

CHAPTER ONE

NATIONAL ECONOMY
DURING THE
SEVENTH DEVELOPMENT PLAN

1. NATIONAL ECONOMY DURING THE SEVENTH DEVELOPMENT PLAN

1.1 INTRODUCTION

Under the Seventh Development Plan, the Kingdom of Saudi Arabia achieved good economic growth, as reflected in higher per capita income and greater employment opportunities, in addition to a larger volume of external trade and a higher trade surplus. Such progress resulted not only from increased private sector and government investment, but was also due to various institutional and regulatory measures taken by government to improve economic environment in general, and investment climate in particular. Remarkably, the Kingdom managed to make this progress despite unfavorable economic and political conditions globally and regionally.

Assessing development indicators during the Seventh Development Plan against the Plan's objectives provides clear evidence of continued economic and social progress. Indeed, the period witnessed accelerated economic progress, coupled with improvements in all other dimensions of development. The following analytical review will help determine the future direction of the economy and identify likely obstacles to further progress; thus facilitating formulation of appropriate policies and estimation of the effort required to achieve the objectives of the Eighth Development Plan.

The general objectives and strategic bases of the Seventh Development Plan gave priority to the following:

- A. Human resources development and provision of job opportunities by providing education, training, and social and health services, with the aim of strengthening the capabilities and raise the productivity of the national workforce. In addition, the Plan emphasized development of knowledge and technical skills in order to enhance the ability of Saudi manpower to harness the benefits of rapid technological developments.
- B. Implementation of the privatization policy in its various forms, to ensure wider participation of citizens in ownership of productive assets, encourage domestic investment by national and foreign capital, upgrade efficiency and enhance competitiveness of the national

- economy, and increase job opportunities for the national workforce.
- C. Raising productivity and organizational efficiency of government agencies and improving public services through development of administrative and financial regulations, and restructuring of government agencies.
 - D. Adjustment to global economic developments, through paying greater attention to the likely impact of such developments on socio-economic development in the Kingdom, as well as implementation of policies and measures designed to improve the national economic response, and flexibility of adjustment to these developments.
 - E. Consolidation of technological advancement in the Kingdom by building a national science and technology base capable of innovation and creativity, based on a strong foundation of partnership between the public and private sectors.
 - F. Boosting efficiency in order to ensure proper allocation and utilization of available resources.

The Seventh Development Plan achievements are reflected in the improved economic indicators of GDP, capital accumulation, foreign trade, balance of payments, human resources development, economic efficiency, private sector contribution, financial and monetary performance. In addition, there has been progress on the institutional and regulatory fronts, expansion of decentralization of administration, and adjustment to global developments.

1.2 ECONOMIC DEVELOPMENT INDICATORS

1.2.1 Growth Rates

Economic development during the Seventh Development Plan was marked by three distinctive features that reflect the objectives of the national economic strategy. First, output increased as a result of improved productivity and expansion of production capacities. Secondly, structure of the economy continued to change through increased diversification of economic activities and national income sources. Thirdly, higher private sector contribution to economic activity.

Data in Table 1.1 on macroeconomic and sectoral economic growth testify

to the good performance of the national economy. These trends can be summed up as follows:

- Gross Domestic Product grew in value from about SR 603.6 billion in 1999 to about SR 714.9 billion in 2004, with the real growth rate averaging 3.4% per annum during the period. This is slightly higher than the average annual growth rate of 3.16% targeted by the Plan, and much higher than the growth rate of 1.11% per annum achieved by the Sixth Plan. Significantly, there is considerable potential for increasing domestic product in both the public and the private sectors by means of improved productivity, through increased utilization of modern technologies, improved management and organization techniques, and more efficient use of resources.
- Despite the high growth rate of the oil sector during the period, the share of the non-oil sectors increased. Total value added of all economic sectors excluding that of crude oil rose in constant 1999 prices from about SR 433.2 billion in 1999 to about SR 525.3 billion in 2004. The share of non-oil sectors in the GDP went up from 71.7% in 1999 to 73.5% in 2004, with a real growth rate averaging about 3.9% per annum, as compared to the Plan's target growth rate of 4.1%. The favorable performance of the non-oil sectors is attributable to the rapid growth of the non-governmental services sectors, which experienced a real annual growth rate averaging 4.6%. Significantly, these sectors have a high capacity for absorbing manpower and providing greater employment opportunities.
- During the Seventh Development Plan, the non-oil sectors achieved a real growth rate averaging 3.9%. However, the performance of the various non-oil sectors varied. For example, as a result of financial and management restructuring of the Transport and Communications sector, coupled with privatization and improved productivity, a high growth rate averaging 5.6% per annum was achieved, compared to the Plan's target of 3.8%.
- The Community and Personal Services sector grew in real terms by an average annual rate of 5.0%, exceeding the Plan's target of 4.2%. Significantly, productivity improvements were achieved with substitution of non-Saudis by Saudi manpower, due to the higher skills and qualification levels and stronger career orientation of Saudi nationals.

Table 1.1
GDP by Activity

**Seventh Development Plan
Constant 1999 Prices**

Activity	SR Million		Average annual growth rate (%)	Share in GDP (%)	
	1999	2004		1999	2004
A. Non Oil Sectors	<u>433193</u>	<u>525267</u>	<u>3.9</u>	<u>71.7</u>	<u>73.5</u>
1. Productive Sectors	147,318	178,250	3.9	24.4	24.9
1.1 Agriculture, Forestry and Fishing	34,443	38,005	2.0	5.7	5.3
1.2 Non-Oil Mining and Quarrying	2,464	2,723	2.0	0.4	0.4
1.3 Manufacturing Industries	62,800	79,476	4.8	10.4	11.1
1.3.1 Oil Refining	18,021	20,508	2.6	3.0	2.9
1.3.2 Petrochemicals	6,000	7,352	4.1	1.0	1.0
1.3.3 Other Manufacturing	38,779	51,616	5.9	6.4	7.2
1.3.4 Electricity, Gas and Water	8,174	11,085	6.3	1.4	1.6
1.3.5 Construction	39,437	46,961	3.6	6.5	6.6
2. Non-Governmental Services Sectors	169086	211,953	4.6	28.0	29.6
2.1 Trade, Restaurants and Hotels	45,992	57,299	4.5	7.6	8.0
2.2 Transport and Communications	27,893	36,674	5.6	4.6	5.1
2.3 Finance, Insurance Real Estate and Business Services	73,824	90,721	4.2	12.2	12.7
2.3.1 Real estate	42,221	48,822	2.9	7.0	6.8
2.3.2 Finance, insurance and business services	31,603	41,902	5.8	5.2	5.9
2.4 Community and Personal Services	21,377	27,256	5.0	3.5	3.8
3. Government Services	116,789	135,064	3.0	19.3	18.9
B. Crude Oil and Natural Gas Sector	<u>173,102</u>	<u>196,696</u>	<u>2.6</u>	<u>28.7</u>	<u>27.5</u>
- Other Items *	-2,706	-7,063	21.2	-0.4	-1.0
- Gross Domestic Product	603,589	714,900	3.4	100.0	100.0

* Import duties less imputed bank service charges.

** Figures rounded to one decimal.

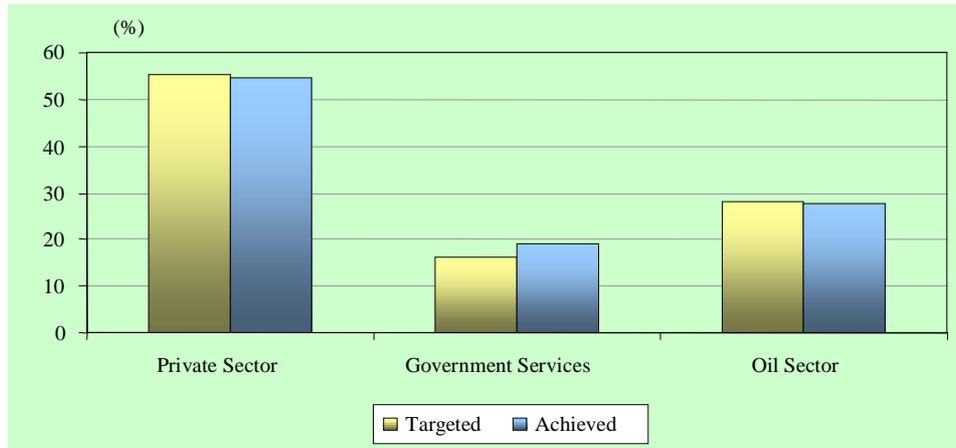
Source: Ministry of Economy and Planning, economic models.

- The Electricity, Gas and Water sector posted a real annual growth

rate averaging 6.3% which exceeded the Plan's target rate of 4.6%.

- The Other Manufacturing sector posted a real annual growth rate averaging 5.9%, which fell short of the Plan's target of 7.2%. Notably, the sector will continue to play a significant role in increasing production due to its linkages with other sectors, in addition to continuing to make a major contribution towards achieving the goals of the economic diversification strategy, through both increased production and increased exports.
- Value added in by Agriculture, Forestry and Fishing went up from about S.R. 34.4 billion in 1999 to about S.R. 38 billion in 2004. Although the sector grew at an annual growth rate of about 2%, its share in GDP declined during the period from 5.7% to 5.3%.
- Value added in the Construction sector increased during the period by an average annual real growth rate of 3.6%, compared to the Plan's target of 6.17%.
- Value added in the crude Oil and Gas sector increased from SR 173.1 billion in 1999 to SR 196.7 billion in 2004, posting a real annual growth rate of 2.6%. The sector's value added in 2004 is likely to be considerably higher, compared to earlier estimates, due to global economic recovery, with the resulting increased demand for oil at higher prices. This will boost government revenues, strengthen the standing of the Kingdom regionally and internationally, and help maintain domestic economic stability.
- Private sector contribution to real GDP rose from SR 316.4 billion in 1999 to about SR 390.2 billion in 2004, with an average annual growth rate of 4.3%. The share of the sector in GDP thus increased from 52.4% to about 54.6%; a positive development that serves to strengthen the Kingdom's strategic economic prospects (see Figure 1.1).

Figure 1.1
Sectoral Percentage Shares in GDP
Seventh Development Plan: Targets and Achievements



1.2.2 Gross Fixed Capital Formation

Gross fixed investment grew over the period at an average annual rate of 4.4%, with total investment increasing, in 1999 constant prices, from SR 118.2 billion in 1999 to about SR 146.6 billion in 2004; i.e., from about 19.6% to about 20.5% of GDP. Distribution of investments during the period between the non-oil sectors and the oil sector was on the average 89.6% to 10.4% respectively.

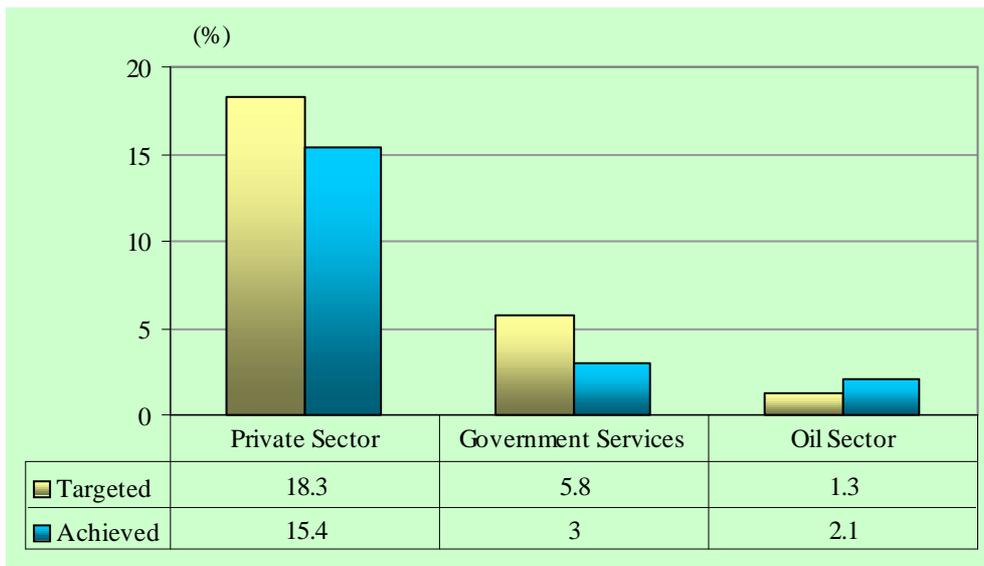
Investment in the oil sector grew during the period at an average annual rate of 16.91%, which is higher than growth rate of the GDP of 3.4%. As a result, investment in this sector, as a share of GDP, increased from 1.1% in 1999 to 2.1% in 2004 (Figure 1.2) and as a share of the domestic product of the oil sector from 4% in 1999 to 7.7% in 2004.

The annual growth rate of investments in non-oil sectors averaged about 3.4% during the period, rising from SR 111.2 billion in 1999 to SR 131.5 billion in 2004. With the growth rate of 3.4% of these sectors being equal to that of the GDP, the share of non-oil investments in GDP remained at about 18.4% during the period. About 84% of the investments were made by the private sector, while the public sector's share accounted for 16%.

On average, private sector investment during the period grew at an annual rate of 2.3%, against an average annual growth rate of 10.3% for

government investment. As a share of GDP, private sector investment accounted for 15.4% in 2004 compared to about 16.3% in 1999. However, the share of government investment in GDP rose from 2.1% in 1999 to about 3.0% in 2004 (Figure 1.2).

Figure 1.2
Gross Fixed Capital Formation As a share of GDP
Seventh Development Plan



Nevertheless, investment indicators show that the actual growth rate of gross investment in general (4.4%) and private investment in particular (2.3%) fell short of the Plan's target levels of 6.85% and 8.34% respectively, even though promotion of domestic and foreign investment had been a key theme of government economic policy. In fact, the government had taken several measures intended to create a climate conducive to the promotion and attraction of private investment, including offering incentives and streamlining investment procedures. Other measures addressed obstacles that could constrain private sector investment, such as the limited absorptive capacity of some industrial cities and zones, the need for more long-term finance, particularly for small and medium size enterprises, and the impediments to accessing international markets. Intensive efforts will continue to be made to address these challenges during the Eighth Development Plan.

1.2.3 Foreign Trade and the Balance of Payments

Foreign trade and the balance of payments trends were positive during the Seventh Development Plan period. The share of the total value of imports and exports of goods and services in GDP increased from 58.3% in 1999 to 69.4% in 2003 thereby an increased degree of openness and integration of the Saudi economy into the global economy.

There were favorable developments also in the structure of imports / exports. Growing at an average annual rate of 5.7%, compared to 5.3% for total exports, the share of non-oil exports increased from 11.4% of total exports in 1999 to 14.4% in 2003. In addition, the relative share of imports of consumer goods declined from about 47% in 1999 to about 43% in 2003, reflecting increased reliance on local products, which is indeed a clear indication of the improved competitiveness of domestic products in the face of stiff competition from foreign imports and the “dumping” practices resorted to by some exporters. Moreover, the share of Machinery, Equipment and Intermediate Inputs rose from about 53% in 1999 to about 57% in 2003; a positive development in the import structure that should translate into further development and productivity gains.

These favorable developments in both exports and imports led to a tangible improvement during the period in the balance of trade surplus, which increased at an annual rate of 30.18% and had an average annual value of SR 158.4 billion. This, in turn, contributed to an improved current account position which continued to post a surplus to the tune of SR 67 billion per annum on average, despite continued pressure resulting from the deficit that persisted throughout the duration of the Plan in the balance of (mainly private) Services and Remittances and the Kingdom's growing payments for international freight and insurance services.

1.2.4 Human Resources Development and Employment

Issuing from considering people to be the at one and the same time the means for development and the beneficiaries of development, the Seventh Development Plan placed development of human resources high in the order of priorities. Thus, 57.1% of total expenditure earmarked for development agencies was allocated to human resources development and the Plan envisaged employing all Saudi new entrants to the labor market during the period.

A key target of the Plan was to increase share of Saudi nationals in total manpower from about 44.2% to about 53.2%. However, this target could not be fully achieved. Over the period, the total work force grew by about 1.05 million, from 7.23 to 8.28 million, while Saudi (nationals) manpower increased from 2.71 to 3.54 million (Table 1.2). In other words, 824,200 job opportunities were created for Saudi citizens during the period; a significant achievement that came close to the Plan target. It is worth mentioning, in addition, that the policy of Saudization of jobs and replacement of non-Saudis with Saudi manpower, where qualifications are equal, made major inroads in a number of important sectors. In the Crude Oil and Natural Gas sector, Saudi manpower accounted for about 82.2% of total workforce in 2003, while the share of Saudi manpower in the Government Services sector amounted to about 85.2% and in the non-government services sectors to about 44.2%. In the productive sectors, however, the share of Saudi manpower stands at the considerably lower level of 15.6%.

Table 1.2
Civilian Manpower
Seventh Development Plan

Sectors	1999 (000)	2004 (000)	Change (000)	Average annual growth rate (%)
1. Productive Sectors	2442.1	2927.6	485.5	3.69
- Agriculture	567.1	596.7	29.6	1.02
- Manufacturing Industries	638.5	650.6	12.1	0.38
- Other Productive Sectors	1236.5	1680.3	443.8	6.3
2. Service Sectors	4704.4	5253.7	549.3	2.23
- Non-Government Services	3703.2	4148.3	445.1	2.29
- Government Services	1001.2	1105.4	104.2	1.99
Total Non-Oil Sectors	7146.5	8181.3	1034.8	2.74
3. Crude Oil and Gas	83.8	100.5	16.7	3.7
Total sectors (1+2+3)	7230.3	8281.8	1051.5	2.75
- Saudi manpower	2712.03	3536.3	824.27	5.45
As a share of total manpower (%)	37.51	42.7	—	—
- Non-Saudi manpower	4518.27	4745.5	227.23	0.99
As a share of total manpower (%)	62.49	57.3	—	—

Source: Ministry of Economy and Planning.

The share of non-Saudi civilian manpower fell from 62.5% to 57.3%, indicating modest success in reducing reliance on imported foreign labor.

At the sectoral level, the service sectors (non-governmental and governmental) accounted for about 52.2% of the overall increase in total

manpower, with an average annual increase of 2.23%. These sectors continue to employ the largest share of total manpower, to the tune of about 63.4% in 2004. Manpower increased in the productive sectors (other than Crude Oil and Natural Gas) from about 2.44 to 2.93 million, with an average annual growth rate of about 3.69%.

The unemployment rate was estimated in 2002 to be 9.7%, with unemployment among females being at 21.7%, compared to about 7.6% among males. Analysis of unemployment indicators shows that unemployment is relatively higher among youth and fresh graduates in the age group 15–24, and is considerably lower among people over 24 years old.

1.2.5 Public Finance

Government revenues fluctuated over the period, reflecting to a great extent volatility of oil revenues. However, their annual average during the period was 61.8% higher than the 1999 level; SR 238.6 billion compared to SR 147.5 billion in 1999. Over the period, government expenditure was more stable than revenues, but with an upward trend; reaching an average of SR 240.8 billion, which amounts to an increase of about 31% over the 1999 level of SR 183.8 billion.

The average annual growth rate of oil revenues was 17.5%. In contrast, non-oil revenues, while experiencing a rising trend, were more stable, with an average annual growth rate of about 3.3%, reflecting increased efficiency of the measures taken to achieve the Plan's objectives of diversification and structural development of government revenue sources. Taxation reform efforts, including improved efficiency of collection of direct and indirect taxes, along with rationalization of the price structure of government goods and services, would continue.

As can be seen from Table 1.3, total expenditure on the development sectors during the Seventh Development Plan period amounted to SR 485.3 billion; an increase of about 15.4% compared to the period of the Sixth Development Plan. Distribution of expenditure during the period of the Seventh Development Plan was in harmony with the Plan's key developmental objectives, with priority given to Human Resources development, which received 57.1% of overall expenditure allocations to development sectors. Similarly, Social and Health Services received about 19.1%; again in conformity with the Plan's objectives, which called for

accelerated provision of primary health care, including preventive and curative services, and improved access to health facilities. Economic Resources received about 11.2%, while Infrastructure Development received about 12.6%.

Generally, expenditure allocations among development sectors, by budget chapters, were in favor of operating expenditure, which averaged about 83.8%. Allocations for investment (Chapter IV) accounted for 16.2% of total development expenditure.

Table 1.3
Government Expenditure in the
Sixth and Seventh Development Plans
(By Development Sector)

Development Sectors	6 th Plan		7 th Plan	
	Budget Allocations		Budget Allocations	
	SR Billion	%	SR Billion	%
Human Resources Development	216.6	51.5	276.9	57.1
Social and Health Development	87.5	20.8	92.6	19.1
Economic Resources Development	48.2	11.5	54.4	11.2
Infrastructure Development	68.1	16.2	61.4	12.6
Total	420.4	100.0	485.3	100.0

Source: Ministry of Economy and Planning.

It is worth recalling that the Seventh Development Plan underlined the importance of increasing investment rates, in order to achieve orderly and rapid economic growth that, in turn, makes it possible to sustain development achievements. The Plan also underscored the need for rationalizing non-investment-oriented government expenditure.

Table 1.4 compares financial requirements as per the Seventh Development Plan with budget allocations for the various development sectors. Strikingly, there is close conformity, not only with regard to total amounts earmarked (with budget allocations covering 99.4% of the financial requirements as per the Plan) but also with respect to the sectoral distribution of the amounts involved (Figure 1.3); a conformity that is attributable to three major reasons:

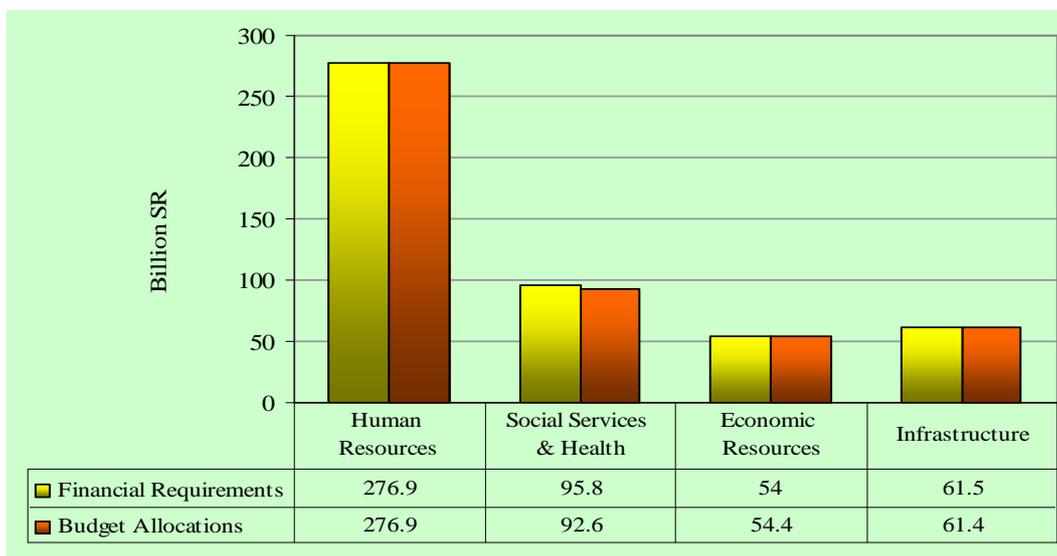
Table 1.4
Financial Allocations
Seventh Development Plan

Development Sector	Plan Estimates (SR Billion)	Budget Allocations (SR Billion)	Budget Allocations/Plan (%)
Human Resources Development	276.9	276.9	100
Social and Health Services	95.8	92.6	96.7
Economic Resources	54.0*	54.4	100.7
Infrastructure	61.5*	61.4	99.8
Total	488.2	485.3	99.4

* Figures have been adjusted to account for administrative restructuring of some government agencies.

Source: Ministry of Economy and Planning

Figure 1.3
Financial Requirements vs. Budget Allocations
Seventh Development Plan



- Close coordination and full cooperation during Plan preparation and implementation among experts both at the Ministry of Finance and the Ministry of Economy and Planning.
- Efforts made by the Plan preparation teams, composed of personnel

from the Ministry of Economy and Planning and other government agencies, to establish accurate priorities and ensure that a balance is maintained between development needs and available financial resources.

- The more scientific approach adopted in preparing the Plan's estimates.

1.2.6 Financial Sector

Banking Services

During the period, performance of the financial services sector was positive. As can be seen from Table 1.5, performance of commercial banks continued to improve, through increased general activities and a stronger financial position, with total bank assets growing by 31.3%, customer deposits by 44.8%, and bank profits by 91.3%.

The banking sector achieved performance levels that conformed to international standards. The capital adequacy ratio of commercial banks (which is the ratio of the banks' capital to their total risk-weighted assets) was steady at an outstanding average of 21%; i.e., at a level that is two and a half times higher than the Basle Committee's requirement for prudent banking reserves at 8%. This testifies to the success of the monetary policy of the Seventh Development Plan, which calls for continued efforts to enhance the efficiency and supervision of the banking system, in order to ensure its soundness and maintain its resources. Over the Plan period, commercial banks achieved remarkable expansion in the operation and use of modern banking technology, including phone and internet-based banking services; thus becoming capable of serving the national economy, as well as their customers, through a package of modern high-tech banking services competitive with those offered in advanced countries.

Key indicators of the positive performance achieved during the period in bank credit include:

- Total bank credits grew at an average annual rate of 10.4% during the first four years of the Plan.
- A steady and tangible increase was achieved in the value of long-term bank loans during the first four years of the Plan, at an average annual growth rate of 29.6%. As a result, the share of long-term

- credit in total loans doubled from 13.5% in 1999 to 25.6% in 2003.
- Bank claims on the private sector, including loans, advances, bills discounted and investments in securities, grew during the first four years of the Plan at an average of 8.9% per annum (Table 1.5 and Figure 1.4).

