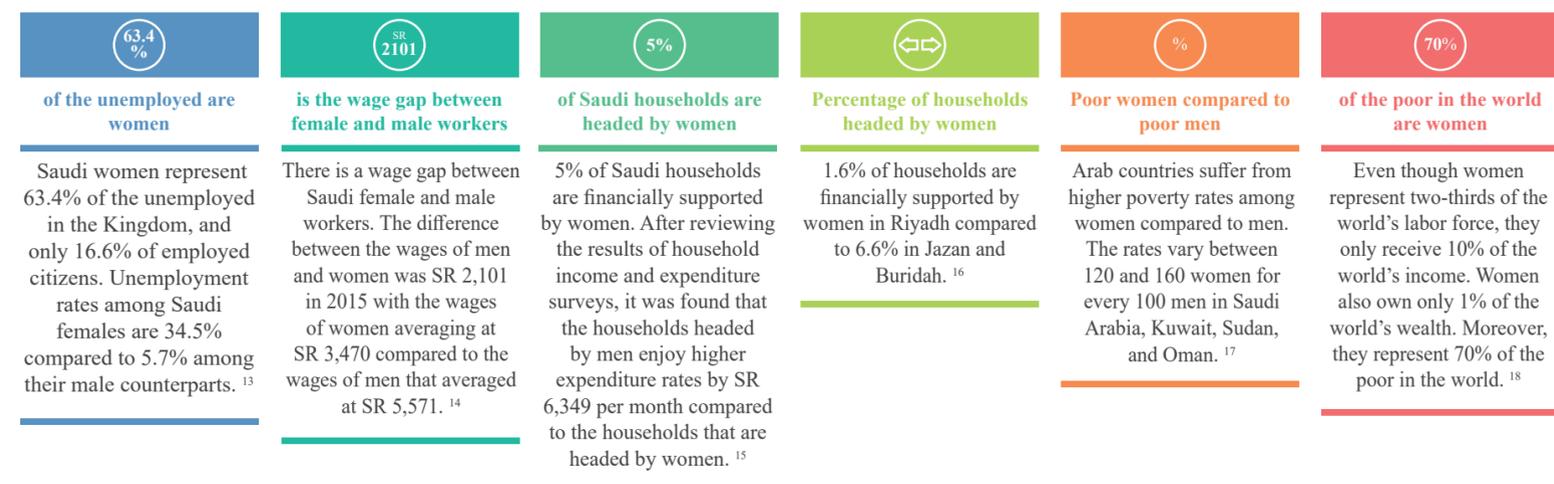
Royal Order No. A/20 dated 20/3/1432H (corresponding to 23/02/211) encourages students from lower income families to join universities by specifying a quota for their admission, easing admission requirements, waving student standardized test fees, waving the fees of applied colleges, and giving them priority in university housing and temporary on-campus jobs.

In 1431H (2010), the Takaful Charity Foundation was established under the supervision of the Ministry of Education. The main goal of the Foundation was to support general education students by helping them deal with the problems caused by poverty, as well as any other social, psychological, or educational issues. The Foundation conducted a comprehensive survey of needy female and male students in all Saudi schools. The Foundation is also responsible for providing any necessary personal needs to the homes of these students, as well as offering training programs to maximize their chances of employment after graduation.

## Feminine Poverty:

Poverty becomes feminine when it is more common among women in a society in comparison to men. This implies that the social and economic opportunities required for the improvement of living standards are unequally distributed between genders. Higher poverty rates among women is a characteristic of poverty in countries around the world, including the Kingdom, because it is women who suffer from poverty the most. The reason behind this is that it is difficult for women to overcome poverty compared to men due to the lack of economic freedom as well as the lack of employment opportunities. According to WEF's Global Gender Gap Report, the Kingdom holds a low ranking on the index that measures women's economic participation; as it ranked 138 out of the 145 countries included in the index.<sup>12</sup>

### Evidence Review



### Policy Review



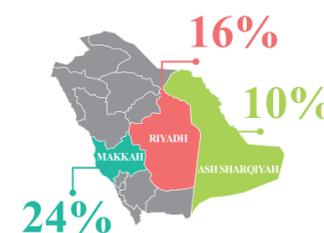
Women represent a significant percentage of beneficiaries of social assistance programs, since widowed and divorced women are among the eligible categories.

Vision 2030 aims to increase the employment of women in the labor market from 22% to 30%, and the National Transformation Plan 2020 aims to increase the employment of women in the public sector from 39.8% to 42%.

The State has adopted a policy for the employment of women, and accordingly a number of decisions have been issued in this regard including: regulating the employment of women at women's apparel stores, factories, retail stores (i.e., as cashiers), family entertainment locations, kitchens, and pharmacies; as well as approving a mechanism that includes women teleworkers within labor Saudization rates.