Table 1.5
Bank Credit Classified by Maturity and Bank Claims on the Private Sector
1999--2003

Years	Bank Credit by Maturity				Bank Claims on Private Sector
	Short-term	Medium-term	Long-term	Total	
1999	116622	27281	22420	166323	162190
2000	114858	32049	26626	173533	172238
2001	113453	31951	42216	187650	187064
2002	124578	31646	54433	210657	205829
2003	146040	37758	63170	246967	228486

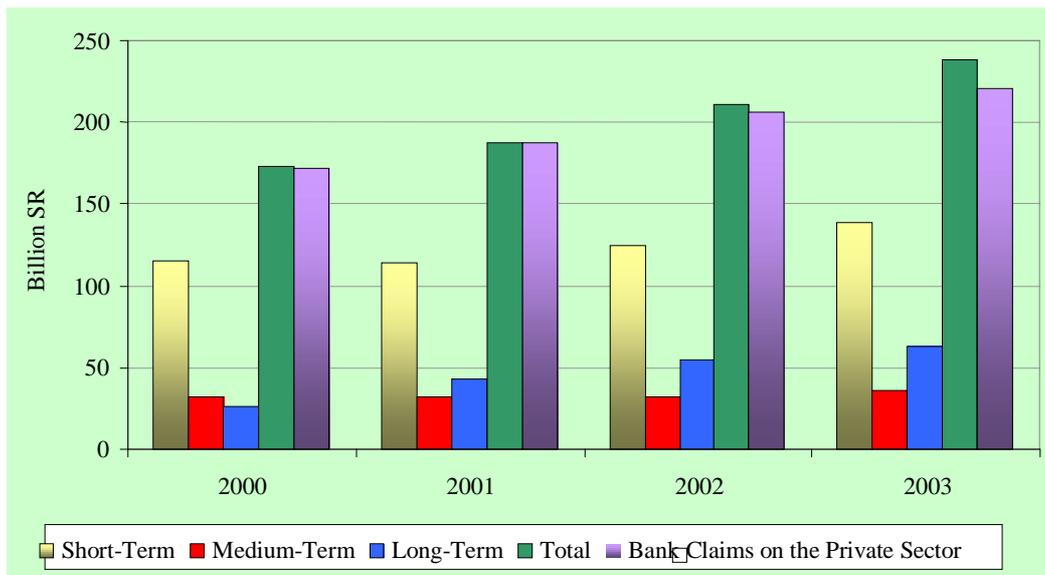
Short-term: One year or less

Medium-term: 1–3 years

Long-term: Over 3 years.

Source: Saudi Arabian Monetary Agency, Quarterly Statistical Bulletin, 2nd Quarter, 2004.

Figure 1.4
Classification of Bank Credits



These indicators demonstrate that a good deal of progress was made in meeting the objectives of the monetary policies of the Seventh Plan with respect to removal of constraints impeding the flow of bank credit to the private sector, and development of the rules and regulations governing bank lending, while maintaining a safe and sound banking system. They, furthermore, testify to the tangible progress made towards developing new savings and investment channels to attract capital currently invested abroad. Total value of the assets of the mutual funds increased steadily during the first four years of the period. Of particular significance in this regard is the steady increase in the value of domestic assets of these funds, which grew by 133% during the period.

Stock Market

In view of the significant role it plays in financing economic development and implementing the privatization program, the stock market receives considerable government attention. It underwent an important organizational development with the enactment in 2003 of the Capital Market Law, which establishes its regulatory and institutional framework, restructures it in line with international best practice and enhances the efficiency of its operation and trading processes.

Box 1.1:

Key features of the Capital Market Law of 2003:

- Establishment of the Securities and Exchange Commission (SEC), which directly reports to the Prime Minister. SEC shall be a legal person having financial and administrative autonomy, and vested with the capacity necessary to discharge the responsibilities and functions set forth in the Law.
- Establishment of the Saudi Securities and Exchange Market, having the legal status of a joint-stock company for the trading of securities in the Kingdom.
- Establishment of the Securities Deposit Center, which will be the only entity in the Kingdom authorized to conduct operations related to deposit, transfer, settlement, clearing and registering of Saudi securities traded on the Exchange.
- Establishment of a Securities Disputes Settlement Committee and an Appeals Panel.
- Indictment of unsound practices based on fraud or insider trading, along with imposition of penalties on parties that practice, or assist in any, such violations.

Table 1.6
Saudi Stock Market Indicators

Year	Number of Shares Traded (Million shares)	Value of Shares Traded (SR Billion)	Market Value of Shares Issued (SR Billion)	General Share Price Index (1985=1000)	Share Turnover Ratio* (%)	Market Depth Level ** (%)
1999	528	56.6	229.0	2028.5	24.7	36.7
2000	555	65.3	255.0	2258.3	25.6	36.1
2001	691	83.6	275.0	2430.1	30.4	40.1
2002	1736	133.8	280.7	2518.1	47.6	39.8
2003	5566	596.5	589.9	4437.6	101.1	73.4

* A market efficiency indicator that refers to the value of shares traded as a percentage of the total market value of shares issued.

** An indicator of the share market contribution to the funding of economic activity. It refers to the market value of shares issued as a percentage of GDP at current prices.

Source: Saudi Arabian Monetary Agency, Annual Report, Issue No. 40, 2004 P. 142.

The Saudi stock market performed well during the first four years of the Seventh Plan, as can be seen from the indicators listed in Table 1.6. In 2003 it ranked first among the Arab stock markets listed in the Arab Monetary Fund (AMF) database, in terms of the value and number of traded shares, as well as in terms of the market value of shares issued. According to the AMF, the Saudi stock market value amounted to SR 589.9 billion (US\$ 157.3 billion), compared to an average of about SR 120.8 billion (US\$ 32.2 billion) for all the Arab countries listed in the database, and the market value of Saudi shares accounted for about 43.5% of the total market value of all Arab stock market shares.

Another indicator of Saudi stock market efficiency, compared to the other Arab stock markets listed in the AMF database, is the share turnover ratio, which in 2003 averaged 101.1% for the Saudi stock market, compared to an average of 32.1% for other Arab countries.

Furthermore, the Saudi stock market took a leading position among Arab stock markets listed in the AMF database in terms of the market depth indicator, which refers to the ratio of the market value of shares issued to the country's GDP. In 2003, this indicator reached about 73.4% for the Saudi stock market, compared to an average of 62.6% for Arab stock markets.

By many estimates, the Saudi stock market is well poised to becoming the largest and most active market in the Middle East, particularly in view of the forthcoming implementation of the Kingdom's privatization strategy, and completion of the market's infrastructure.

However, despite its good performance, the Saudi stock market needs further development of its institutional infrastructure and the instruments being traded, such as the need for financial intermediation firms specializing in primary and secondary markets activities, as well as investment banks. In addition, firms specialized in issuance, coverage, and underwriting of share issues, and market maker firms are still being formed. Moreover, the following are notable features of the investment instruments being traded:

- Trading is concentrated in ordinary shares, as the market lacks securities issued by private companies.
- The volume of shares issued is limited.
- Trading in issued shares is poor, since these are often held by individuals and agencies who, for various reasons, do not offer them for trading. Notable in this regard is that in 2004, the stake of the government in listed companies amounted to 44%, with a market value of SR 263 billion.

Specialized Lending Institutions

Specialized lending institutions (SLIs), which grant soft loans to citizens as well as public and private sector institutions, have since their establishment helped to accelerate development in industry, agriculture, housing, and services. They have also supported the private sector and boosted its contribution to the diversification of the economic base and to overall socio-economic development.

SLIs continued to play an important development role during the Seventh Plan period. Total loans provided to the private sector and public institutions amounted to about SR 28.15 billion in the period 2000–2003; an increase of 31.1% over the total loans amounting to SR 21.47 billion that were made by SLIs in the first four years of the Sixth Development Plan.

Domestic Liquidity

Money supply (M3) growth rates were relatively stable during the first two years of the Seventh Development Plan; 4.48% and 4.99% respectively. The third year of the plan, however, experienced a marked increase of 15.22%, which is attributable to two main reasons. First, credit facilities extended by commercial banks to private sector companies increased by 10%, compared to an increase of 8.6% in 2001 while loans to public sector institutions rose by 10.6%, compared to a decline of 13% in 2001. The second reason was the lack of stability in world financial markets, which prompted some Saudi citizens to repatriate part of their financial assets, with increasing preference for domestic investment. In the fourth year, 2003, M3 grew by about 8.19%. Taken together, these indicators show that local liquidity during the period grew at rates commensurate with the actual requirements of economic activity.

Price Stability

A salient feature of price developments during the Seventh Development Plan period was the continued decline of the consumer price index during the first four years, 2000–2003, by -2.25%, -0.56%, -0.23%, and -2.01% in each of these years respectively. As a result, the consumer price index dropped from 100 in 1999 to 95 in 2003. This trend was in harmony with the thirteenth strategic basis of the Seventh Development Plan, which calls for “continued adoption of policies aimed at keeping inflation at the lowest possible rate,” in order to maintain decent standards of living and enhance stability of purchasing power of money.

1.2.7 The Private Sector

The private sector assumed a pivotal role in boosting output, investment and employment; a role underscored by performance of the sector during the period of the Seventh Development Plan. Over the past five years, the government adopted several policies, decisions and measures aimed at strengthening the role of the private sector role in the economy. Key among these have been the policies and decisions related to privatization, support for SMEs, promotion of non-oil exports, improvement of the regulatory and investment environment, and encouragement of transfer of modern technologies and advanced technical know-how, along with improvement of the competitiveness of domestic products in local and

foreign markets. Together, these initiatives have resulted in improving private sector activity as measured by the sector's contribution to increased production during the period. Still, overall investment activity of the private sector remains below expectations.

While development of production and organization techniques, as well as increased use of modern technologies, have been key factors in increasing both productivity and output by private companies and establishments, attaining higher rates of economic growth requires continued expansion of production capacities. Expansion of private sector investments, therefore, continues to be of crucial importance for the development process, given that the Kingdom possesses good financial and physical infrastructures, as well as a large market and sound development institutions and management structures.

CHAPTER TWO

**MAIN DIRECTIONS OF THE
EIGHTH DEVELOPMENT PLAN**

2. MAIN DIRECTIONS OF THE EIGHTH DEVELOPMENT PLAN

2.1 INTRODUCTION

The Eighth Plan marks a new phase in a development process that has spanned more than three decades. It is also the first landmark on a strategic course to be traversed by the national economy over the next twenty years in four consecutive five-year plans.

As such, the Plan constitutes a new methodological departure. In previous plans, long-term general objectives, which defined the strategic development goals, served as the starting point for setting priorities and determining foci for each plan. Moreover, the Eighth Development Plan defines more precise targets; quantitatively, wherever possible, and clearly spells out implementation schedules and ensuing responsibilities of implementation agencies, with the aim of effecting tighter coupling among issues, policies and objectives.

This chapter briefly highlights the main directions of the Eighth Development Plan, and the resulting challenges, as well as its objectives and strategic principles.

2.2 FUTURE CHALLENGES

Since the launch of the Kingdom's development process, fundamental structural changes undergone by the national economy have improved living standards and quality of life. As a link in the chain of long-term planning, the Eighth Development Plan endeavors to identify and address challenges and constraints, seeking to attain objectives of the Kingdom's future vision: "a diversified and prosperous economy that ensures supply of rewarding job opportunities and economic welfare to all citizens, provides good quality education and healthcare to the population, and helps manpower acquire the necessary skills; while maintaining the Kingdom's Islamic values and cultural heritage,"

Thus, the Eighth Development Plan provides an overall framework for development up to 2009, addressing current *domestic* challenges, which include:

- Continued population growth at relatively high rates, which increases demand for basic services in education, health, transportation, communications, municipalities, public utilities and housing.
- Continuing to improve quality of life and standards of living throughout the country.
- Increasing number of new entrants to the labor market searching for appropriate job opportunities, against relatively high unemployment (estimated to have been 7.0% in 2004), particularly among youth.
- Overuse of critical economic resources; particularly water, where opportunities for developing surface and renewable ground water resources are limited and costs of water production (by desalination of seawater and treatment of waste water), are high.
- Some economic sectors and activities are not keeping pace with rapid global technological developments, which jeopardizes their competitiveness, locally and internationally; particularly subsequent to the forthcoming Saudi membership of the WTO.
- Intensified importance of accelerating the rate of provision of quality training to the national workforce to equip it with the knowledge and skills necessary to keep abreast of international scientific and technological developments; enabling it, thus, to contribute effectively to consolidating the competitiveness of the national economy.

Internationally, structural developments in the global economy pose difficult challenges that require intensive efforts on various fronts. The most important such challenges are:

- Continued globalization and integration of the world economy and the growing volume of trade among countries due to liberalization of the world trade system.
- Continued formation of international and regional economic blocks and free trade zones with consequent effects on the foreign trade activities of the Kingdom.
- Increased importance of science and technology as an essential, decisive tool for achieving economic benefits under mounting competition locally and internationally.
- Diminished importance of raw materials in constituting competitive advantage of products and enhanced importance of knowledge and technology.

- Instability of global financial markets, rates of foreign exchange, and raw material markets with the concomitant fluctuations in prices and revenues.
- Increased importance of trade in services internationally, with communications and information technology contributing to strong growth in across-borders services leading to emergence of a highly competitive global services market.
- Increased international competition for attracting capital and foreign investments.

The Eighth Development Plan takes into consideration national and regional policies and strategies, as well as relevant decisions and directions. (Box 2.1). It is expected to coincide with completion and approval of further national and sectoral strategies; including: the Long-Term Strategy for the National Economy until 2024, the National Strategy for Post-Secondary-School Education, the National Strategy for Promotion of Exports, the National Housing Strategy, and the National Strategy for Poverty Reduction.

Box 2.1: National and Regional Strategies and Policies and Relevant Decisions and Directions

- The National Spatial Strategy; Council of Ministers Decision 127 of 28/5/1421 (2000)
- The Manpower Strategy; Council of Ministers Decision 108/2 of 10/2/1416 (1996)
- The General Framework of the GCC Population Strategy, and the Long-Term Comprehensive Development Strategy of the GCC Member States 2000–2025, adopted by GCC Supreme Council in its 19th Session held in Abu Dhabi in 1998 .
- All decisions, Royal Decrees, instructions and minutes of meetings of pertinent committees; in particular, Royal Decree 14970 of 27/2/1424 (2003) regarding the inaugural address of the Custodian of the Two Holy Mosques marking the second year of the Third Session of the Shura Council, in which he instructed all government agencies to prepare an integrated program for reform; and Royal Decree 7/B/48468 of 12/10/1424 (2003), which approved the Strategy for Improving General Living Condition of All Citizens in all regions.
- Resolutions of the Shura Council on reporting and follow up of implementation of development plans.
- The Unified GCC Industrial Development Strategy, approved by the Sixth Session of the Supreme Council held in Muscat, Oman 19–22 Safar 1406 (1985), and the Draft General Framework of Saudi Industrial Strategy.
- The National Science and Technology Policy, approved by the Council of Ministers Decision 112 of 27/4/1423 (2002).

2.3 GENERAL OBJECTIVES AND STRATEGIC BASES

The Eighth Development Plan is based on an integrated set of general objectives and strategic bases approved by the Council of Ministers decision 175 of 27/6/1424 (2003).

2.3.1 General Objectives

- To safeguard Islamic teachings and values, enhance national unity, uphold security and social stability and deepen the Arab and Islamic identity of the Kingdom.
- To continue improving the services provided to Hajj and Umrah performers so as to facilitate performance of religious rites.
- To raise the standard of living, improve the quality of life and provide job opportunities to citizens, by accelerating the development process, increasing the rates of economic growth, and ensuring enhancement of the quantity and quality of education, health and social services.
- To develop human resources, upgrade their efficiency and increase the supply of manpower to meet the requirements of the national economy.
- To diversify the economic base with due emphasis on promising areas such as manufacturing industries, particularly industries that make intensive use of energy, and its derivatives, as well as mining, tourism and information technology industries.
- To improve productivity of the national economy, enhance its competitiveness and prepare it to adjust in a more flexible and efficient manner to economic changes and developments at the national, regional and international levels.
- To enhance private sector's participation in economic and social development.
- To achieve balanced throughout all regions of the Kingdom and reduce the development gap between them.
- To develop the science and technology system, pay attention to informatics, support and encourage scientific research and technology development, with a view to enhancing the efficiency of

- the Saudi economy, and keeping abreast of the knowledge economy.
- To conserve and develop water resources and ensure their rational utilization.
 - To protect the environment and develop suitable systems in the context of sustainable development.
 - To continue to strengthen and promote the Kingdom's relations with Arab, Islamic and friendly countries.

2.3.2 Strategic Bases

- Increase the share of Saudi manpower in total employment in various sectors, pay attention to upgrading their efficiency and productivity through training and re-training, and continue to substitute Saudi manpower for non-Saudis.
- Place emphasis on the welfare of women, upgrade their capabilities and remove the constraints that impede their participation in development activities, in line with the Islamic values and teachings.
- Expand provision of health care and social welfare services to the entire population.
- Take care of the needy groups of citizens and pay attention to management and reduction of poverty by concentrating on the economic policies and programs that lead to higher economic growth, along with achieving balanced development of all regions in the Kingdom.
- Develop all relevant aspects of education and training systems. Upgrade their output in conformity with the changing needs of society, the labor market and the requirements of the development process. In addition, keep abreast of advances in knowledge and technology, and pay attention to the promotion and dissemination of culture.
- Improve the quality of public services and increase their supply in line with the growing needs of the population, along with improving performance of the responsible agencies.
- Enhance utilization of economic resources with due emphasis on rationalization and improving performance of the responsible agencies.

- Continue to provide infrastructural assets in line with growing demand, and improve their operation, with due emphasis on maintenance and replacement of depreciated assets.
- Continue efforts to maintain a climate conducive to enhancing private-sector participation in economic and social development, while intensifying government initiatives to encourage private domestic and foreign investments and bolster competitiveness of domestic products.
- Privatize additional public facilities, activities and services, while ensuring a rising share for citizens in asset ownership; all within a framework of competition and transparency.
- Develop tourism and improve associated services and facilities, while conserving the environment and national heritage.
- Adopt a population policy that takes into consideration quantitative and qualitative variables and geographical distribution and enhances correlation between population variables and the goals of sustainable development.
- Distribute resources and services among the regions of the Kingdom to ensure reduction of development disparities among them and enhance their comparative and competitive advantages.
- Create a strong foundation for national science and technology capable of innovating and inventing, expand ICT applications, and improve the databases in support of the national economy.
- Continue with administrative development and the creation of a regulatory environment conducive to economic development and efficiency.
- Adopt fiscal and monetary policies that contribute to accelerating economic growth, achieving higher employment, and enhancing economic stability.
- Reduce public debt to a reasonable level and develop appropriate mechanisms for achieving financial stability in the long run.
- Adopt integrated management of water resources and optimize their utilization, while emphasizing their rational usage and developing their sources and conservation techniques.
- Encourage participation of private institutions and individuals in

charitable and voluntary activities in social work, healthcare and education; improve such activities; and promote awareness of their importance.

- Sustain care for environmental protection, promote environmental regulations, protect and develop wildlife, and conserve natural resources and rationalize their utilization.
- Promote integration among the Gulf Cooperation Council (GCC) countries and strengthen relations with Arab, Islamic and friendly countries, as well as with international economic blocs.

2.4 GENERAL FRAMEWORK FOR THE EIGHTH DEVELOPMENT PLAN'S DIRECTIONS

In the following, the general framework of the Eighth Development Plan's directions is summarized.

2.4.1 Standard of Living and Quality of Life

The Eighth Development Plan assigns utmost priority to raising standards of living and improving quality of life. In so doing, the Plan reaffirms the principle of considering the Saudi citizen to be both the means and the ultimate end of the development process, as underscored by the third objective and fourth strategic basis of the Plan. Key challenges in this respect are reduction of unemployment and combating poverty; two of the major economic and social pillars of the Plan. It is worth noting, that the relatively high population growth rate of about 2.5% generates pressures on public services and utilities, thus calling for government and private initiatives to provide job opportunities, both through creation of new jobs and Saudization of existing ones.

Within the context of the government's quest to improve general living conditions of all citizens in all regions, as per Royal Decree 7/B/48468 of 12/10/1424 (2003), the Plan will endeavor to attract private domestic and foreign investments to the least developed regions, along the lines of the investment drive to be implemented in Jizan region and Tihama Plains, in an effort to energize economic activity in these regions and reduce emigration to urban areas.

In view of the significant impact of population pressure on living conditions and quality of life, the Ministry of Economy and Planning has initiated work on developing a population policy; to be based on the Strategic Long-Term Vision for the National Economy up to 2024, the General Framework of the GCC Population Strategy adopted by the GCC Supreme Council in its 19th session held in Abu Dhabi from 18–20/8/1419 (1999), and the UN Millennium Development Goals issued in 2000.

2.4.2 Poverty Reduction

A key objective of the Eighth Development Plan is to contain and eventually eradicate poverty, as explicitly stated in the fourth strategic basis of the Plan. Acting on Royal Decree Kh/41359 of 25/10/1423 (2002) to formulate a comprehensive national strategy to combat poverty, the Ministry of Economy and Planning, in cooperation with the task team entrusted with the national strategy to combat poverty, chaired by his Excellency the Minister of Social Affairs, is in the process of designing such a strategy, with due consideration of the conditions and resources of the Kingdom; drawing on the experience of other countries. The strategy involves building a database derived from the findings of various specialized surveys, in order to facilitate measuring poverty by various indicators. Studies will also be conducted to investigate reasons of poverty, in an effort to devise and implement appropriate programs and policies to combat it and reduce its negative impact on the socioeconomic structure.

The poverty strategy will focus on the following basic aspects:

- Through provision of jobs, credit, education, training and health services, afford the poor the opportunity to develop and enhance their material and human abilities, and improve their access to markets for selling their products.
- Eliminate obstacles before the poorest segments of society and enhance their financial and human capabilities, to enable them to contribute effectively to the community.
- Enhance social protection for the poor through reducing exposure to risks such as ill health, economic shocks due to market volatility, and natural disasters; and provide them with aid when they face such disasters and shocks, through expanding the scope of social security and providing financial and in-kind assistance.

One important step has been the establishment of the Poverty Alleviation Fund, with a substantial portion of its capital provided by the state, in addition to contributions by the private sector and individuals, to help the poor help themselves.

The strategy of the Fund has two major thrusts. The first is provision of job opportunities to those willing to work, and the second is to help establish productive families through extending soft loans to poor families to establish small enterprises that would provide secure regular incomes. Efforts of the Fund would complement assistance offered by the State through the social security system and assistance provided by the private sector through charitable organizations and other individual efforts.

2.4.3 Balanced Regional Development

The Eighth objective of the Plan is “to achieve balanced development throughout the regions and reduce development gaps among them”. The Plan emphasizes that achieving balanced regional development will not only require provision of infrastructure and key services, but will also call simultaneously for building a production base that relies primarily on input and development potential of the individual regions themselves, while at the same time drawing on a national strategy that seeks to reduce disparities among regions through encouraging private investment in the least developed ones.

The period of the Plan will witness expansion of the national energy grid (natural gas, oil, power) to provide fuel and feedstock to the new development poles. The railways network will also be expanded to link, over the medium term, the mining areas in the northern parts of the Kingdom with the Eastern region, through the Central region, in order to transport mining ore to processing and manufacturing centers. The railway network will also link the Central and Western regions. Work will also be initiated on developing the locations identified by the long-term strategy for tourism, which number over 10,000 natural, historical or cultural sites expected to become tourist attractions over the next two decades.

The Eighth Development Plan will particularly focus on urban and regional development, seeking to address the problems caused by rapid urban expansion and concentration in major cities, which could, over the long-term, lead to deterioration of the urban environment and increased

population migration from the least developed regions, with the considerable social and human costs involved. New economic development poles will be established in some regions, ensuring maximum benefit from possible development of logistical services and manufacturing industries catering for local and regional markets, as well as from developing tourist attractions.

Moreover, in pursuance of further administrative decentralization, delegation of administrative responsibilities to local administrations in regions will continue, with the aim of consolidating their participation in the development process. Introduction of elections of half the members of municipal councils is of particular significance in enhancing the role of local administrations further.

The plan places special emphasis on improving availability of detailed economic and social data and information on the regions, which is essential for preparing appropriate regional development strategies and plans.

During the Plan period, the regional development strategy will seek to achieve four key objectives, namely:

- Reduction of disparities in living conditions and economic activity levels among regions, within a framework of balanced regional development.
- Provision of infrastructure and public services to all regions, with due attention to small settlements.
- Establishment of new economic development poles away from major cities.
- Gradual transition to administrative decentralization, and strengthening of regional and local administration.

In order to reduce disparities in living conditions among regions, emphasis will be placed on Kingdom-wide policies, programs and projects that help in providing job opportunities to citizens throughout the regions. Attention will also be given to improving housing for low-income households, in addition to expansion of illiteracy eradication campaigns, particularly in regions with high illiteracy rates, in view of the significant role education plays in combating poverty.

2.4.4 Human Resources Development

Development of human resources, a most important goal of the Eighth Development Plan (according to its fourth general objective and fifth strategic pillar), has been a priority for the successive development plans, which sought to promote skills and develop capabilities through quantitative and qualitative expansion of education, training and vocational training. These plans have also focused on issues of labor-market efficiency and policies for improving the working environment in response to local and international developments.

In the current international setting, with mounting economic globalization and accelerated technological advances, enhancing the competitive advantage of the Kingdom requires, more than ever before, improvement of the quality of manpower and raising its productive efficiency and innovative capabilities. Only thus will advanced scientific and technological innovations be acquired and assimilated and the ability of the Saudi economy to integrate into the global economy enhanced. Furthermore, the capacity to acquire knowledge, produce it and employ it in the production of goods has become the critical factor in gauging the progress and prosperity of nations.

The Plan recognizes that development of human resources faces a number of obstacles and challenges that militate against increasing the rate of participation of national manpower in general and that of females in particular, in addition to macro and structural imbalances in the labor market manifested in dependence on foreign labor and unemployment among new Saudi graduates.

In order to attain human resources development, the Eighth Development Plan would seek to achieve the following:

- Developing the manpower skills base in such a manner as to ensure that new entrants to the labor market have the requisite specializations.
- Providing more employment opportunities to national manpower, particularly in the private sector, in order to meet the demand resulting from economic growth and Saudization.
- Restricting recruitment of foreign labor and rationalize its utilization

through linking recruitment to actual needs; enforce Saudization resolutions and set a ceiling on numbers of foreign workers and their dependents; and limit employment in certain professions and economic activities to national labor.

- Increasing participation in the labor force by providing additional job opportunities to national manpower and adopting appropriate policies designed to enhance participation of women in the economy.
- Encouraging high value added productive and service activities that utilize advanced technologies.

Given the increasing importance of the role played by the private sector in employment, it is essential to create effective mechanisms for coordination with this sector to make it a full partner in manpower planning, education, and design of labor policies, in order to ensure a closer match between supply of and demand for Saudi labor. Enhancing co-ordination with the private sector will also sharpen its response to policies of Saudization and reducing dependency on foreign labor.

2.4.5 Diversification of the Economic Base

Rapid growth would contribute to and strengthen the economic diversification process, which has made remarkable progress over the past decades, and continues to be a leading priority, in line with general objectives (Fifth, Sixth and Seventh) and strategic bases (Seventh through Eleventh) of the plan. Diversification is based on exploiting the comparative advantage enjoyed by the Kingdom, as well as on enhancing competitiveness of the national economy, which is free-market based and will become more open with accession to the World Trade Organization (WTO).

To meet the challenge of economic diversification, the Eighth Development Plan seeks to attain accelerated growth rates in sectors that possess the potential for contributing effectively to diversification; most important of which are:

- Industries that transform comparative advantages of the national economy to competitive advantages, such as petrochemicals and related downstream industries, oil refining and energy-intensive

industries.

- Investment-intensive industries, key among which are natural gas, mining and pharmaceutical industries; and the service sector, particularly tourism, transport and insurance.
- The capital-goods industry, such as mineral products, machinery, equipment and electrical appliances, which constitute the basis for sustainable growth and are promising areas for development of national technologies applicable to the manufacture of producer goods.
- Industries that could contribute effectively to moving towards a knowledge-based economy. These are technology-and-capital-intensive industries, capable of advancing several other industries, in addition to creating competitive advantages, which are increasingly more important than comparative advantages internationally. Most important among such industries are information technology (particularly software) and capital-goods industries.
- Small and medium size enterprises which play an important role in diversification of the economic base and provision of employment opportunities.
- Export-oriented manufacturing industries, particularly those that have achieved considerable success, such as foodstuffs, building materials and plastic products. Advancing these industries will be pursued as part of both a long-term strategy for promoting non-oil exports and medium-term export promotion programs.
- The tourism industry, which promises effective contribution to economic diversification, through increasing income sources, creating new job opportunities for the Saudi workforce, and improving the balance of services and remittances.
- The agriculture sector, with emphasis on promoting high value added crops that use advanced water rationalization technologies and optimum utilization of natural resources.

2.4.6 Economic Stability

The Plan endeavors to achieve economic stability through the following measures:

- Intensifying fiscal policies aimed at ensuring fiscal stability, and reducing the negative impact of sharp fluctuations in world oil markets on public expenditures and revenues.
- Intensifying monetary policies aimed at achieving monetary stability to maintain the purchasing power of the national currency.
- Maintaining administrative development designed to enhance efficiency of the government sector.

Economic stability is a prerequisite for creating an environment attractive to private investments (national and foreign) and is a fundamental precondition for achieving the economic and social objectives of the Plan. It is worth noting here that there is strong interdependence between the goals set by the Eighth Development Plan for the enhancement of economic stability, and those set for improving performance of financial services, particularly banking services, financial markets and insurance activities.

2.4.7 Domestic and Foreign Investment

Despite efforts by successive development plans, the Seventh Development Plan in particular, to create a favorable investment climate, current investment performance indicates the need for raising investment growth rates, to ensure growing capital accumulation that would effect a qualitative shift in the national economy, rendering it capable of creating further job opportunities to absorb available human capabilities and accelerate the pace of comprehensive economic development.

The Eighth Development Plan will continue efforts to meet several challenges that hamper or slow down development of the investment climate, and will endeavor to attain the following:

- Provide more investment opportunities in order to accelerate development, diversify the economic base, and attract national and foreign capital investment.
- Establish a transparent legislative and competitive environment; provide appropriate well-equipped industrial locations to receive new investments; and train a skilled national workforce capable of meeting the requirements of the labor market.

- Provide a fully integrated framework of investment incentives, along the lines adopted by many countries that succeeded in attracting foreign investment.
- Enhance the role played by the Saudi stock market as an effective instrument in the national economy that serves as a channel for mobilization of domestic savings, supports economic stability, helps raise productivity through financing investment opportunities, and contributes to accelerating the privatization process.

The Plan envisages creating a favorable investment climate by implementing a number of large strategic investment projects that would exert a “positive influence” on the investment opportunities in other targeted areas.

Such investment projects include ones that have already been approved, as well as others that are currently being studied. Some will be completed during the course of the Eighth Development Plan, while implementation of others may extend well beyond. The following is a list of the sectors in which such projects will be implemented:

- Gas
- Expand production capacity of Saudi ARAMCO
- Upgrade and expand refineries
- Petrochemicals
- Railways
- Mining
- High speed data transmission media
- Water, desalination of water, energy, expansion of the power grid and telecom networks
- Wastewater, potable water distribution and wastewater recycling

2.4.8 Institutional and Administrative Reform

Administrative and institutional reform is essential for enabling the national economy to meet challenges and seize opportunities. Key among essential reforms are removing investment constraints, enhancing the

system of incentives to private investment, developing regulations, and improving efficiency of government agencies and institutions. Such reforms would improve the global position of the Kingdom with respect to foreign investment flows and competitiveness.

The Eighth Development Plan will focus on key institutional development challenges. The first is to speed up privatization. While privatization has been a key element of the development strategy since the Fourth Plan, it is generally acknowledged that accelerated implementation remains a challenge. The second challenge is to quicken implementation of declared restructuring decisions, while the third is to address effectively effects of economic growth and globalization.

Noteworthy, however, is that there is still need for establishing new agencies in response to emerging organizational needs and requirements. For example, it is essential to establish, during the period of the Plan, an effective agency entrusted with developing small businesses, similar to the US Small Businesses Administration.

The Seventh Development Plan period witnessed the implementation of several significant institutional development measures. For example, measures taken to develop the investment climate included approval of the new Foreign Investment Act; creating the Saudi Arabian General Investment Authority (SAGIA), the Organization of Electricity Services Authority, the Communications and Information Technology Commission (CITC), and the Saudi Commission for Industrial Cities and Technological Zones; approval of several new industrial zones in various regions; issuance of licenses to international investment banks for operation in Saudi Arabia; and several other measures designed to develop the business environment and stimulate private investments.

The Eighth Development Plan will continue the process of reform and development through the following measures:

- Simplifying litigation and dispute settlement processes, through upgrading capabilities of the specialized courts, and ensuring speedy enforcement of rulings.
- Developing and updating competition, anti-trust and anti-dumping laws.
- Developing a modern bankruptcy law that encourages initiative,

stimulates venture capital and safeguards investor rights.

- Reducing instances of double taxation and concluding relevant agreements with more countries.
- Developing policies and programs for Saudization of manpower, including regulation of recruitment of manpower from abroad to ensure satisfaction of actual manpower needs, while taking into consideration availability of national manpower.
- Developing business and investment climate databases and information, and ensuring easy access to and wide-scale availability of such information.
- Automating investment and other business-related procedures, within the framework of e-Government services.
- Enforcing specifications and standards.
- Preparing a time schedule for implementing the privatization strategy.

2.4.9 Privatization

The tenth strategic basis of the Eighth Development Plan emphasizes privatization of more public activities, utilities and services. Moreover, the Kingdom's future vision of privatization envisages raising participation of the private sector in economic activities to raise the operational efficiency of the national economy, and create a competitive environment. In addition, there is, as noted by the sixth general objective of the Plan, a need for minimizing the role played by government in economic activities to limit fluctuations associated with increase/decline of government expenditure.

In the course of the Eighth Development Plan, the pace of privatization is expected to be accelerated. Regulatory bodies and commissions will be strengthened to ensure effectiveness and protect all pertinent interests. Furthermore, an important new phase will commence: where a practical implementation program for privatization will be developed to deal with the to-be-privatized institutions and utilities each according to its specific type of activity, the kind of privatization targeted, the constraints to be removed, and the extent of need for local or international consulting expertise.

2.4.10 Public Finance

The difficulties facing attainment of fiscal stability are largely due to sharp fluctuations of oil revenues, and the high ratio of recurrent expenditure, as compared to investment expenditure to GDP. This poses a challenge in relation to the goals of accelerating macroeconomic and sectoral growth, reducing budget deficit, and cutting down accumulated public debt; all set out in the 17th strategic basis of the Plan. Therefore, the Eighth Development Plan adopts the following directions:

- Balancing requirements of government agencies and regions for projects, programs and manpower in such a way as to ensure continued comprehensive development.
- Diversifying and developing revenue sources.

Of particular significance in this context is resolution 48/50 of 2/11/1423 (2003) of the Shura Council, which envisages the following directions:

- Linking budget programs and allocations to the objectives and priorities set out by the Development Plan.
- Developing a program for reducing public debt ratio to 60% of GDP.
- Taking measures to rationalize recurrent expenditure and increase investment-expenditure allocations.

2.4.11 Rationalization of Water Utilization

One of the most critical challenges to the Eighth Development Plan is the increasing demand for water, for agricultural, industrial, and household use, due to the relatively high population growth rate, which is disproportionate to available limited non-renewable ground water resources. Estimates indicate that non-renewable water stock declined by 60% over the 25 years from 1979–2004 due to increased consumption of water; mainly for agricultural and industrial purposes.

The most important water issues addressed by the Eighth Development Plan are: developing a water pricing policy based on economic criteria, mismatch between the water supply network and the wastewater network, coordination between construction of new facilities and maintenance of

existing ones, limited utilization of treated wastewater, procedures of water conservation, and monitoring of water utilization.

The development strategy of the water sector, as envisaged by the Plan, is based on the following primary objectives:

- Supplying potable water of high quality reliably to all, at the lowest possible cost, taking into consideration the purchasing power of low-income groups.
- Providing water for industrial and agricultural use, but within the limits of sustainability of water resources and the parameters of socioeconomic effectiveness.
- Conserving water resources and rationalizing water utilization.
- Attaining integrated management of water resources.

2.4.12 Technology and Informatics

The Plan devotes much attention to development of the science and technology system, promotion of informatics, encouragement of scientific research, and movement towards a knowledge economy, in recognition of their importance in achieving economic growth and enhancing industrial competitiveness, as set out in the 9th objective and the 5th and 14th strategic bases of the Plan. The Plan envisages adopting policies and institutional reforms intended to support science and technology research and development and improve administration of the science and technology system, in addition to enhancing collaboration between industries and universities and research institutions in technology development. Such efforts would improve technological capabilities in both the public and the private sectors.

Through implementation of the national policy on science and technology, the Kingdom looks forward to providing, in the long run, a considerable spur to scientific and technological advance to ensure sustainable, balanced and comprehensive development, which, it is hoped, will raise standards of living, improve quality of life, and ensure a better life for future generations. This policy espouses the following ten general objectives:

- Adoption of a comprehensive perspective for the national science and technology system to serve as a reference for its development,

coordination and integration, as well as for rationalizing its relations and links with various other sectors.

- Careful preparation and sustained quantitative and qualitative development of science and technology manpower.
- Fostering of scientific research and provision of the resources required for serving comprehensive national security and sustainable development.
- Development of national capabilities to enable embedding technology in production, particularly for high value added products.
- Continuous development and coordination of science and technology regulations to support the system, enhance interaction of its components, and improve its performance.
- Enhancement of scientific and technological cooperation with the outside world in line with international trends to serve the needs of scientific and technological advancement.
- Enhancement of science and technology support activities, such as data and information services, measurement services, patents and consultancy firms.
- Optimal use of information technologies to serve transformation to an information society and a knowledge economy.
- Use of science and technology in conservation of natural resources and protection and development of the environment.
- Fostering of awareness of importance of science and technology in achieving comprehensive national security and sustainable development.

The Plan envisages increased investment in scientific and technological education and development of technical and research manpower, with particular emphasis on redirecting scientific and technological education towards supporting the innovative capabilities of Saudi youth and producing capable cadres of scientists, researchers and educationalists who would play a major role in the development of local technologies.

Also envisaged are measures to amend science and technology strategies, in an effort to improve efficiency and effectiveness of research institutions and enhance their technology transfer role, in addition to increasing

collaboration between research-and-development institutions and industrial institutions. Moreover, funding of research and development will be increased to support local capabilities in appropriate basic technologies, such as advanced materials, biotechnology, electronics and information technology. In addition, support will be given to “centers of excellence” in universities and research centers, which will be encouraged to support innovative capabilities and ensure a better match between acquired skills and knowledge and demand. Furthermore, establishment of science parks in universities and research centers will be encouraged, as will be joint funding and joint research programs by industry and public sector institutions.

Thus, the science and technology strategy embedded in the Plan seeks to attain the following:

- Gradual systematic indigenization of advanced strategic technologies in the various economic and social sectors to enhance productivity and competitiveness.
- Enhancement of science and technology research capabilities through the development of existing research centers and establishment of new ones.
- Transfer of technology internally among the various elements of the science and technology system, as well as transfer of external technology through imports.
- Raising scientific and technological awareness within society, and improving creative potentials and human resources in science and technology.
- Establishment of technology parks and business incubators.
- Allocation of more funds to science, technology and innovations, and diversification of funding sources.
- Development of regulations and institutional structures governing performance of the science, technology and innovation system.

2.4.13 Economic, Social and Cultural Impact of Globalization

The first year of the Eighth Development Plan will likely see the Kingdom's accession to WTO. This event will accentuate the importance of effecting ways and means of dealing efficiently and flexibly with the

socioeconomic and cultural effects of globalization, which is a goal underscored by the 6th general objective of the Plan.

Most significant among the economic challenges resulting from “globalization” will be increased competition between domestic and foreign products, which could result in unfair practices. This calls for taking effective economic measures and policies to improve competitiveness of domestic products. Issues such as removal of customs barriers, liberalization of trade and opening up to the global economy may not pose major challenges. The real challenges, however, will be diversifying the economic base, improving productivity and quality, accomplishing technological development and turning comparative into competitive advantages; all of which require acceleration of macroeconomic and sectoral growth, development of an incentives system to attract private domestic and foreign investment, and strongly boosting development of non-oil exports.

The objective of the Eighth Development Plan is to minimize the adverse social and cultural effects of globalization, through the following measures:

- Expanding technical assistance to productive projects in research and technological development, through intensifying efforts made by the Industrial Development Fund, in these areas.
- Continuing to provide assistance to the private sector, through the Human Resources Development Fund, to implement Saudization programs.
- Reconsidering the social assistance system that helps improve living conditions of low-income and needy citizens, in light of the findings of current studies of poverty.
- Continuing to give priority to expenditure on human-resources development, with emphasis on development of education and training programs that meet demands of the labor market, as well as on reduction of unemployment among nationals.
- Maximizing benefits derived from positive aspects of cultural globalization to modernize and develop national culture, which calls for qualitative improvement of educational curricula at all levels, and adoption by all agencies concerned of a clear vision for dealing with cultural issues to ensure cultural development and modernization within the framework of Islamic and Arab culture.

2.4.14 Increasing Participation of Women and Enhancing the Role of the Family in Society

The Plan attaches a great deal of importance to enhancing participation of women, development of their capabilities, and elimination of obstacles to their participation in developmental activities; as set out in the 2nd strategic basis of the Plan. The set family and society objectives, which embrace energizing participation of women in economic activity, involve:

- Strengthening family ties, preserving the Arab and Islamic values of the family, taking care of all family members, and providing the appropriate conditions for developing their capabilities; all in accordance with Article 10 of the basic governance law.
- Providing reliable support to all citizens in cases of emergency, illness, disability and old age.
- Enhancing the social security system and encouraging institutions and individuals to undertake charitable activities.
- Empowering women in education, health and employment; increasing their participation in various fields, both within the family and at the workplace; and providing better opportunities to enable them to occupy decision-making positions.

2.5 IMPLEMENTATION OF DIRECTIONS

As pointed out earlier, a feature that distinguishes the Eighth Development Plan from its predecessors is concern for issues of implementation of envisaged policies, objectives, programs and projects. Thus, besides expanding the scope of the targets and objectives required for attaining its strategic goals, the Plan identifies implementation modes and the agencies responsible, as well as specifying how progress is to be measured; all of which make for better identification of responsibilities.

The Ministry of Economy and Planning will continue to develop implementation monitoring procedures and methods to ensure that agencies are committed to implementation of the policies designed to develop their activities and that targets are being achieved; thus effecting a qualitative advance in monitoring of implementation.

CHAPTER THREE

**LONG-TERM STRATEGY
FOR THE SAUDI ECONOMY**

3. LONG-TERM STRATEGY FOR THE SAUDI ECONOMY

3.1 INTRODUCTION

A major landmark on the socioeconomic development path of the Kingdom, the Eighth Development Plan is the first five-year plan prepared in the context of a long-term development strategy with definite targets and objectives; a strategy designed to provide a framework for four successive five-year plans until 2024, aimed at achieving a comprehensive socioeconomic vision by the end of the period.

The methodology of the Eighth Development Plan is different from that of previous plans, (including the Seventh, which also included long-term strategic directions), for, in contrast, it is based on a clearly articulated vision, sets out specific policies and programs, and specifies long-term targets to ensure effective follow-up and implementation. Adoption of a Long-Term Strategy (LTS) has been prompted by domestic, regional, and international challenges that require speedy completion of sustainable development work and dealing with the emerging challenges of providing productive employment to Saudi national manpower and improving the quality of life. At the external level, integrating the national economy with the regional and international economy and efficiently managing the various effects of globalization are the most prominent challenges. Articulating a comprehensive national vision determining the objectives of long-term strategy is of considerable importance for providing all segments of society with a focus for efforts to meet challenges and achieve desired goals.

3.2 STRATEGIC ISSUES AND CHALLENGES

The Long-term Strategy (LTS) for the Saudi economy comes at a time when the Kingdom is confronting several challenges.

3.2.1 Raising Standard of Living and Improving Quality of Life

Over a relatively short period of development, the Kingdom increased its real income several fold. Per-capita GDP in fixed prices reached about SR

43.3 thousand in 2004, having achieved an average annual rate of 0.87% during the period 1971–2004, despite a high population growth rate of 3.9%. This growth in income has been accompanied by significant improvement of all indices of human-resources development, leading to the Kingdom being currently classified as belonging to the upper stratum of middle-income countries. However, rising to the level of advanced countries during the next two decades (2005–2024) requires at least doubling per capita income of Saudi citizens and enhancing other indices of human-resources development, under circumstances of relatively high, though diminishing, rates of population growth.

Results of the latest Population and Housing Census of 2004 show a noticeable decrease in population growth rate during the intervening period between the last two censuses (1992–2004). Taking account of these results in preparing LTS projections demonstrates that doubling per capita GDP is achievable within 20 years. An equally important objective, however, is tackling poverty and guaranteeing that all social groups share in the benefits of growth and improvement of the quality of life; which is a priority for the Eighth Development Plan.

3.2.2 Achieving Sustainable Development

In view of the complex socio-economic factors involved, achieving sustainable development is a multi-dimensional challenge, the most significant dimensions of which are:

A. Diversification of Economic Base

Diversification of the economic base has been a key objective of economic and social development ever since the development planning system was initiated some thirty years ago. The Kingdom realized importance of decreasing dependence on oil resources that are likely to be depleted in the long run and that are subject to the volatility of international energy markets. Development plans have, therefore, consistently focused on developing and enhancing the role of non-oil sectors in the national economy. As a result, contribution of non-oil sectors has grown in value at an average annual rate of 5.5%, with its share in GDP growing from 51% to 73.5% during the same period. This was reflected in the structure of commodity exports, with non-oil exports growing at an average annual rate of 24.8% against 10.8% for crude oil exports and contribution of non-oil

exports to total commodity exports reaching 11.8% by the end of the period.

Nevertheless, increasing production activities, high-value-added services and contribution to exports by the non-oil sector remains a key challenge to development. Strength and size of this sector and its ability to grow will in the long run determine progress and growth prospects of the national economy.

B. Role of Oil Revenues

Oil revenues played a vital role in economic development in the past decades. Expansion and diversification of the economic base notwithstanding, these revenues still represent the largest share of the State budget. Non-oil revenues could not cope with the expansion of the economic base, leading to increased dependence on oil revenues for general investment and operational expenditures of the State budget. However, revenue from oil resources, which are non-renewable by nature, should best be invested in renewable assets that would contribute to diversifying the economic base and achieving sustainable development. It is, therefore, essential for non-oil public revenues to be enhanced, so that oil revenues may be gradually transformed into productive assets and effective human capital.

C. Development and Productive Employment of Human Resources

Availability of qualified, highly efficient productive national manpower is a sine qua non for achieving sustainable development. Human-resources indicators of the Kingdom point to the remarkable progress achieved during the last two decades through expansion of education and training capacities in all regions. However, requirements of the development process exceeded supply of suitable national manpower in many areas; necessitating recruitment of foreign labor, which has, in turn, made Saudization of the workforce a continuing challenge.

Employment in the public sector is now approaching saturation amidst signs that growing incompatibility between outputs of the education and training system and requirements of development is leading to structural unemployment among Saudis. The various economic and social aspects of this mismatch should be addressed in the short, medium and long terms.

D. Sustainability of Natural Resources

The Kingdom has rich natural resources, such as water, forests, farmlands, and fishing resources along the Red Sea and the Arabian Gulf. However, given the large area of the Kingdom, the rapid growth of population and the requirements of economic and social development, these resources remain relatively limited.

Sustainability of water resources is a vital issue. The largest share of water used for agricultural, municipal and industrial purposes comes from non-renewable underground sources. Regardless of how large the volume of water remaining in these sources is, requirements of sustainable development call for full reliance on conventional and non-conventional renewable water sources, while maintaining a strategic stock of non-renewable water.

Conservation and prevention of further deterioration of agricultural land and desertification are key challenges to sustainable development, as are conservation and development of forests and conservation of a clean environment.

E. Balanced Regional Development

Due care has been exercised in providing infrastructure and public services to all regions, achieving very high coverage rates. There are, however, disparities in economic activity that have encouraged internal migration from rural to urban areas. The consequent immense increase in city populations and the huge geographic expansion of the cities has put their services and facilities under substantial pressure. Restoring regional balance is, therefore, one of the major challenges to sustainable development, calling for stimulation of economic activity in the least developed regions, with due consideration to their particular characteristics and comparative advantages.

3.2.3 Enhancement of Competitiveness

Integrating the national economy into the activities of economic globalization requires that its comparative advantages complement those of other states and blocs of the global economic system. Within a relatively short period, the Kingdom has succeeded in acquiring a distinguished economic status, based on economic advantage in energy and

petrochemicals and some other activities. However, this advantage rests upon abundance of both energy and financial resources. Acquisition of new sources of competitive advantage such as increasing and diversifying exports and, in view of accelerating globalization, to enhancing integration into the global economy, constitutes, therefore, one of the major development challenge. Rising to this challenge requires establishing a strong science and technology base, with all the requisite human, material and institutional elements, in addition to identifying the areas of advantage to concentrate on and a clear strategy and comprehensive plan to attain the set goals. Also essential is enhancing efficiency of utilization of available economic resources to raise productivity in support of the competitive advantage accruing from abundance of both energy and financial resources.

3.2.4 Regional and Arab Integration

The last few decades witnessed remarkable progress in economic cooperation, both in the Gulf and the wider Arab region, with the Kingdom playing a crucial role. In the coming stage, the Kingdom will have to continue watching international developments and trends closely, so as to adopt the best approach to creating constructive and effective interaction with all states of the world, within a framework of increasing integration at the Gulf, Arab and international levels.

3.3 SUPPORTING FACTORS FOR CONFRONTING CHALLENGES AND ACHIEVING STRATEGIC GOALS

Dealing with the above-mentioned issues and challenges involved in achieving the long-term strategic goals and objectives requires availability of appropriate manpower and financial, organizational and technical capabilities. Moreover, executive agencies and other community institutions should be committed to the aims and objectives of the Long-Term Strategy. In this respect, the Kingdom starts from good initial conditions; namely, off a solid economic and social base, diversified and efficient human capacities, and rich natural resource endowments. The most important supporting factors for achieving the objectives of the Long-Term Strategy are:

A. Successful Development Experience

Despite recency of economic and social development, the Kingdom has made notable achievements, reflected in all sustainable development indicators. These achievements have been made possible by setting of correct economic growth priorities throughout the successive seven development plans. Each such plan was based on current conditions, while ensuring continuity of the development effort and concentrating on human development sectors, such as education, healthcare, and family care, and on the infrastructure, in order to transform available resources into effective productive capacities that contribute efficiently to realizing long-term strategic objectives.

B. Advanced Infrastructure and Services

All regions of the Kingdom are covered by advanced facilities for transportation, electricity, water, sanitation, and a distribution network for oil products, as well as by varied health, education, training and social services.

C. A Unique Experience in Promoting Comprehensive Development

The Kingdom built two industrial cities at Jubail and Yanbu in record time. The two cities, with their 218 establishments employing more than 85,000 workers, have attained a distinguished status in production of petrochemicals, both regionally and internationally, with the Kingdom currently meeting around 7.6% of world demand for petrochemicals.

D. An Active and Entrepreneurial Private Sector

The private sector enjoys a high degree of dynamism, contributing 54.6% of the GDP in 2004 with activities covering all available fields. Financial and administration capabilities of the sector have been enhanced, as it moved from high dependence on government contracts and public expenditure to self-propulsion, becoming a major partner in the development process. The private sector was quick to participate in the newly privatized projects and its role is expected to grow rapidly as privatization proceeds further.