## Feminine Poverty:

The "Feminine Poverty" study issued by the King Khalid Foundation in 2014 identified the characteristics of low-income females in the Kingdom. The study population consisted of female beneficiaries of aid from charitable organizations in the Kingdom's regions. The following are some of the most significant findings of the study:

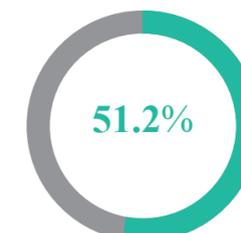


3 of the Kingdom's regions showed an increase in the number of low-income females: Makkah (24%), Riyadh (16%), and the Eastern Province (10%).



10%

The study showed that the ages of low-income women in the Kingdom range between the ages of 20 and 50 years. These are supposed to be the ages of employment, however only 10% of the subjects of the study were employed. This indicates that female unemployment rates are high within the low-income community.



51.2% of the subjects of the study financially support at least one family member.



32,6%

When the study sample was asked whether or not their families prevented them from working, only 8% responded positively, which indicates that there are no social restrictions on the employment of low-income women. Even when such restrictions were present, the main reason was the lack of transportation (32.6%).



35%

The study showed that becoming a widow is one of the main reasons of feminine poverty in the Kingdom; 35% of the study population were widows, which indicates that women greatly depend on men for income.



< SR1,500

The average independent income of 70% of the subjects of the study was less than SR1,500.



42,2%

Higher illiteracy rates among low-income females; 42.2% of the study population were illiterate.



< SR4,500

After surveying the monthly income of the study participants' low-income households, it was found that most lived in households where the monthly income was under SR 4,500.

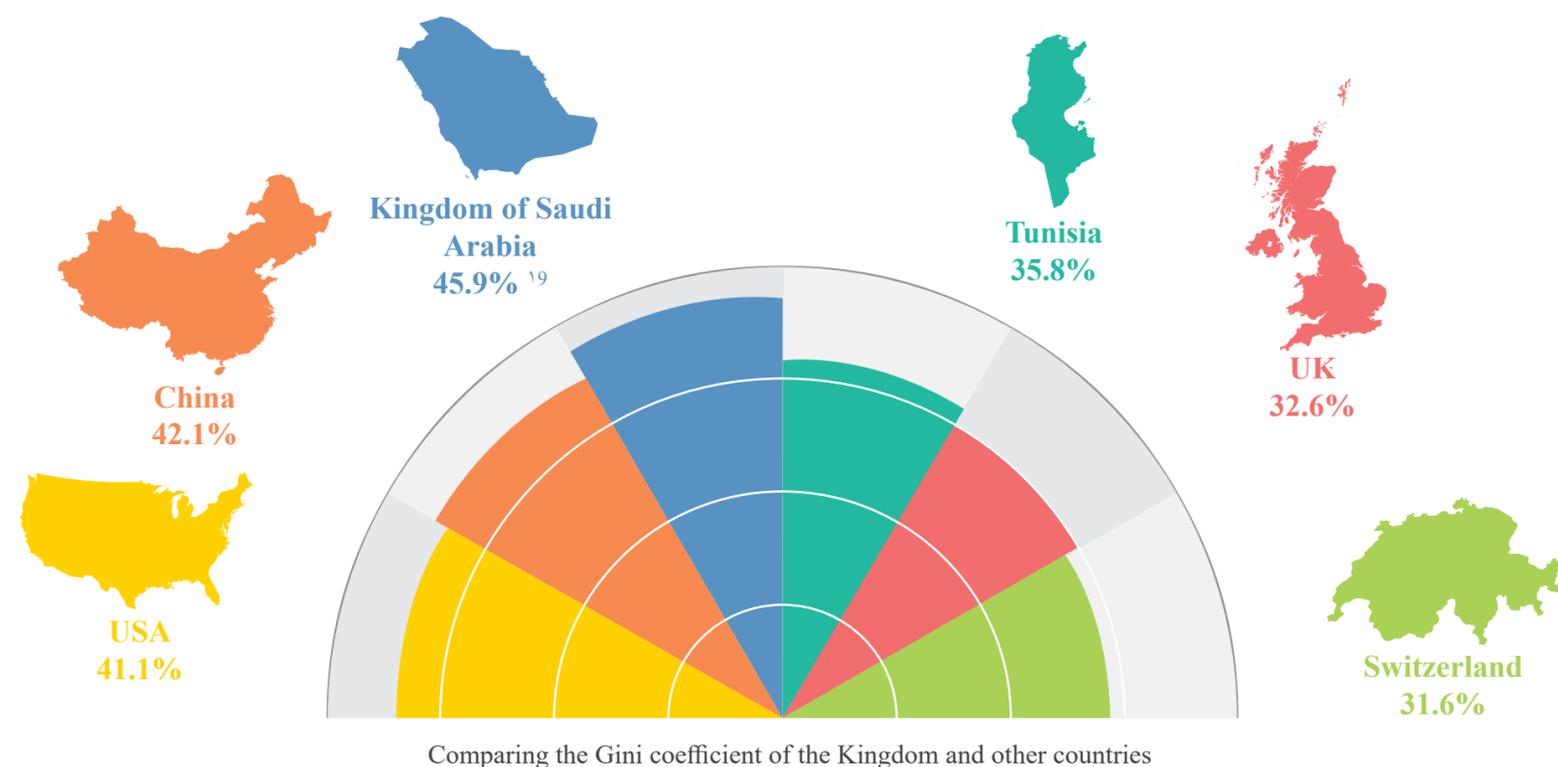
## Variation in Income and Expenditure Rates

The distribution of wealth is related to poverty since one of the main causes of poverty is the increasing income gap among members of the population. On the other hand, equal distribution of wealth helps minimize the negative impacts of poverty. Collecting zakat and enforcing taxes are some of the means that are employed to redistribute wealth, as well as providing financial resources for social protection systems against poverty.