E. Abundant Material Resources

The Kingdom has substantial resources that would allow it to meet the requirements of the development process and continue to invest in the national economy should an improved investment climate persist. Indeed,

the oil resources and huge reserves of the Kingdom are capable of meeting all foreseeable future needs of development. The Saudi economy also enjoys many other positive factors, bolstered by the recent measures aimed at improving the investment climate.

F. Institutional and Organizational Environment

Institutional and administrative reforms and developments undertaken during the Seventh Development Plan period have contributed to rationalizing the public administration and enhancing its capabilities, as well as to developing the regulatory environment for supporting economic restructuring and providing an attractive environment for business and investment. Many government procedures have been streamlined, and the process is expected to continue at a fast pace during the coming years, creating a solid base for the implementation of the Long-Term Strategy.

G. Geographical Characteristics

The Kingdom occupies a strategic position, with its sea ports linking the three continents of Asia, Africa and Europe. It thus has great potential in providing transit services by air, sea and land, as well as for re-export of goods and commodities; all of which increase available development options.

H. Demographic Characteristics

The relatively high population growth rate, coupled with the young-age structure of the Saudi population, has significant implications for development, creating challenges for education and training. However, if these challenges are confronted successfully, the demographic characteristics of the Kingdom should become a source of strength and positive advantage, contributing to the achievement of the goals and objectives of the strategy.

3.4 INITIAL PATHS OF THE LONG-TERM STRATEGY

The paths described below are based on the initial results of process of preparation of the Long-Term Strategy (LTS); their details, though not their general direction and broad outlines, will, therefore, be subject to modification. The LTS, which is expected to be issued during 2005, covers the period of 20 years from 2005 to 2024, integrating four successive five-year plans, from the Eighth Development Plan 2005–2009 to the Eleventh Development Plan 2020–2024.

3.4.1 Long-Term Population Forecasts

Population in the Kingdom (Saudi and non-Saudi) is forecast to grow at an average annual rate of 0.87% during the period of the strategy, to reach 29.86 million in 2024, of whom 4 million will be non-Saudi; see Table 3.1. These forecasts suggest a reduction in the growth rate of the Saudi population from an average annual rate of 2.4% during the Eighth Development Plan to an average annual rate of 2.1% during the Eleventh Development Plan period; leading to an average annual rate of 2.25% for the whole period of the strategy.

The population structure of Saudis is expected to change appreciably during the period, as the working age category of 15–64 years will grow by an average rate of about 2.8% during the term of the strategy. As a result, the net dependency rate of Saudis will decrease from about 4.7 persons in 2004 to about 2.2 persons in 2024.

As can be seen from Table 3.1, the growth rate in the age group 65 years and above will be the highest at 4.9% during the period of the strategy. The number of the people in this group will thus increase approximately three folds, resulting in more health and social-care expenditure for them.

Table 3.1
Population Growth Projections during the Long-term Strategy Period

	Population (Million)					Average annual growth rate (%) 2004–2024
	2004	2009	2014	2019	2024	
Total population	22.67	24.39	26.52	28.26	29.86	0.87
Saudis	16.53	18.57	20.86	23.32	25.81	2.25
Non-Saudis	6.14	5.82*	5.66	4.94	4.05	-1.38
Net dependency Rate of Saudis**	4.67	3.91	3.12	2.60	2.18	--

* MEP estimates which take into consideration decrease in foreign-labor force due to Saudization.

** Net dependency rate = No. of Saudi population/ No. of Saudis employed.

Source: Central Department of Statistics and Ministry of Economy and Planning estimates

3.4.2 Vision of the Future of Saudi Economy

The Long-Term Strategy is inspired by a vision of the future, formulated through extensive studies and specialist workshops to represent the aspirations of both Saudi citizens and leadership, in a process that was set in motion by a Royal instruction to the Ministry of Economy and Planning (MEP). The studies, to which most of government agencies, private sector institutions, and national and international experts contributed, addressed all pertinent issues, and the process culminated with a symposium organized by MEP in 2002, in which several political, economic and academic prominent figures from within the Kingdom and abroad participated.

The vision of the future of the Saudi economy may be summarized as follows:

"By the will of Allah, by 2024, the Saudi economy will be a developed, thriving and prosperous economy based on sustainable foundations. It will extend rewarding work opportunities to all citizens, will have a high-quality education and training system, excellent health care for all, and will provide all the necessary services to ensure the welfare of all citizen, while safeguarding social and religious values and preserving the national heritage."

* **GDP and Per Capita Income**

The Long-Term Strategy aims at raising the national economy to the level of advanced economies. Hence, per capita income is expected to double at 1999 constant prices, from about SR 43,300 by the end of 2004 to SR 98,500 by the end of 2024 (Figure 3.1); i.e., at an annual growth rate of 4.2% during the period of the strategy (Table 3.2).

Given the expected population growth rate, the required average annual growth rate in GDP to achieve the target is 6.6% during the period of the strategy, rising from 4.6% during the first quarter of the strategy to 8.7% during the last quarter.

Figure 3.1
Growth of Per Capita Income at 1999 Constant Prices



Table 3.2
GDP and Per Capita Income 2004–2024 at 1999 Constant Prices*

Years	GDP (SR billion)	Per capita income SR (000)
2004	714.9	43.25
2009	895.2	48.2
2014	1189.1	57.0
2019	1674.7	71.8
2024	2542.5	98.5
Average annual growth rate (%)		
2005–2009	4.6	2.2
2010–2014	5.8	3.5
2015–2019	7.1	4.8
2020–2024	8.7	6.4
2005–2024	6.6	4.2

* Objectives and forecasts will be reviewed and updated at the beginning of each development plan.

Source: *Macroeconomic Projections, Ministry of Economy and Planning.*

* ***GDP by Expenditure Items***

Development and diversification of the economic base require enhancing public and private investments to make them the main source of economic growth throughout the period of the strategy. As indicated in Table 3.3, investment expenditure is expected to grow at an average annual rate of

9.3% during the period (at 1999 constant prices), compared with only 5.3% for consumption expenditure. The share of investment expenditure in GDP is expected thus to grow from 20.5% to 33.9%, while the share of consumption expenditure decreases from 69.6% to 55.1% (Figure 3.2).

It is worth noting that growth in investment expenditure will mostly come from private investments, which are expected to grow at an annual rate of 10.3% for the period of the strategy, compared to about 4.0% for public investment. Contribution of private investment to GDP will thus increase from 15.4% to 30.7% during the period, while that of public investment will decrease from 3% to 1.8%.

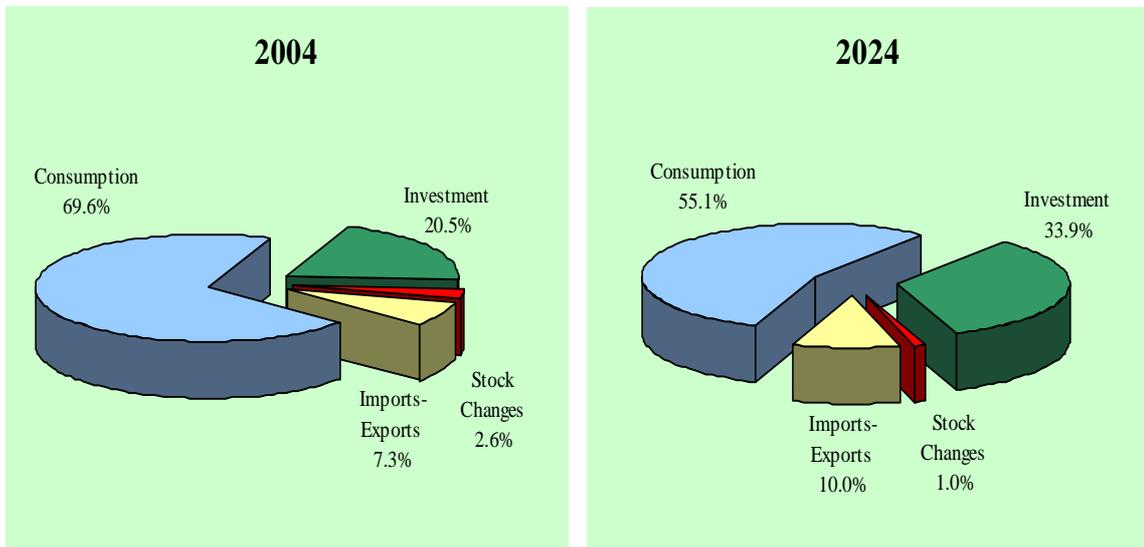
Table 3.3
GDP by Expenditure Items at 1999 Constant Prices*

Items	SR Billion					Average annual growth rate (%) 2005–2024
	2004	2009	2014	2019	2024	
Consumption	497.39	585.78	734.53	989.38	1400.21	5.3
• Public	200.04	231.9	281.06	348.53	466.41	4.3
• Private	297.35	353.88	453.47	640.85	933.80	6.0
Investment	146.61	243.93	332.76	475.44	863.29	9.3
• Public	21.18	24.77	30.51	37.59	46.31	4.0
• Private	110.27	181.24	283.54	412.99	780.93	10.3
Agriculture	3.82	7.06	7.8	7.8	7.79	3.6
Industry	56.42	90.96	128.73	219.05	342.58	9.4
Services	50.03	83.22	147.01	186.14	430.56	11.4
• Oil Sector	15.16	37.92	18.71	24.86	36.05	4.4
Changes in stocks	18.69	22.72	23.88	25.10	26.38	1.7
Exports	252.34	293.02	415.91	574.50	802.49	6.0
• Oil & Gas	181.04	192.67	229.99	260.22	294.41	2.5
• Others	52.22	73.48	148.37	261.61	430.69	11.1
• Services	19.09	26.77	37.55	52.67	77.39	7.3
Imports (–)	200.14	250.27	318.03	389.68	549.83	5.2
GDP	714.9	895.17	1189.05	1674.74	2542.54	6.6

* Approximate data.

Source: *Macroeconomic Projections, Ministry of Economy and Planning*

Figure 3.2
Structure of GDP Expenditure
at 1999 Constant Prices



The envisaged investment flow during the period will contribute effectively to increasing total exports at an average annual growth rate of 6.0%, to represent about 31.6% of GDP by the end of 2024, compared to 35.3% at the end of 2004. This will allow an increase in imports to provide the tools and equipment needed for expanding the productive base.

Higher income levels will enhance demand for imported goods and services. Imports are thus expected to grow at an average annual rate of 5.2% to reach 21.6% of GDP by the end of the period, compared to 27.9% at the end of 2004, reflecting continued improvement of the balance of payments until the end of 2024.

Decrease in the share of both imports and exports in GDP in 2024, compared to 2004, is attributable to the expected growth in GDP during the strategy period at a rate higher than the rate of growth of both exports and imports.

Table 3.4 shows the expected impact of economic diversification on the structure of exports. These will shift considerably to "other exports", such as those of manufacturing industries, petrochemicals, oil refining, mining and other non-oil exports, whose share will increase from 20.7% at the end of 2004 to about 53.7% by the end of 2024.

Table 3.4
Exports Structure at Beginning and End of Strategy Period
at 1999 Constant Prices

	2004		2024	
	Value (SR Billion)	%	Value (SR Billion)	%
Oil and Gas Exports	181.04	71.7	294.41	36.7
Others Exports*	52.22	20.7	430.69	53.7
Services Exports	19.09	7.6	77.39	9.6
Total Exports	252.35	100	802.49	100

* Including, petrochemicals, oil refining, mining and other manufacturing industries and agriculture.

Source: Macroeconomic Projections, Ministry of Economy and Planning.

Share of oil and gas in total exports will decrease from 71.7% to 36.7% between 2004 and 2024, as "other exports" are expected to grow at an average annual rate of 11.1% during the period, compared to a growth rate of 2.5% for oil and gas, largely determined by global oil markets. Exports of services are expected to grow at an average annual rate of 7.3% during the period, with their share in exports increasing from 7.6% in 2004 to about 9.6% at the end of the period.

These trends will assist to a great extent in enhancing the role of non-oil revenues in financing the development process. The gap between imports and non-oil exports is expected to narrow from SR 128.8 billion at the end of 2004 to about SR 41.8 billion by the end of 2024.

Achieving the envisaged growth rates and structure of exports by 2024 reflects the challenges of development and promotion of the competitiveness of the national economy, at a time when its linkages with the international economic system are expected to increase.

* ***GDP By Sectoral Contributions***

The sectoral distribution shown in Table 3.5 reflects the hoped for role of non-oil sectors in achieving diversification of the economic base and sustainable development. This is, however, contingent upon the quality of growth rather than its magnitude, i.e. on the structural development of the economy to enhance the role of non-oil productive and services sectors

that possess competitive advantages. Thus, the strategy aims at developing the productive non-oil sectors at an average annual rate of 7.1% during the next two decades, with their share in GDP increasing from 24.9% in 2004 to 27.4 in 2024.

In harmony with the objectives of diversifying the economic base and utilizing the comparative advantages of the national economy, the industrial sector is expected to play a vital role, growing at an average annual rate of 7.8% during the period, with its share in GDP increasing from 19.6% to 24.9% between 2004 and 2024.

Table 3.5
Development of Real GDP at 1999 Constant Prices

	SR Billion					Average annual growth rate during the period * (%)
	2004	2009	2014	2019	2024	
Non-oil Productive Sectors	178.25	234.22	322.25	445.15	696.02	7.1
Agriculture and Forestry	38.01	44.4	50.32	56.51	62.81	2.5
Industry**	140.24	189.82	271.93	388.64	633.21	7.8
Services Sector***	195.91	258.49	409.02	652.04	1066.16	8.8
Private Sector****	374.16	492.71	731.27	1097.19	1762.18	8.1
Public Sector	135.06	162.89	180.91	224.34	300.22	4.1
Oil Sector	196.7	225.05	262.49	335.60	455.28	4.3
Import duties	8.98	14.52	14.38	17.61	24.86	5.2
GDP	714.9	895.17	1189.05	1674.74	2542.54	6.6

* Approximate ratio.

** Including petrochemicals, oil refining, and other industries, building and construction, electricity, and mining.

*** Including trade, transport, banking services, insurance, real estate and community services; excluding banking services charges.

**** Excluding banking services charges.

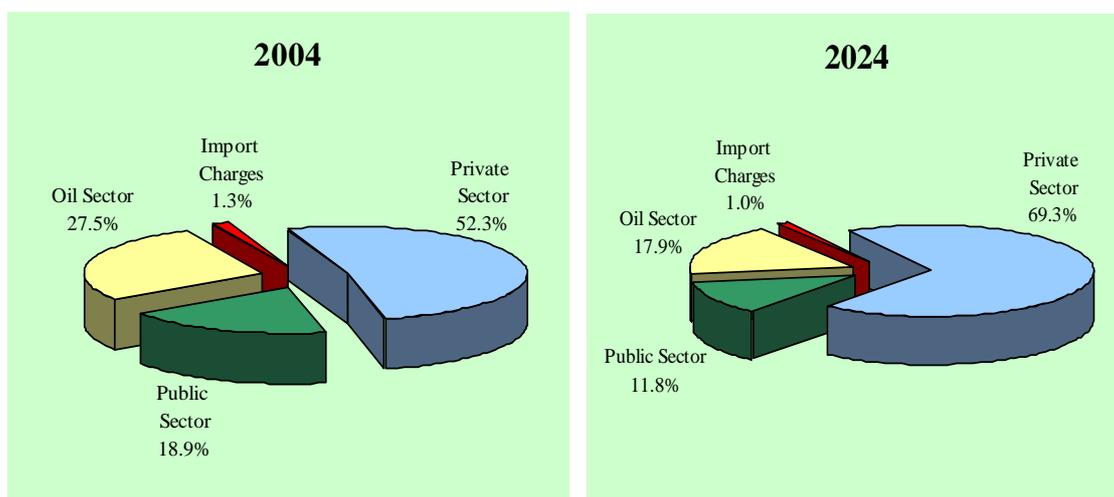
Source: Ministry of Economy and Planning, Economic Models.

The services sector is expected to play a leading role in economic diversification during the period, taking advantage of the opportunities offered by advances in communications and information technology, as the innovative skills of the scientific cadres are upgraded and enhanced. In addition, the tourist sector is expected to improve and the favorable geographic position of the Kingdom utilized to provide services enhancing international trade and capital flows through international markets. The

LTS expects the services sector to achieve an average annual growth rate of 8.8%, with its share of GDP increasing gradually from 27.4% at the beginning of the period to about 41.9% by 2024.

The oil sector is expected to grow at an average annual rate of 4.3% during the period, while its share in GDP is expected to decrease from 27.5% to 17.9%. The non-oil sector will represent 82.1% of GDP by the end of the period, growing from about 72.5% at the beginning, as shown in Figure 3.3. This reflects the increasing role of the private sector in GDP, which will grow from 52.3% in 2004 to about 69.3% in 2024, at an average annual growth rate of 8.1% , compared with 4.1% for the public sector.

Figure 3.3
GDP Structure at 1999 Constant Prices



*** Savings and Investment Balance**

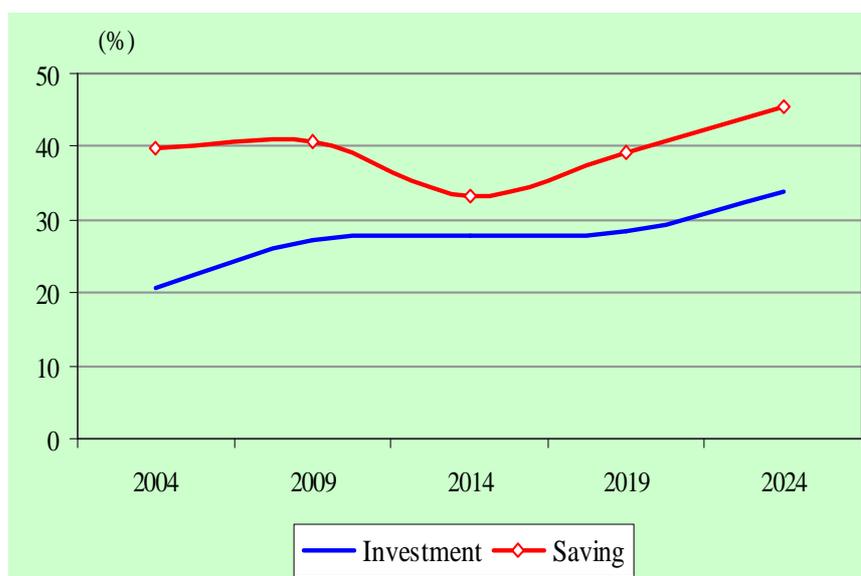
Investment required to implement the Long-Term Strategy is estimated at approximately SR 8321 billion at 1999 constant prices, from both public and private savings. With implementation of saving incentives during the period, as well as increasing public sector savings, it would be possible to finance the required investment. Table 3.6 envisages an increase in the ratio of saving to GDP at constant prices from 39.8% at the beginning of the period to about 45.6% by its end, compared to an increase of the total investment ratio from 20.5% to 33.9%. Thus, a surplus in the balance of saving and investment of 11.6% of GDP is expected to be realized in 2024, compared to a surplus of 19.3% in 2004 (Figure 3.4). These savings could be invested in expanding the absorptive capacity of the national economy and improving the investment environment.

Table 3.6
Ratios of Savings and Investment Balance to GDP
at 1999 Constant Prices (%)

	2004	2009	2014	2019	2024
Saving	39.83	40.82	33.29	39.22	45.58
– Private	26.14	33.3	28.08	32.33	37.15
– Public	13.69	7.52	5.21	6.89	8.43
Investment	20.51	27.25	27.99	28.39	33.95
Balance	19.32	13.57	5.30	10.83	11.63

Source: Macroeconomic Projections, MOEP.

Figure 3.4
Ratio of Investment and Savings to GDP at 1999 Constant Prices



*** *Manpower and Employment***

The size of the labor force has been determined using the rate of national labor participation and the estimated size of the population of working age. Participation rate is expected to increase from 36.9% in 2004 to 56.3% in 2024. In line with the policy of reducing the size of foreign labor and reducing unemployment, it is expected that measures aimed at increasing the supply of national labor will continue. In view of the high rate of participation of males, compared to females, in the national labor force,

increasing total labor supply requires raising participation of women, by providing more job opportunities, from 10.3% to 30.0% during the period. This would make it possible to reduce the foreign labor force by an average annual rate of 2.0% during the period, as well as provide opportunities for Saudization and for gradual reduction of unemployment rates (Table 3.7).

Total manpower is expected to grow at an average annual rate of 2.8% , from 8.55 million workers in 2004 to about 15 million workers in 2024, with the national workforce increasing from 3.5 to 11.8 million workers, at an average annual rate of 6.2%, and the foreign workforce decreasing from about 4.7 to 3.2 million workers, at an average annual rate 2% (Table 3.7).

Table 3.7
Indicators of Manpower and Employment

Indicators	(000s)					Average Annual Growth Rate 2004–2024
	2004	2009	2014	2019	(2024)	
Total manpower	8549.74	9360.21	11128.66	12813.54	15004.94	2.8
Total Saudi manpower	3804.19	4885.96	6757.04	8984.45	11850.18	5.9
Total employment	8281.84	9221.30	11028.67	12763.54	15004.94	3.0
Foreign employment	4745.55	4474.25	4371.62	3829.09	3154.76	-2.0
National employment	3536.29	4747.05	6657.04	8934.45	11850.18	6.2
Number of unemployed	267.90	138.91	100	50	0	—
Total participation rate of Saudi manpower (%)	36.9	39.2	45.3	50.4	56.3	—
Participation rate of Saudi male manpower (%)	63.8	64.5	70.0	75.0	80.0	—
Participation rate of Saudi female manpower (%)	10.27	14.16	19.52	26.90	30.0	—
Saudi unemployment rate (%)	7.04	2.84	1.48	0.56	0.0	—
Saudization rate (%) *	42.7	51.5	60.4	70.00	79.0	—

* Overall employment = Total manpower – Number of unemployed.

Source: CDS, Macroeconomic Projects, MEP

These estimates depend on an assumed increase of national workforce participation from about 36.9% to 56.3% during the period, consisting of an increase from around 63.8% to 80.0% for males and from 10.3% to 30% for females.

The labor force estimates are also based on the potential demand by various economic sectors, in accordance with achieving full employment by 2024, which would entail providing more job opportunities for the national workforce, especially in the services sector, whose estimated share of total manpower is expected to reach about 37.9% by the end of the period, and in industry which is expected to absorb 44.3% of total national manpower.

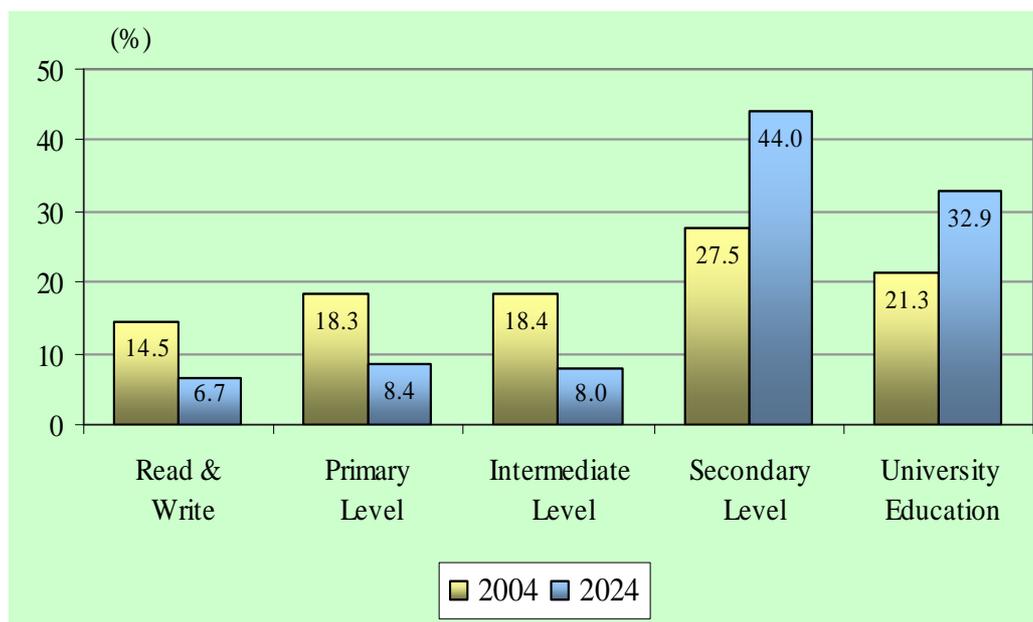
As regards distribution of national labor force by level of educational attainment, both the nature and scope of the envisaged economic development require high degrees of skill and specialization. Number of university graduates is thus expected to grow at an average annual rate of 8.2% during the period, with their share in total labor force increasing from 21.3% to 32.9%. Similarly, number of secondary-school graduates is expected to grow at an average annual rate of 8.4%, with their share in total labor force increasing from 27.5% to 44.0% (Table 3.8.) In contrast, number of intermediate-school graduates will decrease, while number of primary-school graduates and those without qualifications will increase slightly. However, shares of the last three groups in total labor force are expected to decrease, as economic activities require labor with higher skills and better qualifications (Figure 3.5).

Table 3.8
Saudi Workforce by Level of Education

Description	Saudi Workforces (000)					Average Annual Growth Rate 2004–2024
	2004	2009	2014	2019	2024	
Total Saudi Manpower	3804.19	4885.96	6757.04	8984.45	11850.18	5.9
– Without qualifications	551.61	547.23	628.4	700.79	793.96	1.8
– Primary education	696.17	684.03	783.82	880.48	995.42	1.8
– Intermediate education	699.97	1035.82	1283.84	1338.68	948.01	1.5
– Secondary education	1046.15	1114.00	1891.97	3135.57	5214.08	8.4
– University education	810.29	1504.88	2169.01	2928.93	3898.71	8.2

Source: Macroeconomic Projections, MOEP.

Figure 3.5
Development of National Workforce Structure by Level of education



3.4.3 Towards Improving Quality of Life

The Long-Term Strategy addresses dimensions other than the economic, in the belief that human development encompasses social and cultural dimensions as well. Within such framework, a composite quality-of-life indicator has been devised to cover all relevant aspects, including human development indicators, the millennium development goals that cover among other things health, education, income distribution, and environment, and other indicators specific to the Kingdom. Thus, the composite indicator comprises 11 indicators that are themselves composite indicators, each composed of sub-indicators that number 40 in total. The composite indicators cover income and distribution, transport and communications, health, education, housing, environment, family life, public safety, and recreation and leisure. Values of these indicators and their expected development during the period of the strategy are being worked out.

3.4.4 Development of Scientific, Technological and Knowledge Capacities

Three major themes are currently being developed to address development

of the scientific and technological base, as well as human resources. The process involves identifying long-term and transitional objectives, as well as the required material, institutional and organizational inputs, and developing implementation policies, programs, and follow-up indicators.

3.5 LONG-TERM STRATEGY AND THE EIGHTH DEVELOPMENT PLAN

Since the Eighth Development Plan is the first stage of the Long-Term Strategy (LTS) for developing the Saudi economy, all policies, mechanisms, programs, and projects are consistent with that strategy. As more work on the LTS is being done, any mismatch will be addressed in the annual follow-up of the plan, as well as in the five-year review which will be conducted simultaneously with the preparation of future development plans. Review of the macro and sectoral growth rates will be conducted periodically to adjust the strategy, if necessary.

CHAPTER FOUR

**THE NATIONAL ECONOMY
UNDER THE
EIGHTH DEVELOPMENT PLAN**

4. THE NATIONAL ECONOMY UNDER THE EIGHTH DEVELOPMENT PLAN

4.1 OBJECTIVES AND POLICIES OF THE EIGHTH DEVELOPMENT PLAN

Over the past three decades, the Kingdom has given increasing attention to implementation of a long-term economic development strategy founded on: acceleration of economic growth and balanced distribution of its fruits, development of human resources, and diversification of the economic base and the sources of national income to provide revenues besides those derived from crude oil exports; all with the aim of financing government spending (on operations and investment), providing public services, building infrastructure projects and financing the growing imports. This was accompanied by the increasing role of the private sector in the economy, which is reflected in its rising contribution to production, investment, employment and exports.

The growth targets of the Eighth Development Plan have been set as to reflect the goals of the Kingdom's long-term economic development strategy, which include: improvement of the standard of living, development of human resources, diversification of the economic base, and raising productivity of the economy.

The most important objectives and policies of the Plan are in summary:

- a) Increasing economic growth rates.
- b) Increasing employment growth rates.
- c) Increasing contribution of the private sector to economic growth and national income.
- d) Diversifying the economic base.
- e) Improving the balance of payments.
- f) Realizing a high degree of economic balance and price stability.
- g) Realizing balanced development in all regions of the Kingdom.

4.2 MAJOR ECONOMIC AND SOCIAL OBJECTIVES

Together with enhancement of economic growth, employment, and exports and diversification of economic activities, the objectives of the Eighth Development Plan include caring for the poor social groups, provision of basic health and education services, and a balanced distribution of benefits of development among all regions of the Kingdom. In addition, recognizing regional and international economic developments, the Plan aims at strengthening economic integration among GCC states, along with enhancing Arab economic cooperation and accelerating the process of integration into the world economy.

Table 4.1 shows the main macroeconomic indicators and targets under the Eighth Development Plan compared with achievements of the Seventh Development Plan. The macro-economic projections were developed with due consideration to the internal and external variables that have direct or indirect impact on the goals of the Eighth Development Plan.

4.2.1 Increasing Economic Growth

In the coming five years (2005–2009), the Eighth Development Plan aims at increasing real GDP from about SR 714.9 billion in 2004 to around SR 895.2 billion in 2009, i.e., at an average annual growth rate of about 4.6% at 1999 constant prices, which will translate into an increase in per capita income at current prices from SR 43.25 thousand in 2004 to around SR 48.2 thousand in 2009. Such growth would be in line with the goal of improving the standard of living of the Saudi citizens.

The Plan also envisages that in 2009, the share of the non-oil sector in GDP would have increased to around 75.7%, compared with around 73.5% in 2004, at 1999 constant prices. These indicators reflect an expected positive development in performance of the national economy and a rise in per capita GDP when compared with the targets of the Seventh Development Plan and with what had actually been achieved in that time.

Estimation of the rate of economic growth was made in light of the long-term objectives the Saudi economy, and after taking into consideration the potential increases in investment by both the private and the public sectors, as well as the resulting increase in production capacities. The potential impact of governmental measures to support productivity improvement in all sectors was also taken into consideration.

Table 4.1
Macroeconomic Indicators of the Eighth Development Plan
Compared with the Seventh Development Plan

Indicators	7 th Development Plan (actual) 2000–2004	8 th Development Plan (targeted) 2005–2009
(%)		
A) <u>Growth rates: (annual average)</u>		
* Real GDP (1)	٣.٤٤	٤.٦
– Oil sector (2)	٢.٥٩	٢.٧٣
– Non-oil sector	٣.٩٣	٥.٢١
• Private sector	٤.٢٨	٥.٦٨
• Government sector	٢.٩٥	٣.٨٢
* Gross fixed capital formation	٤.٤	١٠.٧٢
– Oil sector	١٦.٩٢	٢٠.١٢
– Non-oil private sector	٢.٣٢	١٠.٤٥
– Government sector	١٠.٣٣	٣.١٨
* Goods and services exports	٣.٧٢	٣.٠٣
* Goods and services imports	٧.٣٢	٤.٥٧
B) <u>As Share of GDP at Current Prices (3)</u>		
* Gross savings	٣٩.٨	٤٠.٨
* State budget balance	٩.٤	١.٤
* Current account balance	٢١.٨	١٨.٠٢
C) <u>Unemployment and Inflation Rates</u>		
* Inflation rate (4)	- ٠.٦٠	٠.٦٠
* Unemployment rate (5)	7.04	٢.٨٤
– Males	٥.٦٣	٢.٤٢
– Females	١٥.٨٦	٤.٣٥

Notes:

- (1) At constant 1999 prices.
- (2) Crude oil, natural gas and petroleum refining products.
- (3) By the end of the Plan.
- (4) Average annual growth of consumer prices.
- (5) Exclusive to Saudi labor force, as a percentage of total by end of the Seventh and Eighth Plans.

Source: Macroeconomic Projections, Ministry of Economy and Planning.

In determining the rate of growth, the anticipated increase in production was closely associated with the objective of diversification of economic activities and national income sources. Thus, the sectors nominated for leading growth are those that would make the greatest contribution to diversification.

Investments

To achieve the objective of higher economic growth, the Plan endeavors to

increase government and private-sector investment, as well as encourage investment by foreign capital.

It is expected that the total value of investment (gross fixed capital formation) would grow from around SR 146.6 billion in 2004 to SR 243.9 billion in 2009 at constant 1999 prices, i.e., at an average annual growth rate of 10.7%. Such growth would raise the share of investment in GDP from 20.5% in 2004 to 27.3% in 2009. Since financing this increase requires mobilization of more national savings, the Plan aims to raise the ratio of savings to GDP from about 39.8% in 2004 to about 40.8% in 2009.

While government agencies would make the planned investments, attaining the projected private sector investments remains contingent upon that sector responding positively to the prevailing economic conditions. The Plan envisages that implementation of planned economic policies and streamlining of the administrative procedures related to investment would help motivate the private sector to make investments up to the targeted levels; especially that opportunities for productive investment are available in all economic sectors, such as the petrochemical industries, mining, petroleum refining, manufacturing industries, building materials production, water desalination and transmission, waste-water reclamation, and commercial activities. Moreover, determination by the State to accelerate implementation of the privatization policy and allowing direct private investment in natural gas exploration, prospection, production and marketing should improve investment levels over the period of the Plan.

Private-Sector Investment

One of the major objectives of the Eighth Development Plan is to increase the volume of private-sector investment. Private investment in fixed assets is envisaged to increase from around SR 110.3 billion in 2004 to about SR 181.2 billion in 2009, at constant 1999 prices; i.e., at an average annual growth rate of 10.4%. Private-sector contribution to total expected investment (gross fixed capital formation) is projected to reach about 74.3% in 2009 to constitute around 20.2% of GDP.

Government Investment

The government aims to implement a number of vital projects during the period of the Plan, in addition to meeting the replacement and maintenance requirements of existing projects, in an effort to diversify the economic base and enhance capacity in public health, education and social services. Government investment in fixed assets is expected to increase at an

average annual rate of 3.2%, with the value of government investment rising from around SR 21.2 billion in 2004 to about SR 24.8 billion in 2009, to amount then to about 10.2% of the total expected investments and about 2.8% of the value of GDP.

Investment (gross fixed capital formation) in the crude oil and natural gas sector is envisaged to be 15.5% of the total expected investment in 2009, i.e., 4.2% of the real GDP. Some investments in this sector would be allocated to maintaining production capacities and crude oil reserves, while others would be allocated to building pipelines, export facilities and treatment plants, in addition to enlarging the tanker fleet and the development of gas reserves, along with expansion of natural gas production and distribution capacities.

4.2.2 Increasing Employment Opportunities and Reducing Unemployment

With the projected economic growth rates, implementation of the policies designed to increase investment by the private sector and diversify its activities, implementation of educational and training policies aimed at improving skills as a basic factor of human development, and giving priority in employment to the national labor force, it is envisaged that 1.21 million new job opportunities would be created during the period of the Plan. Of these, it is projected that new Saudi entrants to the labor market would take 1.08 million, i.e., about 89.3% of the total, while the remaining jobs would absorb 48.2% of existing unemployment.

This would be a major achievement, as the rate of unemployment among Saudis would drop down from 7.04% in 2004 to 2.84% in 2009. The Plan aims at reducing the rate of unemployment among Saudi males from 5.63% to 2.42% of the total male labor force, and reducing unemployment among females from 15.86% to 4.35% of the total female labor force. It is expected that policies to encourage women to enter work would increase women employment and participation in economic activity. When this vital objective is attained, one of the major economic challenges involved in improving living standards would have been diminished considerably.

4.2.3 Providing Care for Poor and Needy Families

The Eighth Development Plan pays special attention to providing care to the poor and needy families. The fourth strategic pillar of the Plan stipulates: "Taking care for the needy groups of citizens and paying

attention to the management and reduction of poverty through concentrating on economic policies and programs that lead to increasing rates of economic growth and attaining balanced development of the regions of the Kingdom.”

As in other societies, addressing poverty and improving standards of living remains, in the first place, the responsibility of the government. Since radical solutions hinge on succeeding in creating a climate conducive to increasing production, investment and employment, the Plan aims at increasing health, educational and housing facilities and other services, particularly in the less developed regions of the Kingdom. In addition, the Plan lays emphasis on expanding and strengthening the social protection network, while encouraging private investment in the least developed regions through granting incentives, providing land for investors, and establishing industrial cities. Furthermore, achieving this objective is closely associated with providing training and improving the skills of needy social groups within the framework of the human-development programs and policies set out in the Plan.

4.2.4 Diversification of Economic Activities and Sources of National Income

To ensure accord between the objective of increasing the volume of production and the major long-term strategic objective of increasing diversification of economic activities and sources of national income, the Plan aims at increasing the contribution of non-oil sectors to GDP. The value added generated by these sectors is expected to increase from around SR 525.3 billion in 2004 to about SR 677.2 billion in 2009 at constant 1999 prices, which is equivalent to the contribution of these sectors to GDP increasing from 73.5% in 2004 to about 75.7% in 2009. Contribution of the private sector is estimated to rise from about SR 390.2 billion in 2004 to approximately SR 514.3 billion in 2009 at constant 1999 prices, which is equivalent to an average annual rate of increase of 5.7% over the period of the Plan. In contrast, contribution of the public sector to GDP is envisaged to increase from around SR 135.1 billion in 2004 to about SR 162.9 billion in 2009 at constant prices of 1999, i.e. at an average annual rate of 3.8%.

Value added by the crude oil and natural gas sector is projected to increase from approximately SR 196.7 billion in 2004 to around SR 225 billion in 2009 at constant 1999 prices. Thus, this vital sector would grow at an

average annual rate of 2.7% over the duration of the Plan.

Comparisons among economic indicators and the rates at which the various economic sectors contributed to the GDP over the past five years, the trend towards economic diversification and increased reliance on the activities of the private sector in all branches of the economy becomes evident, Table 4.2.

Table 4.2
GDP by Activity
Constant 1999 prices

Category	Value SR Million			Average Annual Growth Rate (%)		% of GDP *		
	1999	2004	2009	Actual 7DP	Targeted 8DP	1999	2004	2009
A) Non-oil sectors	433,193	525,267	677,239	3,9	5,2	71,8	73,5	75,7
1. Productive Sectors	147,318	178,250	234,214	3,9	5,6	24,4	24,9	26,2
1.1 Agriculture, Forests, Fishing	34,443	38,005	44,399	2,0	3,2	5,7	5,3	5,0
1.2 Non-oil Mining, Quarrying	2,464	2,723	3,982	2,0	7,9	0,4	0,4	0,4
1.3 Manufacturing Industries	62,800	79,476	107,206	4,8	6,2	10,4	11,1	12,0
1.3.1 Oil Refining	18,021	20,508	25,443	2,6	4,4	3,0	2,9	2,8
1.3.2 Petrochemicals	6,000	7,352	10,446	4,1	7,3	1,0	1,0	1,2
1.3.3 Other Manufacturing Industries	38,779	51,616	71,317	5,9	6,7	6,4	7,2	8,0
1.4 Electricity, Gas, Water	8,174	11,085	13,589	6,3	4,2	1,4	1,6	1,5
1.5 Building and Construction	39,437	46,961	65,038	3,6	6,7	6,5	6,6	7,3
2. Private-Services Sectors	169,086	211,953	280,133	4,6	5,7	28,0	29,6	31,3
2.1 Trade, Restaurants, Hotels	45,992	57,299	73,980	4,5	5,2	7,6	8,0	8,3
2.2 Transport, Communications	27,893	36,674	52,727	5,6	7,5	4,6	5,1	5,9
2.3 Financial and Insurance, Business, Real Estate Services	73,824	90,724	121,103	4,2	5,9	12,2	12,7	13,5
2.3.1 Real Estate	42,221	48,822	64,872	2,9	5,8	7,0	6,8	7,2
2.3.2 Financial, Insurance, and Business services	31,603	41,902	56,231	5,8	6,1	5,2	5,9	6,3
2.4 Community and Personal Services	21,377	27,256	32,323	5,0	3,5	3,5	3,8	3,6
3. Government Services	116,789	135,064	162,892	3,0	3,8	19,3	18,9	18,2
B) Crude Oil, Natural Gas Sector	173,102	196,696	225,049	2,6	2,7	28,6	27,5	25,1
Other Items (1)	-2,706	-7,063	-7,122	21,2	0,2	-0,4	-1,0	-0,8
GDP	603,589	714,900	895,166	3,4	4,6	100,0	100,0	100,0

(1) Import duties less bank service charges.

* Percentages given to the nearest decimal.

Source: Macroeconomic Projections, Ministry of Economy and Planning.

4.2.5 Expansion and Development of Public Services (Health, Education, Housing and the Environment)

Public health services underwent remarkable development in the past two decades, as reflected in a number of significant indicators such as the drop in mortality rate among children below five years of age, from 85 to 22 deaths per thousand births, and the drop in the infant mortality rate from 65 to 18 deaths per thousand births, and the increase of average life expectancy from 61 to 71.9 years.

Under the Eighth Development Plan, public health services are envisaged to continue improving. The number of hospitals would increase from 194 in 2003 to 248 in 2009. Correspondingly, the number of hospital beds would rise from 28,522 in 2003 to 34,722 in 2009 while the number of health emergency centers would increase from 206 in 2003 to 356 in 2009. The Plan also foresees a substantial improvement in maternal and child healthcare indicators, with an increase in the rate of immunization of children against major diseases and an improvement in communicable diseases combat indicators.

The Plan endeavors to improve general education in terms of volume and quality, as well as in relation to meeting labor market requirements and developing the creative capabilities of the students. The Plan also envisages increasing demand for general education, further progress in reducing illiteracy and a rise in the number of kindergarten pupils.

In social services, the Plan foresees continued care for the disabled, orphans, the elderly and the juveniles, in addition to providing social care services to local communities, with family care continuing to have special significance. Civil society would be encouraged to provide social care services, while the state retains responsibility for monitoring, supervision and support.

As for drinking water and wastewater, the Plan estimates that there would be need for around 738,000 household water connections and 23,000 kilometers of water networks, in addition to 1.98 million wastewater connections and 42,000 kilometers of wastewater networks.

The Plan estimates that in the five-year period, the Kingdom would need to build about one million housing units, and envisages a significant increase

in housing provision for needy families, as well as in private ownership of such housing.

Work to conserve wild and marine life would continue, along with efforts to preserve the environmental balance and bio-diversity and conserve natural resources. Air pollution would be reduced, disposal of household, medical and industrial wastes would be improved, and building wastewater networks and treatment plants would continue.

4.2.6 Emphasis on Regional Development

The Plan envisages improving the balance of socioeconomic and urban development among all regions of the Kingdom, along with improving distribution of benefits of development. This objective would be achieved through identifying the geographic regions that are in need of further development, selecting locations of government developmental projects to favor improving the balance of regional development, encouraging the private sector to establish economic projects in the regions, expanding municipal, rural and housing services, and promoting decentralization. It is worth noting that regional development complements the objective of fighting poverty and providing care to poor segments of society.

4.2.7 Increasing Productivity and Improving Competitiveness

It is necessary for the Kingdom to enhance its economic growth through investment in continued expansion of production capacities. It is equally important, however, to strive to increase productivity of all factors of production and achieve optimum utilization of domestic natural resources. Increasing productivity is more important at a time when national economies are being increasingly integrated into the global economy as a result of increased flow of goods, services, trade and capital across national boundaries.

The Plan recognizes the importance of benefiting from modern technology and advanced training for increasing productivity of the Saudi labor force (at all levels), and improving quality of Saudi manufactured products and increasing their competitiveness in domestic, regional and international markets. Rational utilization of resources and efficient production improve economic growth in general, and enhance private-sector capabilities in

particular. The Plan has, therefore, given priority to consolidating government efforts aimed at accelerating and promoting training and skills-building programs, improving administration and organization techniques, increasing utilization of information and communications technology in all sectors, encouraging research and development and innovation, and effectively helping private-sector establishments to develop their technological research and development capabilities through providing the necessary infrastructure and support facilities.

4.2.8 Export Promotion

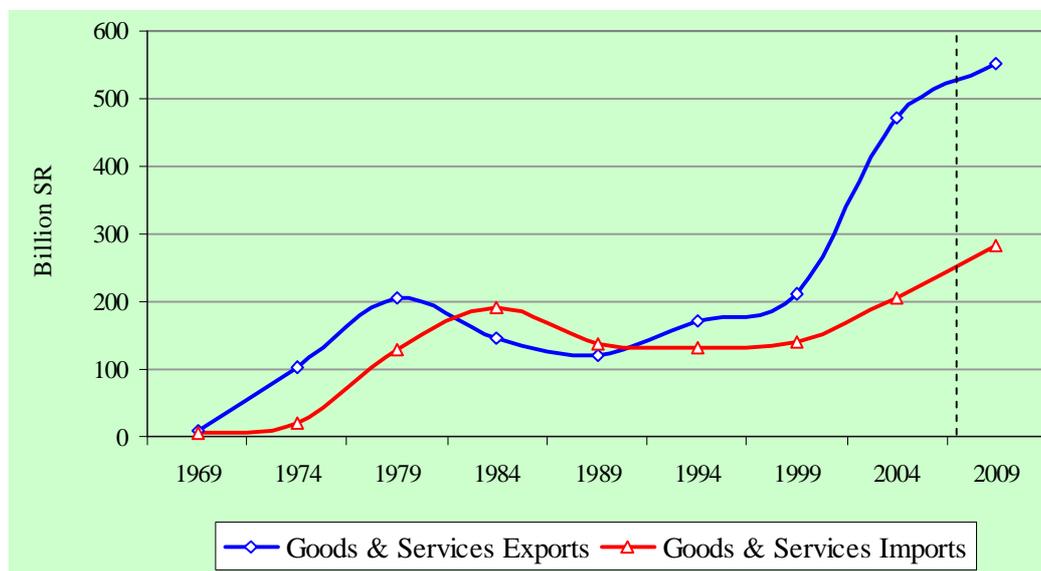
Global economic and technological developments render increasing the economic efficiency production and investment at all levels is a vital necessity. Thus, improving the quality of goods and services produced by the Saudi private sector and public companies is essential for increasing exports and improving competitiveness in foreign markets. Moreover, increasing non-oil exports is necessary for diversifying the economic base.

The Plan foresees an increase in the value of total exports of crude oil from around SR 368.8 billion in 2004 to about SR 398.5 billion in 2009, i.e. at an annual growth rate of 1.56%. Expected total oil exports would at current prices constitute 34.9% of the value of the GDP in 2009, compared with 39.7% in 2004. In comparison, the value of non-oil exports of goods and services is expected to rise from approximately SR 102.18 billion in 2004 to about SR 153.8 billion in 2009, i.e., a total increase of 50.5%.

4.2.9 Balance of Payments

The Plan expects attaining a surplus in the balance of trade (Figure 4.1). In addition, it also envisages that the government would continue taking measures to improve the overall balance of payments position. This would encourage Saudi businessmen to bring back capital operating overseas to invest in the Kingdom, encourage flow of foreign investment into the country, and somewhat reduce financial transfers by expatriates through encouraging them to invest in domestic enterprises, as well as through speeding up of replacement of foreign labor by national manpower. The plan envisages that continuing government efforts to improve efficiency of shipping, transportation, insurance, and port services, as well as an increase in foreign currency revenues from tourism, would contribute to improving the balance of payments position.

Figure 4.1
Imports and Exports of Goods and Services
at Current Prices



4.2.10 Enhancing Integration with GCC States and the World Economy

Since the beginning of the 1990s, the world has undergone rapid radical economic, political and technological developments that have changed conditions of development in most countries, including Arab countries. Evidently, such developments may negatively impact economic efforts if they are not adapted to adequately.

These developments confirm importance of closer integration with other GCC states. The Plan envisages building on past GCC achievements, such as the uniform customs tariff regime, and completing the negotiations with the European Union (EU) to reach agreement on the free trade area between the two parties. The Plan also anticipates that efforts would continue to develop a common mechanism for coordinating policies and standards to attain monetary union in 2010.

At the global level, the forthcoming accession of the Kingdom to the World Trade Organization (WTO) will necessitate raising the economic efficiency of the private sector and require improving quality of goods and services to levels that would enable them to compete in domestic, regional and global markets.

4.3 ECONOMIC POLICIES

In a market economy, carefully articulated and implemented government policies are still necessary for guiding economic activity within the framework of the adopted development strategy, as well as for helping the economy deal with unexpected and adverse economic developments.

The Plan emphasizes the importance of integrating the functions of macroeconomic policy and the importance of structural economic reform in strengthening market mechanisms and encouraging the private sector to increase its contribution to economic growth and employment. It, furthermore, stresses importance of government investment in infrastructure projects to improve the economic climate in general and the investment climate in particular, in order to increase economic growth rates, create job opportunities, and improve standards of living. Moreover, the Plan envisages that government agencies and the private sector would pay greater attention to the details of economic policies and procedures, in an effort to improve the economic environment. Government agencies are also expected to continue building their administrative capacities in the service of economic activity.

4.3.1 Macroeconomic Policies

As in other countries, the economic function of the State covers regulating the general economic equilibrium through macroeconomic policies. The Plan underscores these policies and specifies their tasks and tools with sufficient clarity to ensure effectiveness.

The Plan adopts financial and monetary policies aimed at maintaining the average annual rate of price inflation within 0.6% during the coming five years. It is also expected that the foreign exchange rate of the Saudi Riyal would continue to be stable in support of economic stability.

Public Finance

The Plan anticipates further growth of public expenditure, but that it would be rationalized and restructured to meet efficiently and effectively requirements of economic and social development against the background of high population growth rates. Financing public expenditure would increasingly depend on real financing sources from oil and non-oil

revenues. While oil revenues would still be the largest source of budget financing, potential fluctuations in oil revenues, due to unforeseeable changes in the oil markets, call for financial policies and measures that would ride out such fluctuations without making urgent cuts in government expenditures and without borrowing from internal financial sources. The Plan, therefore, proposes that the following be considered:

- Establishing a government fund (financial stabilization mechanism) to ensure stability of the annual budget revenues despite fluctuations of oil prices in international markets. A share of the annual income of the treasury would be allocated to the Fund.
- Transferring a constant share of oil revenues for investment in the physical, social and environmental infrastructure and income-generating assets.
- Increasing the share of non-oil revenues in financing public expenditure.
- Limiting government consumption and increasing investment in public developmental projects.
- Restricting borrowing to finance government investments.
- Expediting implementation of the privatization policy in order to alleviate the financial burden on the State budget.

Public Debt

In view of anticipated increases in oil revenues, it is expected that annual budgets would have a surplus in the coming five years. Nonetheless, financial policy is faced with the task of reducing the level of public debt, which is still high compared to GDP. The plan envisages reducing public debt to acceptable levels through repayment, as well as through controlling annual budget expenditures, increasing government revenues, and implementing the mechanisms necessary for attaining financial stability in the long term.

Monetary Policy

Monetary policy plays an important role in managing domestic liquidity, keeping it at the levels required to run economic activity. The Saudi Arabian Monetary Agency (SAMA) seeks to maintain equilibrium between money supply and demand to prevent emergence of inflationary trends, and is expected to continue to do so.

As the Seventh Development Plan had done, the Eighth would ensure the continued success of monetary policy in ensuring stability of the foreign exchange rate of the Saudi Riyal.

Investment Policy

In light of the Kingdom's economic and social development objectives there is increased need for investment in various economic activities. The Plan seeks to promote an appropriate investment climate for both the Saudi and the foreign private sectors, in addition to increasing government investment in vital development projects.