Zakat is considered one of the pillars of Islam. It is collected from the wealthy to be redistributed amongst the poor. The General Authority of Zakat and Tax has mentioned that it faces difficulties with zakat evasion and collection capabilities.

Many countries enforce direct and indirect taxes and fees to maintain a balanced social justice system. It is expected that the Kingdom will enforce a number of taxes and fees in order to increase the State's revenues, according to Vision 2030, such as:

- White land fees (2.5%) to eliminate the monopoly of lands and boost the Kingdom's housing market
- Value-added tax on some commodities as well as excise taxes approved by the Gulf Cooperation Council
- Increasing municipal service fees



The Gini coefficient is a statistical tool used to measure the equality of income and expenditure distribution among the population in percentage form. When the value of the Gini coefficient is 0%, this indicates that wealth is distributed equally amongst all members of society. While a value of 100% indicates that a single individual is solely responsible for all income or expenditure.

## The Median

Poverty researchers around the world avoid relying on calculating “the mean” for statistical purposes or studying the spread of poverty because the mean is calculated by dividing the expenditure of all households in a country by the population of that country. When the country's wealth is controlled by a small portion of society, the value of the mean for income and expenditure is compromised because it reflects inexplicably high rates. Instead, researchers resort to calculating “the median” which determines an individual's income among different income and expenditure groups. This gives a more accurate indication of the living standards of middle- and lower-income groups, as well as identifying a country's development rates.

Household income and expenditure surveys indicate an increase in the median for the income of Saudi individuals from SR 1,500 in 2007 to SR 1,792 in 2013.

## Variation in Income and Expenditure Rates

### Evidence Review

Appendix I presents the distribution of expenditure groups in the Kingdom. The Appendix compares the expenditure rates of the lowest and highest deciles of the Saudi population. The less fortunate 10% spends an average of SR 779 per month as follows: SR 305 on food, SR 332 on housing and water, electricity, and energy products, and SR 38 on commodities and personal services; while the top 10% spends a monthly average of SR 57,927 including SR 5,720 on food, SR 9,600 on housing and other needs, and SR 23,755 on commodities and other personal services.<sup>20</sup>

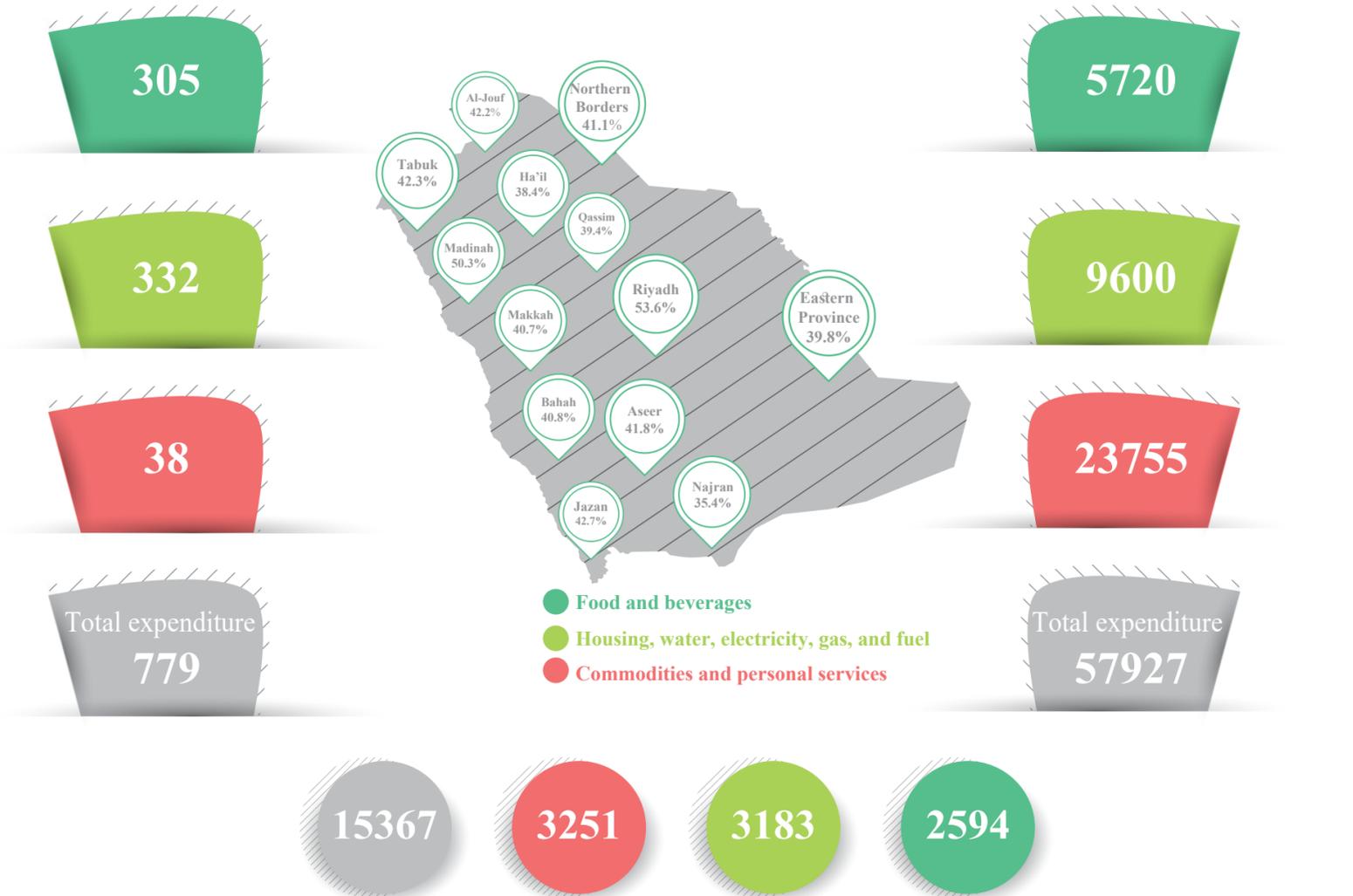
The value of the Gini coefficient in the Kingdom was calculated at 45.9% in 2013 dropping from 51.3% in 2007.