The Plan also envisages increasing the ratio of government investment expenditure to total public revenues, to ensure satisfying the increasing need for economic (physical), social, and environmental, to meet population growth, improve quality of public services, and motivate economic and investment activity.

4.3.2 Structural Economic Developments

For some years now, efforts have been made to study and implement a number of structural economic development measures, designed to improve effectiveness of market mechanisms and enhance the role played by the private sector in economic growth and employment. The Kingdom has successfully legislated for a high degree of freedom of economic action, by both the national and the foreign private sectors, in all areas of commerce, investment and production. Several modernization programs have been implemented; the most significant of which applied to the administrative system, the taxation system, the banking system, the stock market, and privatization. However, maximizing the benefits of these programs hinges on successful administrative implementation, as well as on easing administrative constraints and routine, in order to facilitate investment activity.

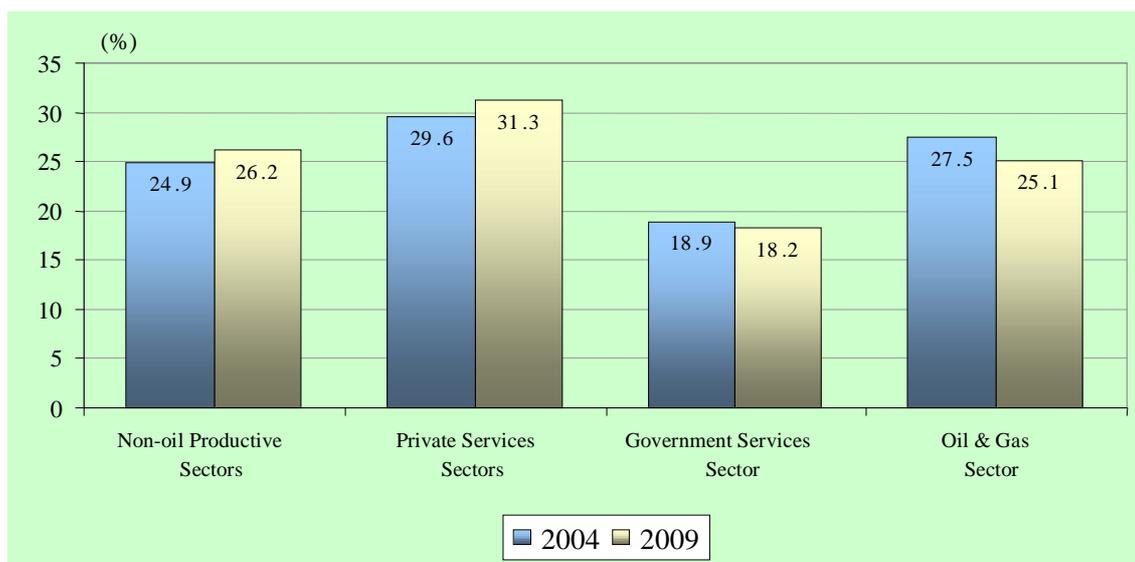
The Plan seeks to continue with implementation of the policies of structural economic development, taking into consideration the particular characteristics of the Saudi economy, as well as the objectives of the economic and social development strategy.

4.4 SECTORAL OBJECTIVES AND POLICIES

Economic growth involves continued expansion of production, investment, consumption, financing and commerce. Activities in the various productive sectors represent the supply side in the equation of macroeconomic equilibrium, while demand is represented by investment, consumption, and the net balance of foreign trade.

Targeting sectoral growth rates is necessarily based on developing a certain proportional share of the activities of various sectors, in such a manner as to achieve higher economic growth and larger employment, in addition to ensuring a high degree of stability and sustainability of development.

Figure 4.2
Real GDP Structure
Eighth Development Plan



The development strategy of the Eighth Plan has taken these considerations into account when estimating the growth objectives of the various economic sectors and the required policies to achieve them. Thus, it is envisaged that under the Plan, non-oil sectors would grow at a real annual growth rate of 5.2% at constant 1999 prices, compared to the real annual growth rate of 3.9% attained under the Seventh Plan. Hence, the share of these sectors in GDP would increase from 73.5% in 2004 to around 75.7% in 2009. This expected positive development would

constitute a continuation of a trend, since that share was around 71.8% in 1999, as shown in Table (4.2).

4.4.1 Agriculture, Forests and Fishing

During the Eighth Development Plan's period, Agriculture, Forests and Fishing sector would have a real annual growth rate of 3.2% at constant 1999 prices. Nonetheless, its contribution to GDP is expected to decrease from 5.3% in 2004 to 5% in 2009.

Agriculture accounts for about 86.5% of the overall water consumption. The Plan foresees adoption of an integrated strategy for the administration, development and rationalization of water utilization in agriculture, based on adopting crop patterns that need lower water requirements; utilizing modern techniques, such as drip-feed irrigation and greenhouses; and development of new water resources. There would also be significant changes in government regulation and support policies related to pricing and subsidies, designed to improve productivity.

4.4.2 Mining and Quarrying

Contribution of the non-oil mining and quarrying sector to GDP is foreseen to remain the lowest in comparison with other sectors; estimated to be only 0.4% in 2004. This sector would, however, be the fastest growing of all economic sectors; expected to attain an average annual growth rate of 7.9% at constant 1999 prices.

The sector provides the building and construction industry with various materials, as well as providing metallic and mineral ores for manufacturing industries and export. The Saudi Mining Company (Maa'den) is currently planning to develop, in the northern region, one of the world's largest phosphate reserves, in partnership with foreign investors. The company is also undertaking exploration for minerals such as gold, zinc, magnesite, bauxite and colane in several locations.

With the issuance of the new mining law, efforts to attract private domestic and foreign investors to exploit the abundant resources in this sector would be intensified.

4.4.3 Petroleum Refining

It is foreseen that the value added of oil refining would grow at a real average annual rate of 4.4% ; while its contribution to GDP would reach 2.8% in 2009, compared with 2.9% in 2004. The anticipated production increase is the result of planned investments to step up the capacities of existing refineries. Development of Riyadh refinery into an integrated complex for refinery products and petrochemicals is the major investment in this field. The Plan expects establishment of new refineries for export purposes, with the participation of the private sector.

4.4.4 Petrochemicals

The petrochemicals industry plays a significant role in attaining the objective of diversification of the economy and generating new sources of national income. Under the Plan, it is expected to achieve a substantial increase in value added, at a real average annual growth of about 7.3%. Consequently, its share of GDP would increase from 1% in 2004 to 1.2% in 2009.

Private investment in this sector is envisaged to lead to diversification of petrochemical products and production of more feedstock for plastic and other downstream industries. Work is currently underway on several major projects, with SABIC expanding its current operations and establishing new production facilities at Yanbu and Jubail. Moreover, several other companies are currently expanding their existing plants, in addition to building new ones.

4.4.5 Other Manufacturing Industries

Manufacturing industries (excluding oil refining and petrochemicals) have achieved substantial development. Over the coming five years, the value added by these industries would grow at a real average annual rate of about 6.7%, with their contribution to GDP thus rising from 7.2% in 2004 to around 8% in 2009. This foreseen growth reflects the huge potential of this sector, which should enable it to play a significant role in the diversification of economic activities, in providing employment opportunities, and in satisfying a share of domestic demand for imported products.

4.4.6 Electricity, Gas and Water

Demand for electricity and water is anticipated to increase due to population growth and current expansion of production capacities. This sector is expected to grow at a real average annual rate of 4.2%, with its contribution to GDP reaching around 1.5% in 2009.

Data from 2002 indicate that households consume 49.5% of total electricity production, followed by the industrial sector at 23.5%, the government sector at 11.2%, the commercial sector at 10.1%, the agricultural sector at 2% , and all other sectors at 3.7%.

The Ministry of Water and Electricity is currently developing a comprehensive National Water Plan. Investment opportunities are now open to the private sector in water transmission, construction of desalination plants, and reclamation and re-use of wastewater. There has been massive expansion in production of desalinated water, making the Kingdom the largest producer of desalinated water in the world. Currently, twenty-two electricity and water production projects are being assessed. Moreover, several water transmission networks would be completed and work is currently underway on a water transmission project (Riyadh–Sudair-Al Washam–Qassim) through pipelines. With these projects implemented, the total length of water pipelines would be over 4,000 kilometers. In addition, a number of projects for re-use of reclaimed wastewater would be implemented.

4.4.7 Building and Construction

Performance of the building and construction sector is strongly linked to the overall volume of expected investments. The value added of the sector is anticipated to increase at an average annual rate of 6.7%, with its share in GDP thus increasing from 6.6% in 2004 to around 7.3% in 2009.

This sector is important, for it is the primary base for investments in buildings, roads, water and wastewater networks, and other construction works. The plan envisages implementation of new housing models and new building techniques, as well as the emergence of competitive and specialized small and medium-size companies.

4.4.8 Trade, Restaurants and Hotels

The Plan foresees an increase of 5.2% in the value added of this sector in the coming five years, which would increase its contribution to GDP from 8% in 2004 to 8.3% in 2009. The activities of the sector would need to meet both population growth and the increase in consumer purchasing power. The tourism sector, particularly domestic tourism, has recently undergone noticeable growth and is likely to continue to grow. Moreover, tourist sites are being developed, which would serve to support this sector and enhance its growth.

Moreover, the Plan envisages that in addition to the increasing number of small and medium size enterprises, large high-capital commercial companies would be formed, enabling commerce to perform an increasingly important role in increasing production, enhancing productivity and providing job opportunities.

4.4.9 Transport and Communications

This sector is expected to undergo steady growth, with its value added rising at an average annual rate of 7.5%, thus increasing its share in GDP from 5.1% in 2004 to 5.9% in 2009. This expected development would satisfy the increasing needs for transportation and communications due to increasing economic activity and the rise of living standards. The Plan also envisages several new expansions and investments.

Work on a number of major roads would be completed, adding to the existing roads network of 49,500 kilometers. The railway network is also expected to undergo expansion through building a new railway to link the phosphate and bauxite mines in the Northern part of the Kingdom with Jubail port on the Gulf coast, in addition to building a railway linking Dammam with Jubail, and expansion of the existing East–West line between Riyadh and Dammam to reach Jeddah (the land bridge). A new line will also be built to link Mekkah with Medina through Jeddah. Both the (minerals line and land bridge) possess a huge potential for stimulating economic growth and providing new employment opportunities in sectors related to transport.

Given the extensive area of the Kingdom, air transport is of immense importance. Attempts are being made to increase competition in this sector

and studies are being conducted to privatize the Saudi Arabian Airlines Corporation (SAUDIA), which currently transports 50% of the passengers to and from the Kingdom. The project for developing King Abdul Aziz airport at Jeddah will also be implemented.

Current capacity of the Kingdom's sea ports is adequate for dealing with the volume of handled goods. However, Jeddah Islamic Port requires expansion. The Plan anticipates increased participation of the private sector in the management of ports and more streamlining of procedures, in order to bring Saudi ports up to the level of competitor regional ports.

Freedom of competition in the communications sector has been enhanced with partial liberalization of mobile-telephone services by the end of 2004, which will be followed by liberalization of fixed line telephone services in 2006. A communications and information technology organization has been established to regulate the sector. A license was granted to a second operator of mobile telephone services, and the Saudi Telecom Company has been partially privatized.

4.4.10 Real Estate

Real-estate activity is expected to increase at an average annual rate of 5.8%, which would increase its contribution to GDP from 6.8% in 2004 to 7.2% in 2009. This reflects the expected population growth and the increase in private investment in buildings and housing. Repatriation of private capital in recent years has had a positive impact on activity in the real-estate market.

4.4.11 Finance, Insurance and Business Services

This sector consists of private banking services (financial intermediation), insurance services, mortgages, and trade in stocks. The value added of these activities is expected to increase at an average annual rate of 6.1%, which would increase their contribution to GDP from 5.9% in 2004 to 6.3% in 2009.

To consolidate development of this sector, a new stock market regulation was issued in 2003, which is expected to lead to further growth of the market and entry of new financial companies into it. These developments would provide the private sector with new opportunities in capital

expenditure finance and lead to further diversification of the capital market. More companies and major business institutions are expected to become joint-stock companies, providing dealers with more options.

Regulation of the insurance sector to provide a regulatory framework for operating domestic and foreign insurance companies would also contribute to opening the sector to foreign investors. Current expectations indicate that there is a large unexploited potential in this sector.

4.4.12 Community and Personal Services

This sector includes public services related to public hygiene and sanitation; and entertainment, cultural and sports activities; in addition to healthcare, educational and social services provided by the private sector. The sector also includes household labor; and hence has a sizeable share of total labor employment.

It is expected that the value added of this sector would increase at an average annual rate of 3.5%. However, its contribution to GDP would drop slightly from about 3.8% in 2004 to about 3.6% in 2009.

4.4.13 Crude Oil and Natural Gas

The crude oil and natural gas sector has been performing a major strategic role in the economic and social development of the Kingdom. Exports are greatly and rapidly affected by volatility in global oil markets and unstable political conditions. Hence, projections of the Eighth Plan are based on cautious assumptions regarding development of global and domestic demand for crude oil and natural gas.

The plan projects a real annual growth rate of the sector of around 2.7% at constant 1999 prices. Nevertheless, contribution of the sector to GDP would drop from around 27.5% in 2004 to around 25.1% in 2009. This development has the advantage of increasing production on one hand, but gradually changing the role of the sector on the other.

An increase in the Kingdom's share of world oil production is expected in the short and medium terms. Most major oil exporting countries are producing at full capacity, which would allow the Kingdom to increase crude oil production in a stable manner, should its interests so dictate.

Recovery of the global economy, the increase in demand for oil, and the rise in its prices in the global market since 2003, are good reasons to expect an increase in oil revenues in the coming years, which would, in turn, increase the capacity to finance development projects and achieve financial surpluses in the trade balance. However, the potential renewed geo-political risks; imbalances in the major global economies, such as the massive current account deficit in the United States; the surpluses in the balance of trade of some emerging Asian economies; and the trend towards raising interest rates; all raise the possibility of a world economic slowdown leading to weakening world demand for oil.

Utilization of natural gas as a feedstock in industry is expected to rise, leading to an increase in its share in the domestic energy market. In addition to the gas separation plants built under the Seventh Development Plan, another large plant would be constructed under the Eighth Development Plan. Moreover, four large gas exploration projects will be implemented, with the participation of international oil companies, to increase natural gas production capacities. These massive investments are expected to lead to the production of natural gas growing at faster rates than crude oil production.

4.5 FINANCIAL REQUIREMENTS OF DEVELOPMENT SECTORS

Total funds required in the coming five years for financing development projects in the major sectors are estimated to be around SR 614.6 billion; i.e., 26.6% above the corresponding amount appropriated for the Seventh Development Plan (Table 4.3). Such a significant positive change underlines determination to achieve the objectives of the Eighth Plan and would make for major future economic progress^(*).

(*) This reflects the desire of the leadership of the country to support the overall direction and objectives of the plan. To improve quality of life and raise living standards, SR 60 billion have been earmarked, from the state budgets of 2004 and 2005, to fund additional projects that include: water, wastewater and storm-water projects; expressways; roads within and outside cities and villages; establishing primary healthcare centers in all regions; construction of more schools for male and female students to cater to growing needs; and expansion of the absorptive capacity of technical and vocational education. In addition, the ceiling of social security payment per family has been raised from SR 16,200 to 28,000 per year and SR 10 billion have been earmarked for low-cost housing.

Table 4.3
Financial Requirements of Development Sectors
in the Eighth Development Plan

Development Sector	SR Billion		Change (%)	% of total	
	Budget Allocation (7 th DP)	Planned (8 th DP)		Budget Allocation (7 th DP)	Planned (8 th DP)
Human Resources Development	٢٧٦.٩	٣٤٧.٦	٢٥.٥	٥٧.١	56.6
Social & Health Development	٩٢.٦	١١٦.٥	٢٥.٨	١٩.١	١٩.٥
Economic Resources Development	٥٤.٤	٧١.٥	٣٥.٥	١١.٢	١١.٥
Transport & Communications	٣١.٤	٣٩.٩	٢٧.١	٦.4	٦.٥
Municipal & Housing Services	٣٥.٥	٣٩.٦	32.0	٦.٢	٦.٤
Total Expenditure	٤٨٥.٣	٦١٤.٦	٢٦.٦	١٥٥.٥	١٥٥.٥

Source: Macroeconomic Projections, Ministry of Economy and Planning.

4.5.1 Government Financial Expenditures

(a) Development of Human Resources (Education, Science, Technology and Training)

In recognition of the importance of developing the capacities and skills of citizens and improving their ability to assume their responsibilities in society and economy, SR 347.6 billion have been allocated for expenditure on human resources development, which amounts to an increase of 25.5% above the actual allocation under the Seventh Development Plan. At around 56.6%, these funds have the largest share of total appropriations under the Eighth Plan.

Implementation of the envisaged programs and projects would raise manpower skills at all levels and in all fields of specialization, providing Saudi manpower with the means for participation in economic activity. In this context, it would be necessary to continue developing structures and outputs of educational institutions to match labor market needs.

(b) Development of Social and Health Services

Under the Eighth Plan, SR 116.5 billion would be spent on promoting health, social, cultural and informational services to meet increasing demand due to both population growth and improvement of living

standards. These funds amount to 19% of the total allotted for all development sectors and exceeds comparable expenditure under the Seventh Development Plan by 25.8%.

Development efforts in this sector have achieved evident success. For example, demographic indicators show a reduction in the fertility rate and a rise in life expectancy corresponding to trends in advanced countries, in addition to a reduction in the rate of infant mortality due to improved social conditions and health services. It is also expected that private- sector participation in meeting healthcare needs would increase.

(c) *Economic Resources Development (Agriculture, Water, Electricity, Petroleum, Gas, Minerals, Industry, General Economic Services)*

To continue efforts to develop these sectors, SR 71.0 billion would be allocated for expenditure on them under the Eighth Plan, which amounts to an increase of 30.5% above comparable expenditure under the Seventh. Accelerated privatization would provide many new options, while public-private partnerships would increase efficiency and improve performance of facilities targeted for privatization. In addition, privatization would create promising investment opportunities for national and international capital.

(d) *Transport and Communications*

The vast area of the Kingdom of Saudi Arabia necessitates providing land and air transport, railway lines, and fast communications to link citizens and facilitate economic activity throughout the country. SR 39.9 billion have been allocated for expenditure on developing these facilities under the Eighth Plan, which represents an increase of 27.1% over comparable expenditure under the Seventh.

These resources will be invested in maintaining and expanding existing infrastructure and providing efficient transport networks. Postal and communications services will also be improved in line with economic and technological developments.

Continuing with its recent policies, the Communications and Information Technology Commission (CITC) will continue to regulate liberalization of the communications market to introduce greater competition, in addition to supervising the communications systems.

(e) Development of Municipal and Housing Services

Development of municipal and housing services helps to address the problems arising from the disparities among the levels of development in various regions and contributes to alleviating poverty in the poorest. Hence, SR 39.6 billion have been allocated for expenditure on development of municipal and housing services in all parts of the Kingdom.

4.5.2 Government Financial Revenues

Under the Plan, it is anticipated that government financial revenues would amount to around SR 1,323.7 billion, with oil revenues about SR 978.1 billion. Expected government expenditure on development sectors is estimated at a total of SR 614.6 billion, of which SR 110 billion would be allocated for investment contributing expenditure and SR 504.6 billion for operational expenditure. Hence, budget surplus is expected to reach about SR 89.7 billion over the period of the Plan, which would contribute to reducing public debt, in addition to increasing investment in capital assets.

4.6 RESOURCES AND UTILIZATIONS

Theoretically, in a market economy characterized by free competition, the price mechanism guides direct economic decisions towards efficient mobilization and distribution of resources. In practice, however, since in most countries not all conditions for a free market exist, the state plays a crucial role in organizing the economy to ensure economic stability, expand production capacities and infrastructure, and stimulate economic activity. Hence, state intervention must be based upon thorough knowledge of how the national economy works, which, in turn, calls for analyzing the state of the economy and its major variables, and formulating effective economic policies capable of leading it to the set objectives.

Therefore, the Eighth Development Plan provides the statistical indicators necessary for macroeconomic analyses, as well as for helping comparison assessment and follow-up of economic development. This would also ensure the required consistency between available resources and various user in addition to explaining patterns of distribution of economic resources required for the targeted economic growth.

4.6.1 Available Resources

Gross Domestic Product (GDP)

The value of GDP (i.e., the aggregate values added generated by all economic sectors) is expected to rise from around SR 714.9 billion in 2004 to about SR 895.2 billion in 2009 at 1999 constant prices, which represents an average annual growth rate of 4.6%.

Imports

The value of imports of goods and services is anticipated to rise from about SR 200.1 billion in 2004 to around SR 250.3 billion in 2009 at constant 1999 prices, i.e., at an average annual rate of 4.6%. The ratio of the value of imports to GDP, which was 28% in 2004, is expected to remain the same in 2009.

4.6.2 Uses of Available Resources

Private Consumption

The value of private consumption is expected to increase from about SR 297.4 billion in 2004 to about SR 353.9 billion in 2009 at constant 1999 prices, i.e., at an average annual rate of 3.5%. Nonetheless, the contribution of private consumption to GDP will decrease from around 41.6% in 2004 to about 39.5% in 2009, signaling a trend in favor of investment and requirements of economic growth.

Government Consumption

Government consumption, mostly employee salaries and remuneration, is expected to increase from approximately SR 200 billion in 2004 to about SR 231.9 billion in 2009 at constant 1999 prices, i.e., at an average annual increase rate of 3.0%. However, the share of government consumption in GDP will fall from about 28% in 2004 to around 25.9% in 2009; again, signaling a trend in favor of investment and requirements of economic growth.

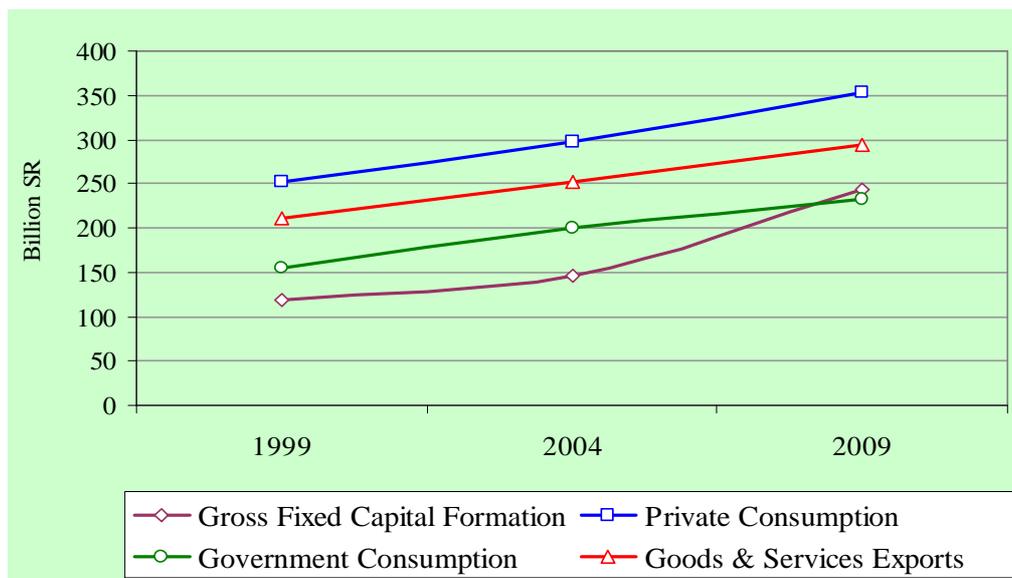
Table 4.4
Expenditure on GDP
Constant 1999 prices

Item	Value (SR Million)			Average Annual Growth Rate (%)		% of GDP		
	(1999)	2004)	2009	Actual in 7 th DP	Targeted in 8 th DP	1999	2004	2009
– Consumption	٤٠٦,٣١٠	٤٩٧,٣٩٢	٥٨٥,٧٧٨	٤.١	٣.٣	٦٧.٣	٦٩.٦	٦٥.٤
Private consumption	٢٥٢,٢١٦	٢٩٧,٣٥٢	٣٥٣,٨٧٧	٣.٣	٣.٥	٤١.٨	٤١.٦	٣٩.٥
Government Consumption	١٥٤,٠٩٥	٢٠٠,٠٤٠	٢٣١,٩٠١	٥.٤	٣.٠	٢٥.٥	٢٨.٠	٢٥.٩
– Gross Fixed Capital Formation	١١٨,١٩٦	١٤٦,٦١٤	٢٤٣,٩٢٥	٤.٤	١٠.٧	١٩.٦	٢٠.٥	٢٧.٣
Non-oil private sector	٩٨,٢٩٨	١١٠,٢٦٧	١٨١,٢٣٦	٢.٣	١٠.٤	١٦.٣	١٥.٤	٢٠.٣
Government sector	١٢,٩٥٨	٢١,١٨٤	٢٤,٧٦٩	١٠.٣	٣.٢	٢.١	٣.٠	٢.٨
Oil sector	٦,٩٤٠	١٥,١٦٣	٣٧,٩٢٠	١٦.٩	٢٠.١	١.٢	٢.١	٤.٢
– Change in Stock	٩,٤٢٢	١٨,٦٩٢	٢٢,٧٢٠	١٤.٧	٤.٠	١.٦	٢.٦	٢.٥
– Balance of Trade	٦٩,٦٦١	٥٢,٢٠٢	٤٢,٧٤٣	-٥.٦	-٣.٩	١١.٥	٧.٣	٤.٨
Goods & services exports	٢١٠,٢٣١	٢٥٢,٣٤٤	٢٩٣,٠١٧	٣.٧	٣.٠	٣٤.٨	٣٥.٣	٣٢.٧
Goods & services imports	١٤٠,٥٧٠	٢٠٠,١٤٢	٢٥٠,٢٧٤	٧.٣	٤.٦	٢٣.٣	٢٨.٠	٢٨.٠
GDP	٦٠٣,٥٨٩	٧١٤,٩٠٠	٨٩٥,١٦٦	٣.٤	٤.٦	١٠٠.٠	١٠٠.٠	١٠٠.٠

* Percentage approximated to the nearest decimal.

Source: *Macroeconomic Projections, Ministry of Economy and Planning.*

Figure 4.3
Development of Expenditure Items
Constant 1999 prices



Gross Fixed Capital Formation

The value of gross fixed capital formation is expected to grow from about SR 146.6 billion in 2004 to SR 243.9 billion in 2009 at constant prices of 1999, i.e., at an average annual rate of 10.7%. Thus, the contribution of gross fixed capital formation to GDP is expected to rise from about 20.5% in 2004 to about 27.3% in 2009. This anticipated development suits requirements of economic development.

Exports

The value of exports of goods and services is expected to increase from about SR 252.3 billion in 2004 to about SR 293 billion in 2009 at 1999 constant prices, i.e., at an average annual growth rate of 3%. However, their contribution to GDP will decrease from around 35.3% in 2004 to about 32.7% in 2009.

CHAPTER FIVE

**INSTITUTIONAL
AND ADMINISTRATIVE
DEVELOPMENT**

5. INSTITUTIONAL AND ADMINISTRATIVE DEVELOPMENT

5.1 INTRODUCTION

An efficient public administration is one of the important inputs of economic and social development and a pre-requisite for its sustainability.

The dynamic, ever changing requirements of development entail continuous institutional and administrative development. Hence, building effective responsive administrative and public institutions was the first step of modern economic and social development in the Kingdom and has been a major concern of successive development plans.

The process of institutional and administrative development gathered further momentum under the Seventh Development Plan, in response to the socioeconomic challenges posed by both internal developments and globalization. Under the Eighth, it would focus on enhancing the regulatory role of the State and providing institutional support to the private sector; in addition to continuing with administrative restructuring of government agencies and improving their efficiency, enhancing the socioeconomic effectiveness of current public and investment expenditure, and strengthening coordination among public administrative bodies.

This chapter addresses the most significant administrative and institutional developments under the Seventh Development Plan; reviews the major challenges to improving implementation, monitoring and evaluation of policies; and deals with the objectives, policies and implementation mechanisms under the Eighth Plan.

5.2 CURRENT CONDITIONS

5.2.1 General Framework of Institutional and Administrative Development

Under the Seventh Development Plan, institutional and administrative development achieved marked progress, with the full support of the country's leadership. In his speech on the occasion of the inauguration of

the third session of the Shura (Consultative) Council on 17/5/2003, the late Custodian of the Two Holy Mosques, King Fahd, emphasized importance of monitoring performance of government agencies, fighting administrative corruption and pressing ahead with implementation of administrative reforms, and stressed the crucial role of the Council in monitoring performance of government agencies and departments.

Earlier, Royal Decree 7/B/6629 of 31/8/1999 established a ministerial committee, chaired by H.R.H The Second Deputy Prime Minister and Minister of Defense and Aviation and Inspector General, entrusted with reviewing administrative structures of government agencies and institutions, improving performance of monitoring departments, reviewing the size of each government agency or administration in relation to its tasks, and promoting financial efficiency of government agencies and institutions (Box 5.1).

Box 5.1: The Ministerial Committee for Administrative Organization

The Ministerial Committee for Administrative Organization was formed by Royal Decree 7/B/6629 of 31/8/1999, under the chairmanship of HRH the Second Deputy Prime Minister and Minister of Defense and Aviation and Inspector General. A six-member Ministerial Sub-committee was then formed, under the chairmanship of H.E. the Minister of Civil Service, which carries out its tasks through a five-member Preparatory Committee headed by the Director General of the Institute of Public Administration.

Objectives of the Ministerial Committee include:

1. Developing and modernizing government apparatus.
2. Improving efficiency and effectiveness of government agencies.
3. Developing financial regulations and rationalizing cost of government work.
4. Developing personnel regulations and applying principles of meritocracy.
5. Privatizing government services that are open to privatization.
6. Administering some government activities on commercial basis.
7. Introducing computerized systems and administrative technologies intensively into government agencies.

These objectives would be achieved through investigating government bodies according to a comprehensive plan based on a detailed methodology for conducting field studies from a sectoral perspective by specialized teams.

Field studies have all been carried out. Some have been approved by the Council of Ministers, some have been submitted to the Ministerial Committee, and a few are still being considered by the Ministerial Sub-Committee and the Preparatory Committee.

The Ministerial Committee conducted comprehensive studies. The resulting recommendations submitted to the Custodian of the Two Holy Mosques have been approved.

5.2.2 Development of Economic Administration

The most important achievements under the Seventh Development Plan were:

- Establishment of the Supreme Economic Council which has been entrusted with, inter alia: formulating economic policies; coordinating work of government agencies related to the national economy; monitoring implementation of economic policies; studying development projects, monitoring reports, and financial policies; and other economic and financial tasks.
 - Restructuring the Supreme Petroleum Council and reviewing its tasks to include:
 - Determining and approving petroleum and gas policies and strategies.
 - Setting up the general policies of the Saudi Arabian Oil Company (Saudi ARAMCO).
 - Taking decisions on post-production investment.
 - Monitoring implementation of approved policies and strategies.
- Separation of water affairs from agriculture affairs and entrusting the former to the Ministry of Water and Electricity, subsequent to separation of electricity affairs from industry affairs and entrusting the latter to the Ministry of Commerce and Industry; all to promote efficiency of related sectoral policies.
- Separation of economic affairs from financial affairs and entrusting the former to the Ministry of Economy and Planning, in order to enhance management of both socioeconomic development and financial affairs.
- Creation of two separate ministries for labor affairs and social affairs, in recognition of the growing importance of both, and attaching the Manpower Council to the Ministry of labor.

5.2.3 DEVELOPMENT AND IMPROVEMENT OF PUBLIC SERVICES

In an effort to develop public services and improve their quality, encourage private domestic and foreign investments, and enhance competitiveness of national products, a number of regulatory and administrative arrangements were made under the Seventh Development Plan, the most important of which are:

- Creation of the Saudi General Investment Authority (SAGIA), tasked with encouraging domestic and foreign investment, streamlining and rationalizing investment procedures, and developing a competitive investment environment.
- Creation of the Supreme Commission for Tourism, tasked with developing tourism and to contributing to diversification of the economic base, through removing constraints on tourist activity, providing incentives to investors, and designing a media plan for encouraging and energizing tourism; all in collaboration with other competent agencies.
- Creation, as part of restructuring and privatizing the communications sector, of the Communications and Information Technology Authority, tasked with organizing the sector and introducing fair competition.
- Creation of the Electricity Services Regulating Authority, as part of current restructuring of the electricity sector, which is aimed at privatizing electricity facilities and introducing competition into power generation.
- Establishing the Capital Market Authority, tasked with organizing and developing financial markets.
- Creation of the Saudi Industrial Cities and Technology Zones Authority, tasked with implementing a strategy for developing industrial cities and to establishing rules and procedures for their establishment, development, maintenance and operation.
- Creation of the Food and Drugs Public Organization, tasked with reviewing and promoting food and drugs regulations, adopting policies and plans to ensure quality and safety of foodstuffs and drugs, developing monitoring mechanisms, and applying the national specifications and standards for production, distribution, importation and registration of drugs and medical equipment.

5.2.4 Development of Educational Administration

The following are some of the organizational steps taken within the framework of development of the education and training sector:

- Incorporating the General Presidency for Girls Education into the Ministry of Education, as per Council of Ministers Resolution A/2 of 24/3/2002.
- Bringing all education services provided by military and security agencies or public bodies under the Ministry of Education.
- Bringing the Deputy Ministry of Girls Colleges and the Deputy Ministry of Male Teachers under the Ministry of Higher Education.
- Establishing the Supreme Education Council to replace the Higher Education Council.

5.2.5 Other Developmental Steps

As part of administrative development and restructuring, the Ministry of Housing and Public Works was abolished and its tasks transferred to the Ministry of Municipal and Rural Affairs and other relevant government agencies. The Supreme Council for Arts and Letters, the Supreme Council for Youth and Sports, and the Supreme Council for Information were also abolished.

Furthermore, radio and television stations were brought under a public authority having an autonomous board of directors; and the Saudi Press Agency, the Posts General Directorate, and the Presidency of Civil Aviation were also made into public organizations.

5.3 ISSUES AND CHALLENGES

Analysis has revealed that institutional and administrative development have focused on the structure of public administration; addressing reorganization of administrative and institutional bodies and review of their main tasks to eliminate duplication and overlap of powers, and administrative separation of incompatible activities to enhance socioeconomic efficiency; as in separation of water from agriculture and electricity from industry. Certain other organizational aspects were also dealt with; mostly in relation to improving the investment environment,

and organizing services, particularly those targeted for privatization or those that fall within the scope of public-private partnership.

These notable achievements notwithstanding, attainment of long-term goals and objectives requires proceeding with the comprehensive review of administrative regulations, mechanisms and procedures, with particular emphasis on customer relationships; in addition to addressing performance measurement, evaluation and monitoring.

Thus, the key institutional and administrative development issues and challenges that should be resolved during the period of the Eighth Development Plan may be identified as follows:

5.3.1 Life Cycle Efficiency

Economic efficiency of investment depends on the volume and distribution of financial resources over the various economic sectors, as well as on the efficiency of investment projects throughout their lifecycle. Procedures and mechanisms governing government projects, during the three major stages of pre-contract, implementation, and post-implementation trial operation, are in need of review, to raise economic efficiency. The following requirements should, therefore, be met to ensure lifecycle efficiency:

- a) Ensuring that project feasibility studies are of high quality and address all relevant issues.
- b) Adopting technical and financial pre-qualification of contractors in line with the nature and requirements of the project.
- c) Ensuring the quality and clarity of project technical specifications and laying down the criteria and standards of performance expected of the project operation as a condition for final handover.
- d) Monitoring implementation effectively to ensure timely correction of faults and errors.
- e) Evaluating the implementation process upon project completion and documenting experiences for future reference.

5.3.2 Monitoring and Evaluation of Policies

Policy formulation involves conducting comprehensive analysis of both possible efficacy and socioeconomic feasibility. However, specifying measurable indicators for evaluating policies in operation is often overlooked. This is a serious omission; since no matter how carefully a policy is formulated, it is still possible for it to fail to attain its objectives. It is, therefore, advisable to evaluate policies periodically and modify them if they prove to be ineffective, which is possible only if objective performance measures are set down and used.

5.3.3 Rationalization of Government Procurement Procedures

The existing government procurement system allows each agency individually to purchase its needs, in coordination with the Ministry of Finance; a traditional practice which is still followed in many countries. However, communications and information technology has made possible more economically efficient procurement systems, through utilizing electronic procurement (e-procurements) systems, which have been adopted by governments and public and private institutions in advanced countries.

5.3.4 Implementation of Electronic Government (E-Government)

The e-government initiative has received substantial support and some government agencies are already implementing some aspects. However, progress is still slow and there is still need to further develop efficiency of the public sector, to enhance competitiveness of the national economy and facilitate transactions.

It is, therefore, important to accelerate the establishment for each government agency and public organization of an integrated website providing all the relevant regulations, procedures and rules. It is also essential to provide for online submission of all official transaction forms and online monitoring of transaction progress.

5.3.5 Internal and External Efficiency of Public Sector

Enhancing public sector performance is an enduring goal of institutional development. However, monitoring progress requires reference performance models and benchmarks. The most important common features in international experience are the following:

- Adopting for all intra-agency and inter-agency activities performance benchmarks that may be based on local agency experience or on similar experiences of other government or private agencies (domestic or international).
- Adopting for all activities performance measures to enable monitoring and evaluation.
- Establishing, within each agency, a unit tasked with developing of performance measurement, monitoring and evaluation procedures.
- Ensuring clarity of internal and external procedures, particularly those related to customers, and posting these conspicuously on the website of the agency concerned.
- Preventing external or internal interference in transaction processing.
- Establishing an administration or department for customer relationship management.
- Encouraging competition among similar agencies on the basis of well-defined benchmarks, along with provision of a system for rewarding outstanding performance.

It is necessary to benefit from international experience and to adopt an institutional and administrative development methodology based on standardized performance evaluation both at agency level and at the level of the public sector as a whole.

5.3.6 The Development Plan and the Role of the Public Sector

The outcome of shared efforts by the state and the various bodies and sectors of society, a five-year development plan is a comprehensive implementation program for a stage in the march of the Kingdom towards

realizing its national goals and strategic objectives. It is thus a multiparty “social contract” that determines the commitments of all state institutions to the national leadership and society.

Fulfillment of this multiparty social contract entails agreement by each party to implement, in its particular field of activity, the various policies, programs and projects set by the plan. These should then constitute binding agreements and performance contracts, on the basis of which the various agencies would evaluate their own performance against the objectives as set out in the plan. Moreover, the operational plan of each agency would be tantamount to an agreement that determines the obligations of its departments and sections towards realizing agency objectives, which, in turn, represent commitments of the agency to the state and society.

5.4 DEVELOPMENT STRATEGY

The strategy of institutional and administrative development under the Eighth Plan will be implemented through the following objectives, policies and targets:

5.4.1 Objectives

- Provide a high-efficiency institutional and administrative environment that supports the socioeconomic development and contributes to enhancing competitiveness of the national economy.
- Attain maximum socioeconomic efficacy and efficiency in management and utilization of public resources.
- Enhance the internal and external efficiency of the process of development planning.

5.4.2 Policies

Achievement of the above general objectives relies upon the following policies:

- Enhancing socioeconomic efficiency of government investment projects.
- Implementing e-Government and more efficient systems of service

delivery, including e-procurement.

- Developing internal and external efficiency of the public sector.

5.4.3 Targets

The following targets are expected to be achieved:

- Looking into adoption of pre-qualification of contractors and limiting such pre-qualification to classified and specialized categories.
- Looking into enforcement of mandatory classification of contractors.
- Constructing customer-oriented websites for all government agencies.
- Providing all regulations, procedures and transaction forms on the websites of all agencies.
- Providing by all agencies for online transaction processing and monitoring, wherever possible.
- Establishing performance development and evaluation units within government agencies and public institutions.
- Clarifying by all government agencies of the requirements of all transactions involving the public and the period needed to finalize each transaction.
- Establishing a customer relationship management administration or department in all government agencies that deal with citizens.

CHAPTER SIX

THE PRIVATE SECTOR

6. THE PRIVATE SECTOR

6.1 INTRODUCTION

Since an early stage, development plans provided the private sector with opportunities to undertake economic tasks in a wide range of activities; thus contributing effectively to its development, enhancing its role in the national economy, expanding its capabilities, and improving its economic efficiency (both in investment and production). As a result, it has become capable of mobilizing capital for financing projects, and using advanced management techniques and technologies in operations.

Through privatization of telecommunication, power generation, desalination and many other activities that offer promising investment opportunities, the government has created an appropriate investment climate, conducive to enhancing the economic and social development role of the private sector. Nonetheless, the private sector still faces challenges that should be addressed during the coming period; foremost among which are: continuing to improve its competitiveness to enable it to rise to the challenge of globalization; increasing its contribution to production, investment and provision of job opportunities for the growing number of Saudi entrants into the labor market; and increasing its investments in high-value-added projects and activities complementary to the fundamental national industries, particularly the highly competitive export-oriented.

This chapter describes the current conditions of the private sector, the key issues and challenges facing it and its expected role under the Eighth Development Plan, as well as the long-term future vision for that role. It also presents the targets, policies and implementation mechanisms adopted by the Plan in this context.

6.2 CURRENT CONDITIONS

6.2.1 Main Indicators of the Sector

Development of the private sector has been associated with the parallel development of the activities of its institutions, represented mainly by the Chambers of Commerce and Industry (20 chambers) and their affiliated companies and establishments, which number about 174,000. These

institutions are managed by the Saudi Council of Chambers of Commerce and Industry, under the supervision of the Ministry of Commerce and Industry. The chambers play a vital role in organizing the activities of the private sector and promoting the joint economic interests of its constituent institutions. The national committees, which work within these chambers, contribute to studying many important issues related to the private sector. They also study and analyze the regulations, decisions and measures issued by government agencies, to help implement them, or else propose amendments designed to protect the interests of the sector.

Moreover, the chambers seek to enhance the competitive capabilities of the private sector and develop employer-employee relationships, and endeavor to settle any dispute or conflict of interests among private sector firms. They also participate in the activities of GCC, Arab, Islamic and international counterpart institutions.

The wide range of private sector activities reflects development of the economic institutions, ability of the sector to increase its expected role in the national economy and in achieving objectives of the development strategy.

The private sector grew at a real average annual rate of 4.3% during the Seventh Development Plan period, 2000–2004. Its percentage share of GDP increased from 52.4% in 1999 to 54.6% in 2004, compared to the plan target of 55.4%. During the same period, private investment grew at an average annual rate of 2.3% compared to the plan target of 8.3% (Table 6.1). This gap between the actual and targeted rates is attributed to the recent conflicts and tensions in the region, which adversely affected the investment climate and led to a delay in the implementation of some of the major private investments foreseen by the Plan in such sectors as petrochemicals and mining.

With respect to the contribution of the private sector to the provision of new job opportunities, private sector employment increased from 6.15 million in 1999 to 7.10 million in 2004, i.e., at an average annual growth rate of 2.9%. The sector accounted for 88.5% of the total increase of employment in the national economy during that period, with its share of total employment increased from 85.0% to 85.4%. Regarding Saudization, the share of Saudi employment in the private sector increased from 29.6% in 1999 to 35.5% in 2004.

Table 6.1
Major Indicators of the Private
Sector's Role in the National Economy
1999 and 2004
Seventh Development Plan

Indicator	1999	2004	Annual Average Growth Rate During the Seventh Plan (%)	
			Planned	Actual
1. Value Added (SR billion) *	316.4	390.2	5.04	4.3
2. Contribution to GDP (%)	52.4	54.6	55.4	–
3. Total Private Investments (SR billion)*	98.3	110.3	8.34	2.3
4. Number of Companies	190,662	194,745	–	0.4
5. Number of Operating Factories	3,163	3,652	–	2.92
6. Private Sector Employment (000)	6,145	7,076	1.0	2.9
7. Saudi Employment (000)	1,819	2,512	5.8	6.7
8. Share of Private Sector Employment of Total Employment (%)	85.0	85.4	–	–
9. Share of Saudi Employment of Total Private Sector Employment (%)	29.6	35.5	–	–

* At constant prices of 1999.

Source: Ministry of Economy and Planning.

A prominent positive development that reflects improvement of private sector efficiency is its increasing internal financing and self-growth capabilities, represented in its degree of independence from the developments in the government sector and the oil sector, which are highly susceptible to sharp fluctuations in world oil markets, as shown in Figure 6.1 and Table 6.2.

Figure 6.1
GDP by Major Economic Sectors
Seventh Development Plan
Constant 1999 Prices

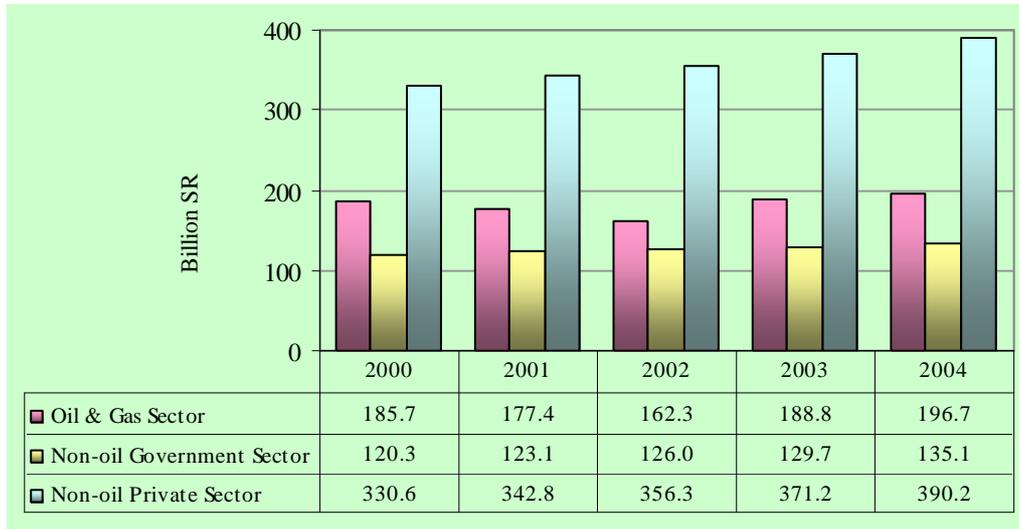


Table 6.2
Private Sector Contribution to GDP*
Seventh Development Plan
Constant 1999 Prices (%)

Year	Oil and Gas Sector	Government Non-oil Sector	Private Non-oil Sector
2000	29.2	18.9	51.9
2001	27.6	19.1	53.3
2002	25.2	19.5	55.3
2003	27.4	18.8	53.8
2004	27.3	18.7	54.0

* Excluding bank fees and import duties.

Source: Ministry of Economy and Planning.

6.2.2 Investment and Business Environment

A number of initiatives, aimed at developing business environment and attracting investment, particularly direct foreign investment, were launched during the period of the Seventh Development Plan; the most noteworthy of which are the following:

1. The Saudi General Investment Authority (SAGIA) was established in 2000 to advance national and foreign investment. SAGIA was tasked

with issuing investment licenses, facilitating investment procedures via one-stop-shops (comprehensive service centers) in all major cities, proposing policies and measures for improvement of the investment climate, and promoting investment opportunities and providing pertinent information on them. SAGIA is committed to taking a decision regarding an investment application within a period of thirty days. Notably, between its establishment in 2000 and 2003, it granted about 2,000 licences for investment projects, with a total value of about SR 48 billion.

2. The new Foreign Investment Law issued on 10/4/2000, which ensures equal treatment for national and foreign investors by allowing foreign companies to obtain full ownership of projects and pertinent assets, as well as by offering equal investment incentives, including soft loans provided by the Saudi Industrial Development Fund (SIDF). Moreover, foreign companies are allowed for tax purposes to carry over their losses for an unlimited number of years, and the tax was reduced to 20% of profits.
3. The Capital Market Law issued on 16/2/2003. The capital market plays a significant role in promoting economic growth by consolidating national savings, stimulating national investments and attracting foreign investments. Hence the Law aims at restructuring and regulating this market by developing its institutional structure and completing the related infrastructure, in line with international best practice, to assure transparency and safety of dealings. The most important developments introduced by are:
 - Establishment of three new institutions, enjoying administrative and financial autonomy, to replace the interim measures that were adopted by the market: the Capital Market Authority, a supervisory and regulatory body; the Saudi Stock Exchange; and the Securities Depository Center, to act as a custodian of securities and related settlements.
 - Separation of the supervisory and regulatory role from the executive role of the capital market. The former is played by the Capital Market Authority, while the latter is played by the Saudi Stock Exchange and the Securities Depository Center, under private sector management.
4. Establishment of the Human Resources Development Fund in 2000, with the aim of promoting the training of national manpower

to meet the needs of the labor market, and providing support to the private firms that employ and train Saudi manpower.

5. Launching by the Saudi Industrial Development Fund (SIDF), in collaboration with the commercial banks, of a program to support small and medium enterprises (SMEs). Under this program, the SIDF guarantees up to 75% of the loans provided by the commercial banks to SMEs. An amount of SR200 million was allotted for this purpose, as an initial step. Efforts to support SMEs also included increasing the capital of the Saudi Credit Bank (SCB) by SR 2 billion.

6.2.3 Privatization

The period of the Seventh Development Plan witnessed marked developments in privatization, foremost among which is identification of the activities to be privatized (Box 6.1). Moreover, several other important measures were taken in a number of sectors and activities, including the following:

Box 6.1: Facilities and Activities Targeted for Privatization

The Council of Ministers' Resolution 219 of 11.11.2002 listed the facilities and activities to be privatized:

Water and sewage; desalination; telecommunications; air transport and related services; railroads; roads (management, operation and maintenance of express roads which have alternatives; construction and operation of new express roads); airport services; postal services; grain silos and flour mills; seaport services; industrial cities services; government shares in the stock companies, such as the Saudi Electricity Company, the Saudi Basic Industries Corporation (SABIC), the banks, the Saudi Arabian Mining Company (MA'ADEN), and the Saudi Telecommunications Company (STC); the government share in domestic refineries and in the capital of the joint Arab and Islamic investment companies; government hotels; sports clubs; municipal services (construction and operation of slaughterhouses, public parks, public markets, transport and traffic services and collection of municipal revenues, cleaning and waste disposal services); education services (construction and maintenance of school buildings, printing of textbooks, school transport, and leasing and operation of school and university facilities); social services (management and operation of social-care services institutions, and services related to employment of Saudi nationals in the private sector); agricultural services (quarantine service, veterinary clinics, and laboratories); health services (construction and operation of health facilities and transportation of patients).

- ***Telecommunications Sector***

The telecommunications sector was liberalized, with introducing greater competition and establishment of the Telecommunications and Information Technology Authority, entrusted with encouraging competition and market forces in the provision of telecommunications and information technology services, as well as licensing the private sector investments.

In addition, the Saudi Telecommunications Company was privatized in 2002, with offering 30% of its shares for public subscription, and a second operator was licensed in 2004 to provide mobile telephone services. Moreover, other companies obtained licenses to provide VSAT, data and internet services. A license will be offered to a second operator in 2006 to provide fixed-line telephone services (Chapter 22 on Telecommunications and Information Technology).

- ***Electricity Sector***

The Electricity Regulatory Authority was established in 2001, and a law for regulating the electricity industry, including potential separation of generation, transmission and distribution activities and allowing competition in the industry, was drafted. In addition, electricity and water utilities in Jubail and Yanbu industrial cities were privatized. In 2004, ARAMCO concluded a contract with a private company for the construction and operation of four power generation plants. Further, the Saudi Electricity Company intends to offer a number of power generation and transmission projects for competition on BOT (Build–Operate–Transfer) basis.