“The median” for Saudi household monthly income increased positively from SR 9,052 in 2007 to SR 10,723 in 2013, while “the mean” of Saudi household monthly income dropped from SR 14,084 to SR 13,610. This may indicate higher rates of expenditure equality in addition to a smaller gap between different categories.<sup>21</sup>

The map below shows the Gini coefficient value in different regions of the Kingdom. Najran recorded the best percentage of equality in expenditure among the population (Gini coefficient of 35.4%), while Riyadh exhibited that expenditure is controlled by a small group (Gini coefficient of 53.6%).

### 10% lowest expenditure households

### 10% highest expenditure households



A comparison between the average monthly expenditure rates of the lowest and highest 10% of Saudi households in 2013

## Policy Review

Zakat is one of the pillars of Islam. It is a means for achieving social justice in income and expenditure between the wealthy and the poor. The Kingdom's Basic Law of Governance stresses the importance of collecting zakat and directing it towards the channels approved by Sharia. The State collects zakat monies and directs them to those eligible for social assistance. Zakat revenues have increased to SR 15.3 billion in the fiscal year 2015 compared to SR 14.2 billion in the previous fiscal year.<sup>22</sup> However, in that year, the State issued SR 23.5 billion in payments to beneficiaries of social assistance.<sup>23</sup>

A draft Zakat Collection Law is currently being considered to ensure penalties are imposed on those who are late in submitting payments or presenting statements, in addition to expanding the platform of those subject to zakat.

Vision 2030 is committed to developing the social services system into a more efficient, empowering, and just system. This is to be accomplished by allocating subsidies of food, fuel, electricity, and water to those who are eligible from the middle- and low-income brackets, and suspending any benefits to the wealthy.

## A. Determining the relative poverty line

Vision 2030 pledged to reform the subsidy system in the Kingdom to ensure subsidies are directed to those who are eligible. This cannot be accomplished without determining the Kingdom's national poverty line. Absolute poverty considers the basic needs that individuals cannot do without. Measuring absolute poverty is based on estimating the purchasing power and expenditure rates of individuals. The relative poverty line, on the other hand, is based on surveying household incomes in an attempt to identify low-income households compared to the overall average of household income. The King Khalid Foundation believes that adopting the relative poverty measurement is more suitable to the Saudi society because of the Kingdom's developed economy compared to other least developed countries (LDCs) which adopt absolute poverty measurements, and because the Kingdom succeeded in overcoming extreme poverty in 2011, according to the Saudi's National Millennium Development Report, prepared by the Ministry of Economy and Planning. Consequently, instead of focusing on resolving extreme poverty, the government's ambition and emphasis have shifted towards improving the living standards of low-income groups. Furthermore, the relative poverty line can be updated as living conditions improve and average income and expenditure rates increase over time. The relative poverty line is not limited to determining poverty alone; it also provides information on inequality and income disparities among different social groups.

# Reforming and Rationalizing the Kingdom's Subsidy System

## B. Determining minimum standards of living

Indicating a sufficiency line is necessary to identify the acceptable living standards of a society's households. In addition, they are used to identify middle-income groups with the purpose of monitoring their living conditions and designing precautionary subsidy programs that help protect them against the negative effects of economic restructuring. Determining a sufficiency line is a relative process that differs from one society to another according to socio-economic variables. By conducting a study entitled "The Sufficiency Line in the Kingdom", the King Khalid Foundation attempted to define these levels by measuring the average expenditure rates of Saudi households (consisting of 5 members) in middle class and poor neighbourhoods in the Kingdom's cities and regions, as well as sampling households from divisions A and B from the 13 Saudi governorates. The study devised a sufficiency line through 10 components that represent the following basic needs: housing, food, clothing, healthcare, school supplies, infant supplies, luxury goods, transportation, basic services and entertainment.

We, at the King Khalid Foundation, believe that identifying a sufficiency line along with the relative poverty line will help decision-makers and subsidy providers identify gaps, shortcomings or deficiencies as well as expand the group of beneficiaries to include middle-income groups.

## Saudi Household Income and Expenditure Rates

Household income and expenditure surveys are important statistical tools that help detect consumer behavior in both Saudi and non-Saudi households. These surveys also help identify the differences in income among these groups. However, they are usually conducted every 5 years. Countries that wish to closely monitor income and expenditure rates, like Canada, New Zealand, and Malaysia, conduct surveys every 2 to 3 years. The next household income and expenditure survey in the Kingdom will be carried out in 2018.

Based on the results of the 2013 household income and expenditure survey, the median of the monthly income of Saudi households was found to be SR 10,723, while monthly expenditure was SR 9,682. This leaves an average surplus of SR 1,041 per month.<sup>25</sup>

After considering the distribution of monthly expenditure based on the distribution of the main expenditure categories and product groups (see Appendix I), a large variation in consumer behavior can be noticed. For example, the lowest 10th decile of households spends SR 305 on food every month, while the highest decile spends SR 5,720 on food, and SR 23,755 on goods and other personal services.

### Evidence Review



### Policy Review

1- The Ministry of Labor and Social Development opted for indirect measures to increase wages of employed Saudis without setting a minimum wage limit. The Ministry gradually increased the financial remuneration imposed on foreign workers as well as minimum wage rate, which is currently SR 3,000, via the "Nitaqat" program. In addition, the minimum for GOSI subscriptions is SR 1,500 per month. Furthermore, Saudi workers who receive less than SR 1,500 per month are not included in the Saudization percentage of an establishment.

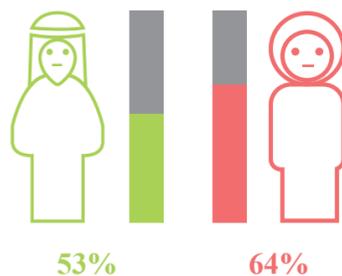
2- The State recently formed The National Savings Committee to encourage saving, and recommended the preparation of a comprehensive national strategy for saving. Further, a number of government authorities, such as the Social Development Bank, the Ministry of Housing, and the Capital Market Authority, launched initiatives that encourage household saving.<sup>30</sup>

## Saudi Household Income and Expenditure Rates

In 2014, the King Abdulaziz Center for National Dialogue conducted a survey to determine the degree to which minimum wage is sufficient in the Kingdom. <sup>31</sup> With respect to the income of private sector employees, the following was concluded:



25% of private sector employees received monthly wages that exceeded SR 5,000.



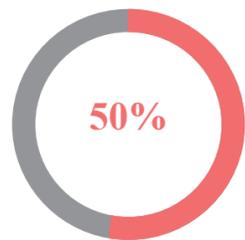
The percentage of female private sector workers who believed their income was too low to cover their living expenses exceeded that of their male counterparts; 64% females compared to 53% males.



Private sector employees financially supported an average of 4 family members, which means that the monthly income per individual is less than SR 1,000.



Private sector employee survey results indicated that minimum living expenses in the Kingdom is SR 6,100.



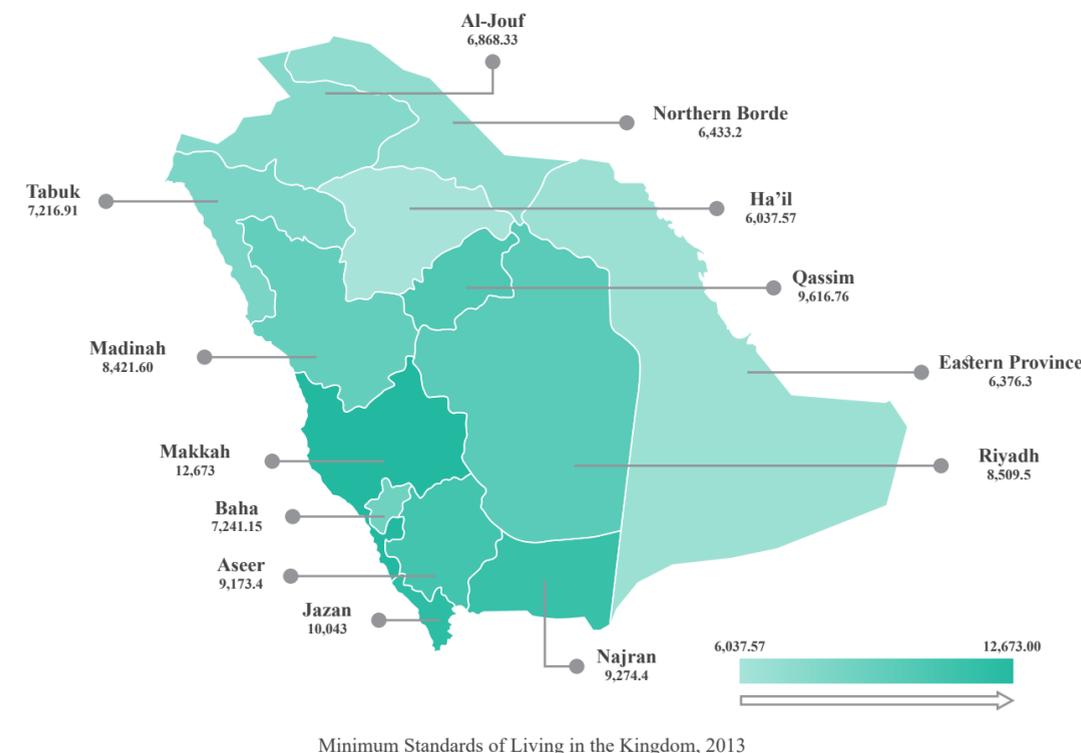
50% of the study sample believed that their incomes were insufficient in providing their basic needs.



The study recommended that minimum wage in the private sector in the Kingdom should be SR 5,305.

## What is a sufficiency line?

A sufficiency line is not equivalent to poverty line. It represents the minimum amount a 5-member household requires to live decently with no additional assistance. A sufficiency line requires the following 10 basic needs for decent living conditions: housing, food, clothing, healthcare, school supplies, infant supplies, luxury goods (other needs), transportation, basic services, and entertainment. A sufficiency line was measured based on the King Khalid Foundation's 2013 study which surveyed 10,000 households from different regions of the Kingdom.



## Minimum Standards of Living in the Kingdom, 2013

The overall average of the requirements of minimum standards of living for a 5-member household is SR 8,926 distributed as follows:



## What is the difference between a sufficiency line and a poverty line?

According to the King Khalid Foundation's study, a sufficiency line differs from a poverty line. Poverty lines determine the minimum income an individual or household can live on, while a sufficiency line determines the minimum income an individual or household needs to enjoy a decent life. Therefore, a sufficiency line is more suitable to the Saudi society because, compared to a poverty line, it guarantees better income, and hence, better living standards.

The King Khalid Foundation's study attempted to determine a sufficiency line based on measuring the average expenditure rates of Saudi households (consisting of 5 members) in middle class and poor neighbourhoods in the Kingdom's cities and regions, as well as a number of category A and B counties. The study included the following 10 basic needs: housing, food, clothing, healthcare, school supplies, infant supplies, luxury goods, transportation, basic services, and entertainment.

## What is the difference between relative and absolute poverty lines?



Developed countries usually use household income and expenditure surveys to determine relative poverty lines (i.e., the households with the lowest incomes compared to the median of remaining household incomes).



Developing countries, on the other hand, use the value of a specific food basket containing the basic essential food products to measure the absolute poverty line.

Therefore, using the relative poverty line approach is more suitable to the Kingdom's developed economy. Countries use different approaches to measure relative poverty. In the following, we review the most popular approaches and the way they can be applied to the Kingdom based on the 2013 household income and expenditure survey conducted by the General Authority for Statistics.

## Approaches for Measuring the Poverty Line in the Kingdom

### A. Using 60% of the median of household income

The UK (and the EU) <sup>32</sup> chose to determine the "poverty threshold" by relying on 60% of the median of household income. Applying this approach to the Kingdom indicates that the poverty threshold is SR 6,434 for Saudi households with an average of 6.7 members. Median of Saudi household income = 10,723 ( $10,723 \times 0.6 = 6,433.8$ )

### B. Using 50% of the median of household income

The Organization for Economic Co-operation and Development (OECD) <sup>33</sup> followed this approach to measure average poverty rates among the citizens of OECD member states by calculating the percentage of households below 50% of the median of household income rates. Applying this approach to the Kingdom indicates that the poverty line is SR 5,361 per month for a 7-member household. ( $10,723 \times 0.5 = 5,361.5$ )

### C. Using a supplemental approach for calculating the poverty threshold

The U.S. Census Bureau adopted a supplemental poverty measure for calculating the poverty threshold <sup>34</sup> by using the median of household expenditure on food, housing, clothing, energy products, and water among expenditure categories ranging between 30th and 36th percentiles with an additional 20% for other essential expenses. Applying this approach to the Kingdom indicates that the poverty threshold is SR 2,252 for a 7-member Saudi household.

(Food = 632 + clothing = 69 + housing, energy products, and water = 1,176)  $\times 1.2 = \text{SR } 2,252.4$

\*The closest statistical information available from the General Authority for Statistics was used based on expenditure categories between 30th and 40th percentiles.

### D. Calculating global poverty lines

The World Bank relied on the poverty lines of 15 extremely poor countries to determine the international poverty line, which is \$ 1.9 a day per individual after the most recent update in 2015.

Applying this approach to the Kingdom indicates that a 7-member Saudi household requires SR1,432 per month.

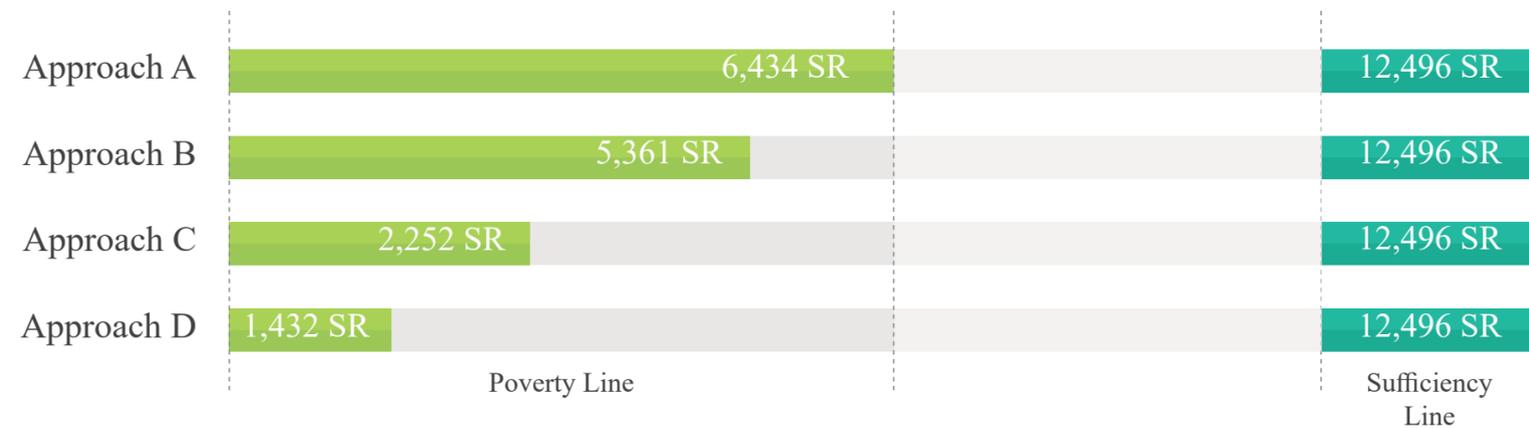
$[(1.9 \$ \times 3.75) \times (6.7 \text{ individuals})] \times 30 \text{ days} = 1,432.1$

## Applying Different Approaches to Determine Poverty Lines in the Kingdom in Comparison to the Sufficiency Line of 2013

\* Poverty lines were calculated for 2013 because the most recent official household income and expenditure survey was conducted then.

\* An average Saudi household consists of 7 members based on the survey. Therefore, minimum standards of living were recalculated from a 5-member household to represent a 7-member household.

\* Poverty lines were calculated based on the average size of a 7-member Saudi household (6.7).



The Foundation believes that identifying a sufficiency line along with the relative poverty line will help decision-makers and subsidy providers identify gaps, shortcomings or deficiencies as well as expand the group of beneficiaries to include middle-income groups.

## Recommendations

### **1. Adopting a unified national approach to measure the relative poverty line in order to determine eligibility of Citizen's Account subsidies based on household income, expenditure surveys and annual inflation rates.**

- a. Organizing a national workshop to agree on and adopt a scientific approach to calculate the Kingdom's relative poverty line. The workshop should involve statisticians, sociologists, economists, social workers, members from the non-profit sector, and decision-makers.
- b. Using the relative poverty line as eligibility criteria to direct subsidies to low-income groups.
- c. Using equivalency measure for the distribution of subsidies by assigning weights to every household member (adults, children, and infants) in order to equalize subsidies for households larger or smaller than the average size.
- d. Determining minimum standards of living by measuring a sufficiency line to identify middle-income groups, monitor their living conditions, and design precautionary subsidy programs that help protect them against the negative effects of economic change.
- e. Linking subsidy amounts to annual inflation rates.

### **2. Forming a Ministerial Committee to establish the Kingdom's social protection policy.**

- a. A Committee should be formed within the Council of Economic and Development Affairs to propose a social protection policy for the Kingdom and monitor its implementation. The following government bodies should be represented on the Committee: the Ministry of Labor and Social Development, the Ministry of Economy and Planning, the Ministry of Finance, the Ministry of Health, the Ministry of Education, the Ministry of Housing, the General Authority for Statistics, PPA, and GOSI.
- b. Ensuring the gradual lifting of subsidies provided that financial aid is granted to eligible groups before any economic changes are adopted.
- c. The Committee will be responsible for identifying, assessing, and developing current social protection programs in the Kingdom, as well as ensuring they complement one another.
- d. The Citizen's Account Program, and any future social safety net program that will be merged within it, are part of the social protection system, in addition to social security benefits and labor market measures.

### **3. Improving the quality of social development statistics and data to better investigate the dimensions of poverty, its impact, and how it is interconnected with other social issues based on the requirements and demographic characteristics of different regions.**

- a. Conducting household income and expenditure surveys every 2 years instead of every 5 years.
- b. Issuing disaggregated data of household income and expenditure surveys, cost of living indices, and labor force surveys taking into consideration the differences among regions, as well as other demographic and socio-economic variables and characteristics.
- c. Ensuring that household income and expenditure surveys include income and expenditure distribution rates among different categories, as well as percentiles from 1% to 100%.
- d. Building urban poverty indices based on urban observatories in different cities across the Kingdom, and ensuring that they include: the percentage of poor families and households headed by women, average income and expenditure rates, distribution of household income, and rent-to-income ratios.

### **4. Supporting the General Authority of Zakat and Tax in collecting zakat monies.**

- a. Ensuring the draft Zakat Collection Law enforces penalties on those who are late in submitting payments or statements.
- b. Dealing with zakat evasion, if proven, as a criminal offence in the draft Zakat Collection Law.
- c. Allowing those required to pay zakat to allocate 20% of their zakat to charitable organizations which shall in turn be able to provide aid to eligible groups.

### **5. Merging the Social Charity Fund and the Social Development Bank to eliminate overlap in duties and authorities. The merge will also help maximize benefits and combine efforts in providing aid, facilities, and loans to target groups; improving living conditions of those in need; and eliminating factors which cause deterioration through unconventional means, such as supporting micro-businesses by encouraging partnerships with the non-profit sector.**

### **6. Exempting consumer products that are essential to low-income households (e.g., food, medicine, and school and infant supplies) from value-added tax and imposing taxation on harmful and luxury goods instead, to protect low-income households from the negative impacts of taxation, since low-income families spend larger portions of their income on consumer products, compared to families with higher income.**

## Appendices and References

### Appendices

Average monthly expenditure of Saudi households based on main expenditure categories and expenditure distribution groups 1434H (2013)

Main expenditure category	1-10%	10-20%	20-30%	30-40%	40-50%	50-60%	60-70%	70-80%	80-90%	90-100%
Food and beverages	305	439	495	632	1694	2820	3733	4318	4520	5720
Tobacco	42	0	4	23	30	43	40	50	52	51
Textiles, clothing, and shoes	0	26	76	69	341	810	1448	2408	2960	3200
Housing, water, electricity, gas, and other fuels	332	582	874	1176	1956	3300	4349	6206	8305	9600
Home furnishings	18	22	20	49	248	703	1551	5366	6123	7900
Healthcare services	0	26	16	28	49	134	319	1253	1370	1886
Transportation	0	21	17	86	322	746	1752	7152	7278	7560
Communications	13	51	126	190	529	863	1299	2082	2496	2967
Entertainment and culture	26	3	5	12	67	205	627	2074	2103	2230
Education	0	0	0	0	20	87	250	2131	2546	2900
Restaurants and hotels	4	24	106	197	350	641	1009	1873	1940	1920
Goods and personal services	38	22	38	79	487	1275	2411	18426	22560	23755
Total	779	1215	1777	2542	6095	11625	18787	53338	55123	57927

Average monthly expenditure of Saudi and non-Saudi households based on main expenditure categories and expenditure distribution groups 1434H (2013)

Main expenditure category	1-10%	10-20%	20-30%	30-40%	40-50%	50-60%	60-70%	70-80%	80-90%	90-100%
Food and beverages	301	359	434	625	1558	2020	2725	3120	3637	4236
Tobacco	19	42	33	57	54	54	58	55	54	61
Textiles, clothing, and shoes	9	25	43	67	299	630	794	986	1416	2373
Housing, water, electricity, gas, and other fuels	309	553	781	997	1716	2430	3067	3890	4109	5875
Home furnishings	13	23	27	51	215	644	686	1100	1573	5226
Healthcare services	3	7	7	17	53	170	152	297	363	1262
Transportation	10	19	37	78	289	975	776	820	1805	6793
Communications	66	92	131	202	487	732	867	1022	1295	2041
Entertainment and culture	2	1	3	7	64	290	219	423	696	2055
Education	0	0	0	10	33	121	154	305	388	2421
Restaurants and hotels	41	88	173	235	361	603	660	986	1020	2174
Goods and personal services	30	44	90	194	526	1222	1392	2120	2464	17619
Total	804	1253	1759	2532	5656	9820	11550	13260	18820	52137

“The distribution of expenditure groups in the Kingdom was obtained from the General Authority for Statistics upon the Foundation’s request. This information was based on the 2013 Saudi household income and expenditure survey”.

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This report was prepared by the Policy Design Unit at the King Khalid Foundation, and it was refereed by practitioners and academic experts in economics and social statistics.

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The King Khalid Foundation aspires to be a leader in philanthropic and development work in the Kingdom. It also aims to positively impact people's lives by providing innovative and efficient solutions to critical socio-economic challenges. Moreover, by conducting relevant research and studies, the Foundation has contributed effectively to decision-making processes since many of the initiatives proposed by the Foundation's research projects have been adopted, such as the studies conducted to examine the regulations and ramifications of divorce, the perceptions of university students towards premarital screening, and the draft law for anti-domestic violence. In light of current trends in the Kingdom which involve the revision of policies and laws, the Foundation has realized its responsibility as a civil society organization concerned about development. The Foundation has also adopted a new approach to support decision-making in the Kingdom, through policy design and advocacy.

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