- ***Mining and Mineral Resources Sector***

The Saudi Arabian Mining Company (MA'ADEN) was established, as a step towards private-sector participation in the mining sector. Its Memorandum of Association specified that within five years from the date of establishment, it will be transformed into a joint-stock company. Privatization is expected to start during the first half of the Eighth Development Plan. Since its establishment, MA'ADEN has implemented an active exploration program that enabled it to obtain three concessions for mining precious metals in Mahd Al-Dahab, Amar and Hajar, in addition to a concession for mining magnesite (an industrial mineral) in Darghat. The New Mining Investment Law, issued by Royal Decree M/47 of

4/10/2004 provides incentives to encourage investment in the mineral resources sector by Saudi and foreign investors, including full exemption of mining equipment from import duties.

- ***Seaports***

By the end of 2002, the government had concluded with the private sector 27 contracts for partnership in port-based and sea-borne services; some extending over periods of 40 years. These contracts, under which the private sector invested substantial amounts for the development of port facilities, provide for the private sector undertaking management, operation and maintenance, while the government retains ownership of assets.

- ***Air Transport***

Council of Ministers Resolution 90 of 4/6/2004 approved competition in domestic air transport by national carriers.

- ***Saudi Railways Organization***

Trains are currently operated by the Saudi Railways Organization, with the private sector undertaking maintenance and operation of loading and unloading equipment in Dammam and Riyadh ports, as per leasing contracts, under which the government retains ownership of assets.

- ***Postal Services***

In Resolution 78 of 10/6/2002, the Council of Ministers approved restructuring the General Directorate of Posts, transforming it into the Saudi Posts Organization, a public organization to be run by a Board of Directors from both the public and the private sector. The government has adopted a strategy of encouraging private sector participation and competition in postal services.

- ***Health Services***

Some public hospitals are currently operated by private companies under operation and management contracts. Moreover, in Resolution 76 of 3/6/2002, the Council of Ministers approved the healthcare system, which allows privatization of public hospitals.

- **Insurance Sector**

In an important step towards regulation, privatization and liberalization of the insurance market, the government issued in 2003 the Insurance Companies Regulatory Law. A year later, the Council of Ministers resolved to offer the government share (50%) in the state-owned National Cooperative Insurance Company for public subscription.

6.3 STRUCTURAL FEATURES OF THE PRIVATE SECTOR

A key feature of the private sector is the high number of small and medium enterprises (SMEs). In 2004, 93% of almost 693,000 licensed firms were SMEs. Wholesale and retail trade firms accounted for 48%, followed by agricultural and fishing firms (14%), manufacturing industries (13%), hotels and restaurants (9%) and other firms (16%), as shown in Table 6.3.

Table 6.3
Private Firms by Main Activity (2004)

Sector	Number	Share of Total (%)
Wholesale and Retail Trade	330,638	48
Agriculture and Fishing	95,593	14
Manufacturing Industries	88,066	13
Hotels and Restaurants	64,245	9
Others	114,284	16
Total	692,826	100

Source: Central Department of Statistics, Establishments Survey 2004.

The real estate sector accounted for 28.5% of the total private investments in 2003; followed by the industry sector, excluding oil refining and petrochemicals, at 6.6%, trade at 5%, financial services at 4.2%, agriculture at 3.5% and community services at 2.1%, as shown in Table 6.4. The low share of industrial investments represents a key challenge for the long-term development strategy. Hence, the Eighth Development Plan will give priority to encouraging investment in the productive sectors, particularly industry.

Table 6.4
Distribution of Private Investment in 2003 by
Activity

Type of Activity	Investment (SR billion) (2003)	Share (%)
Real Estate	30.0	28.5
Industry (excluding Oil Refining and Petrochemicals)	7.0	6.6
Trade	5.3	5.0
Financial Services	4.4	4.2
Agriculture	3.7	3.5
Social Services	2.2	2.1

Source: Ministry of Economy and Planning.

The private sector includes a significant number of large Saudi-owned companies, having good capabilities and diversified activities; some of which have succeeded in extending their operations into regional and international markets. Indeed, activities of Saudi companies in the international arena are characterized by considerable diversity. Some have steel plants in Egypt, Jordan, India and Vietnam. Others have cable production factories in Bahrain and Turkey; yet others operate in power generation and oil and gas exploration in Pakistan, Yemen, Bangladesh and Madagascar. Furthermore, Saudi investments are widely spread in Arab countries, Europe and USA in agriculture, real estate and hotel services. Notably, most large Saudi companies are family-owned and do not have any public shareholdings. Of the largest hundred in terms of revenues, these comprise 45%. To encourage development and long-term sustainability, the government encourages transformation of such companies into joint-stock companies, in addition to promoting improvement of their managerial and technical capabilities to enable them to face competition and play a more dynamic role in the national economy.

6.4 ISSUES AND CHALLENGES

Notwithstanding the rules and regulations issued by the government under the Seventh Development Plan to support efforts by the private sector, increase its contribution to diversification of the economic base, and enhance its future role in economic development, there are issues and challenges that need to be addressed under the Eighth Development Plan.

6.4.1 Investment Environment

The Kingdom enjoys many investment advantages, including stability of the economic climate, stability of the exchange rate of the Saudi Riyal, and bilateral and multilateral trade agreements; in addition to a wide natural resources base of oil, gas, industrial minerals and precious metals. Nevertheless, there has been over the past two decades a shortfall in foreign investment, compared to the comparative advantages enjoyed by the Kingdom.

Statistics reveal a low ratio of capital investments to GDP, which averaged 15.2% under the Seventh Development Plan (Table 6.5), which compares unfavorably with a number of developing countries in which the ratio stands at about 27%.

The Kingdom should be able to utilize its strategic location and unique economic position in the region much more effectively to attract more foreign and national investment. To this end, the government has adopted a set of measures, including the new Foreign Investment Law, and establishment of the Saudi Arabian General Investment Authority (SAGIA) and the Supreme Tourism Commission. Despite incessant efforts to improve the investment climate, the findings of a survey carried out by SAGIA in 2002 indicate that there are still a number of investment constraints that fall into six major categories: (i) legislative environment constraints; (ii) competitive environment constraints; (iii) business startup constraints; (iv) operational constraints; (v) financial services constraints and (vi) constraints related to incentives. Mounting attention is being paid by the government to addressing these constraints.

Table 6.5
Private Capital Investment Contribution to GDP (2000–2004)
at 1999 Constant Prices

(SR. Billion)			
Year	Private Investment	GDP	Share (%)
2000	94.9	633.0	15.0
2001	95.6	636.4	15.0
2002	98.4	637.2	15.4
2003	105.3	683.0	15.4
2004	110.3	714.9	15.4

Source: Ministry of Economy and Planning.

6.4.2 Investment Incentives System

Since the first five-year development plan in 1970, investment incentives provided by the government have represented an effective means of investment promotion. During the early stages of development, these incentives were comprehensive, in view of the need then to accelerate development of industrial activities and services. However, the system of incentives has evolved in response to developmental challenges and priorities and will continue to do so. Indeed, strategic objectives of the Eighth Development Plan, such as improving competitiveness of the national economy, enhancing growth of activities that contribute directly to economic diversification, and developing of the knowledge economy, call for a selective system designed to stimulate investments in the relevant specific spheres, with incentives being provided to activities and services that contribute to improvement of Total Factor Productivity (TFP), such as those that support technology transfer and indigenization, R & D activities, high value added industries, and high-tech exports, while taking into consideration the obligations resulting from the Kingdom's accession to the WTO.

6.4.3 Labor Market and Saudization

Policies and strategies for employment of national manpower have been receiving growing attention from all agencies involved in economic and social development. Appropriate solutions to remove the constraints that impede employment of Saudi nationals by the private sector in the short, medium and long terms need to be developed, within an integrated substitution strategy. Even though the private sector has provided about 693,000 jobs for Saudi citizens under the Seventh Development Plan, compared to about 291,000 jobs under the Sixth Development Plan, the share of Saudis in total private sector employment is still below the desired level, amounting to only 35.5% in 2004 (Table 6.6).

Findings of field surveys indicate that unemployment in the Saudi economy is “structural”, in that it is the result of a fundamental mismatch between demand for and supply of national manpower, in terms of both quality and quantity. In other words, unemployment is not merely a consequence of a lack of vacant jobs due to a downturn in the economy. Rather, the supply-demand mismatch in the labor market and lack of attractiveness of work in the private sector are due partly to the relatively low wages and more importantly to a “skills imbalance”. Many Saudis

looking for jobs do not have the skills sought by the private sector. Hence, it is important to take necessary actions to achieve the required match, through an integrated strategy based on a long-term future vision of Saudization.

Table 6.6
National and Expatriate Employment (2000–2004)

Year	Private Sector Employment			Share of Saudis (%)
	Saudis	Non-Saudis	Total	
2000	١٩١٢	٤١٣٤	٦٠٤٦	٣١.٦
2001	٢٠٤٣	٤٤١١	٦٤٥٤	٣١.٧
2002	٢١٥٦	٤٩٤٦	٧١٠٢	٣٠.٤
2003	٢٣١٢	٤٨٠٠	٧١١٣	٣٢.٥
2004	٢٥١٢	٤٥٦٤	٧٠٧٦	٣٥.٥

Source: Ministry of Economy and Planning.

6.4.4 Constraints on Development of SME Sector

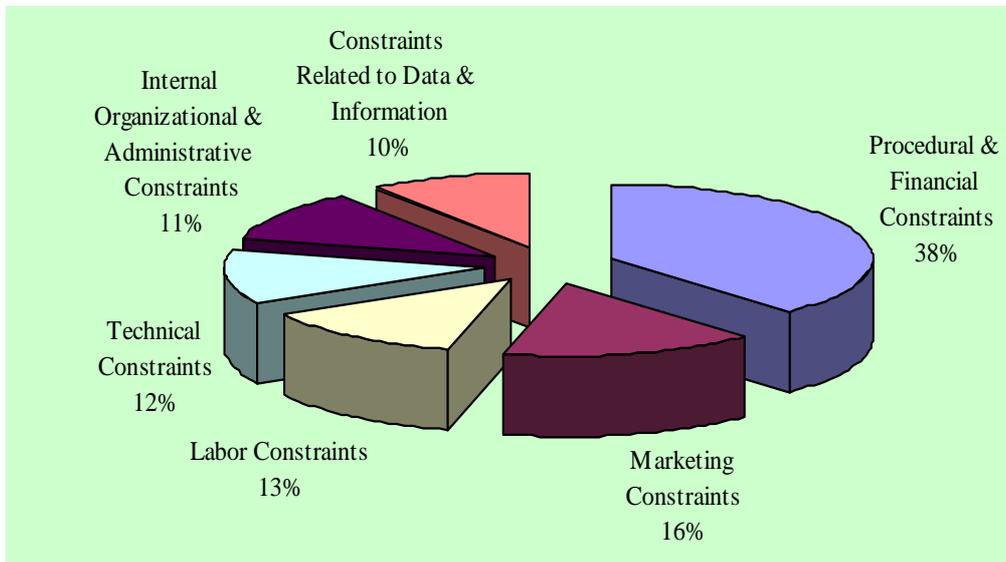
Experience of many developing and advanced countries clearly demonstrates that SMEs can be a major force for economic development. Saudi development plans, particularly the Seventh, paid special attention to the SME sector, which, under the right conditions, can achieve a number of strategic objectives, including attracting foreign investments, promoting nonoil exports, and contributing effectively to a more balanced distribution of development activities over the various regions. However, enabling SMEs to achieve such goals requires addressing constraints on their activities.

Based on a survey of SMEs in Riyadh, Jeddah and Dammam, the findings of which were presented at the Business Forum at the Riyadh Chamber of Commerce and Industry in October 2003, the most important constraints are:

- Time consuming procedures and delays, in addition to difficulty of obtaining funds from finance institutions.
- Technical and administrative constraints, such as lack of skilled labor and competent management, low-quality operations and failure to keep up with modern work techniques.

Figure 6.2 shows the relative significance of each set of constraints, based on the findings of the above-mentioned survey.

Figure 6.2
Relative Significance of Sets of Constraints on SMEs



6.4.5 Reinvigoration of Stock Market

The Capital Market law issued by the Council of Ministers on 16/6/2003 is a major step towards restructuring the stock market, to enable it to operate along modern, developed lines; create effective instruments for investment of savings; and promote transparency, equity and protection for dealers. The Saudi Stock Market is the most active and the largest in the Gulf region in terms of market capitalization, which reached about SR 891 billion in the third quarter of 2004 (Table 6.7). Nonetheless, comparative studies indicate that it could be yet more developed and more active. However, this will depend, to a great extent, on the effectiveness of the rules to be set by the Capital Market Authority to regulate transactions and conditions for listing of companies, as well as removal of the constraints on the stock market development. The following are some of the mechanisms that may contribute to the creation of an appropriate investment climate, which would, in turn, facilitate development of the stock market:

1. Forceful enforcement of the Capital Market Law in relation to restructuring and regulating investment in securities, and providing more transparency and financial disclosure by share issuers to ensure safety of dealings in traded securities.
2. Invigoration of the primary shares market, for existence of an active primary market is a precondition for an active stock market, since

listing of new shares enhances the scope and the activities of the market. The Saudi primary stock market is weak; only 13 companies were added to the companies listed on the market over the last decade, contributing to an increase of market capitalization by only 3%. Rectifying this requires:

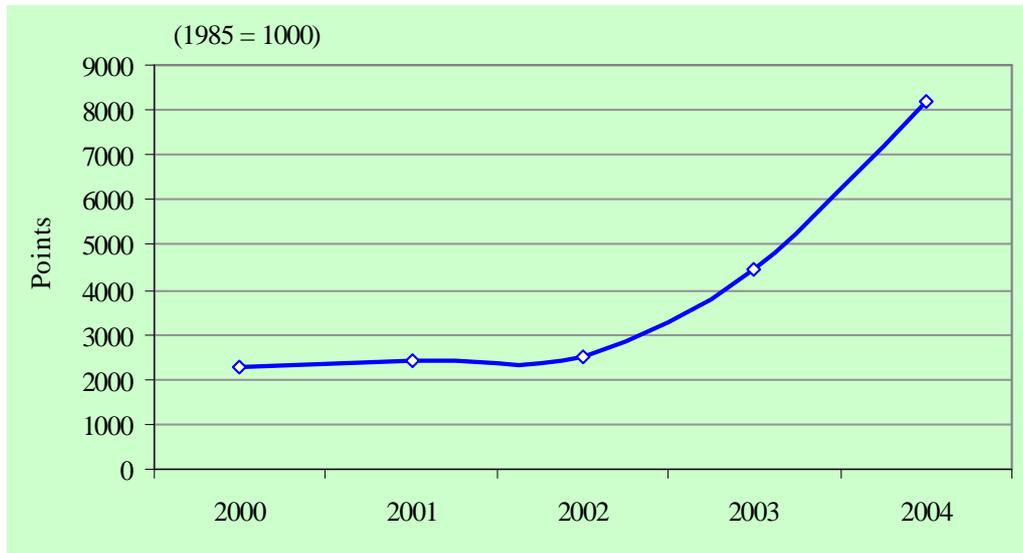
- a) Accelerated implementation of the privatization program.
 - b) Encouraging transformation of family-owned companies into joint-stock companies listed on the stock market.
3. Establishing investment banks that would undertake setting up and managing investment funds and portfolios, and offering investment trust services; including provision of advice to investors, marketing of securities and underwriting public subscriptions.
 4. Allowing foreigners to invest in shares of companies listed on the Saudi Stock Market, which would contribute to channeling the savings of expatriates towards productive activities in the domestic economy.
 5. Evaluating the influence of financing investment in securities by the banks. Bank finance of private sector investments in securities increased in 2004 by 49% over 2003. This may be one of the reasons of the sharp rise of the general stock price index during that year (Table 6.7 and Figure 6.3).

Table 6.7
Stock Market Development (2000–2004)
Seventh Development Plan

Year	Market Size (Market Value of Shares) (SR Billion)	Finance by Banks of Private Investment in Securities (SR Billion)	General Stock Prices Index (1985=1000)
2000	255	11.1	2,258.3
2001	275	10.2	2,430.1
2002	281	7.1	2,518.1
2003	590	7.3	4,437.6
2004	1149	10.9	8,206.2

Source: SAMA; Data for 2004, up to third quarter only.

Figure 6.3
General Price Index of Stocks during the Seventh Plan Period



6.4.6 Implications of Accession to WTO

After many rounds of successful negotiations with a large number of member countries, the Kingdom is expected to join the WTO in the near future. This will have a number of important and positive implications, foremost among which is encouraging private sector investors to establish export-oriented industries; thereby enhancing competitiveness of national products in both local and global markets. It will also enable the Kingdom to make use of the trade laws and rules in protecting its foreign-trade sector against unfair practices; such as dumping, imposing arbitrary duties, and commercial counterfeiting. The Kingdom will also be rid of the unilateral measures and differential trade policies practiced by some countries, since its exports will no longer be subject to dumping or counter tariffs, unless they fall within the provisions of WTO legislation. Similarly, the Kingdom will have, under WTO laws, the right to resort to various measures to protect its trade interests. Petrochemical exports will be the major beneficiary, due to reduction of custom duties in WTO member countries, as well as removal of constraints on access to their markets.

However, accession has also adverse effects, including increasing foreign competition in domestic markets, particularly in the early years, in, for example, banking services, telecommunications and consulting services, as well as merchandise. A work plan designed to minimize adverse and

maximize positive effects is, therefore, needed. Such a plan would comprise policies for: increasing productivity of the economy, through improving labor productivity and upgrading training; increasing access of Saudi exports to foreign markets and enhancing the Saudi Exports Credit Guarantee Program; and focusing on the highly competitive national industries, such as petrochemicals, the energy-intensive industries, such as aluminum, glass, ceramics, iron, and capital-intensive and high tech industries that maximize value added. Use should also be made of WTO laws that grant concessions and exceptions to economic blocs, which entails accelerating the establishment of the Common Gulf Market and entering into new regional and international economic blocs.

6.4.7 Privatization Implementation Program

Privatization is one of the most important strategic measures for transforming the Saudi economy and increasing private sector participation in economic development. The Supreme Economic Council has announced the privatization strategy and identified the public facilities to be privatized. Hence, the next important step would be preparation of an implementation program comprising:

- a) Preparation of a regulatory framework, including development of pricing controls, particularly with respect to privatization of infrastructural facilities.
- b) Gradual implementation, which may entail restructuring some government organizations and transforming them into state-owned public companies, as the first step towards full privatization, and operating them in the interim on a commercial basis.
- c) Valuing the assets of the facilities to be privatized using appropriate techniques, in order to ascertain total facility value, which can then be used to guide privatization.
- d) Transparency in privatization decision making and implementation of measures.
- e) Making use of expert advisors in preparing detailed studies and managing the privatization implementation program.

The implementation program would also require preparation of a specific time schedule for accelerating privatization of the various economic sectors.

6.4.8 Development of Non-oil Merchandise Exports

The low share of non-oil exports in total exports, which amounted to only 12% in 2004 (Table 6.8) has led the government to adopt a set of measures designed to promote such exports, including encouragement of national industries by exempting their products from export duties and their inputs from customs, and adopting a uniform tariff among the GCC countries as from the beginning of 2003; in addition to concluding a number of bilateral regional and international agreements aimed at improving access by Saudi exports.

Table 6.8
Non-oil Merchandise Exports (2000–2004)
Constant 1999 Prices

Year	Non-oil Exports (SR, billion)	Share in Total Exports (%)
2000	23.7	10.6
2001	25.5	12.0
2002	26.2	12.4
2003	28.8	11.8
2004	29.9	11.8

Source: Ministry of Economy and Planning.

These significant initiatives notwithstanding, accelerating development of Saudi exports still requires providing further incentives to exporters, without violating the commitments resulting from accession to the WTO, including:

- 1) Increasing technical assistance to help exporters reduce average costs of production, and improve quality of exports and enhance their competitiveness.
- 2) Intensifying efforts to accelerate export procedures and provide information on overseas importers of Saudi products.
- 3) Expanding and activating the Saudi Non-oil Exports Credit Program adopted by the Saudi Fund for Development to protect the Saudi exporters from default risks.
- 4) Studying the possibility of transforming the Saudi Exports Development Center into a public organization, with the aim of promoting and diversifying Saudi exports base by addressing the

issues facing exporters and developing an appropriate strategy for export promotion.

The Kingdom's accession to the WTO, the GCC Customs Union, establishment of the Great Arab Free Trade Area, and bilateral agreements are all expected to open new markets for Saudi non-oil exports. To benefit from all these developments, the Plan calls for:

- a) Developing appropriate mechanisms to help exporters access foreign markets and enhance their competitiveness.
- b) Attracting and encouraging foreign direct investments to make use of the comparative advantages of the Kingdom in energy and industrial minerals, and encourage the establishment of joint ventures to enable domestic producers to acquire new expertise and advanced technology.

6.4.9 Mobilizing Resources of Commercial Banks

Distribution of bank credit to the private sector indicates that the commercial banks concentrate almost exclusively on financing relatively high-profit, low-risk activities, such as trade and real estate, which receive more than 60% of the total credit granted to the private sector. In contrast, productive activities, such as industry, electricity and water, mining and minerals, and agriculture and fishing, received less than 17% of the total (Table 6.9).

Current and envisaged future developments, including ambitious plans for expansion of industry and economic development, privatization, and establishment of the capital market and development of money market instruments, require of the banking and financial sector playing the crucial developmental role expected of modern commercial banks and other financial institutions.

Table 6.9
Distribution of Bank Credit by Economic Activity (%)

Activity	2000	2001	2002	2003
Productive Activities	16.5	16.5	14.5	14.3
Trade, real estate and related services	62.9	64.6	63.7	64.6

Source: Saudi Arabian Monetary Agency, Annual Report # 40, 2004.

6.5 FUTURE VISION

Creating an environment conducive to private sector activity and encouraging the private sector to invest and to play a leading role in economic development are among the principal strategies of the Eighth Development Plan. Given the challenges already outlined, supporting private sector development requires creating an appropriate investment climate, enhancing support of the commercial banks to its development activities, development of the capital market, invigorating the privatization program, and providing SMEs with more opportunities to enable them to contribute to the development of the economy. Hence, the Plan emphasizes the following.

6.5.1 Development of Financial Services

The financial services sector should play a crucial role in enabling the private sector to contribute effectively to economic diversification. Many indicators point to the possibility of expanding financial services, as the regulatory and operational environment improves and the Saudi capital market develops. However, to meet expectations, there is a need for developing new mechanisms and techniques for management of financial risks, as well as for encouraging commercial banks to finance high-risk industrial production. Furthermore, development of insurance and reinsurance activities would enhance the growing role of the private sector.

6.5.2 Development of SMEs

Removal of the administrative, legal and technical constraints on SMEs requires of the Human Resources Development Fund to continue providing technical support and training for professional manpower to meet the labor requirements of SMEs. It will also require enhancing the role of the main committees and the specialized centers established by the Saudi Council of Chambers of Commerce and Industry to support the SMEs, improving the mechanisms by which the Saudi Industrial Development Fund (SIDF) sponsors SMEs, and consolidating the role played by Saudi commercial banks in providing loans to such enterprises.

Moreover, SMEs are expected to face further challenges as a result of the Kingdom's accession to the WTO. Overcoming such challenges may

require creation of a specialized agency dedicated to supporting the development of SMEs, protecting them against any adverse developments, and providing an appropriate business environment for integrating the activities of the SMEs with those of large enterprises.

6.5.3 Promotion of Partnership between the Public and Private Sectors

The strategy for promoting partnership between the public and private sectors focuses on invigorating privatization policies and strategies and developing the necessary regulatory and monitoring framework. Maximizing the role of the private sector in the economy requires accelerating the implementation of the privatization program in both the production and the services sectors, as well as increasing membership of businessmen and private-sector representatives in government committees, councils and organizations, to enable them to discuss relevant economic and institutional issues.

6.5.4 Private-Sector Institutions

Importance of the Saudi Chambers of Commerce and Industry and their Council stems from their intimate collaboration and interaction with the business sector in the quest for developing various private economic activities, and building a strong private sector, with institutions equipped for growth and development that constitute the basis of a diversified and sustainable productive sector capable of competing in internal and external markets and playing a positive role in the national economy.

The Chambers and their Council are expected to play a role consistent with the increasing responsibility of the private sector in the economy. However, this entails consolidating their links with their members, which may, in turn, call for amending their regulations and bylaws.

6.5.5 Enhancing Role of Private Sector in GCC Countries

GCC countries have recently undertaken important steps towards economic integration, including unifying tariff rates as from 2003, establishing a common market by 2007, agreeing to fix parities among their currencies

and achieve monetary union and a common currency by 2010, and allowing national banks to establish branches in other GCC countries. These steps will enhance the role of the private sector in all economic and social activities and provide an investment climate conducive to establishment of joint ventures.

Further consolidation of the role of the private sector requires the following measures:

- Directing Gulf-region investments to the GCC countries, particularly in industry, housing and tourism.
- Invigorating capital markets in the Gulf countries and achieving equal treatment for all GCC citizens with respect to ownership and trading of shares.
- Implementing the Council's decisions regarding opening Gulf-region labor markets to manpower from all member countries.
- Expanding channels of consultation with the private sector in economic decision making in the Gulf region.
- Enhancing participation of private sector representatives in joint Gulf institutions.
- Establishing a Gulf-region industrial database.
- Updating investment laws and regulations to make the investment environment in GCC countries more attractive.

6.6 DEVELOPMENT STRATEGY

The Eighth Development Plan aims to support efforts of the private sector, enhance its contribution to diversification of the economic base, and expand its role in productive activities, through development of an institutional and organizational framework embodying the following objectives and policies.

6.6.1 Objectives

The objectives comprise the following:

- Improving the investment environment.

- Enhancing the role of the private sector in economic and social development.
- Accelerating Saudization of jobs in the private sector.
- Expanding channels of consultation between the private and public sectors with respect to private sector related matters.
- Increasing investment and business opportunities available for women.

6.6.2 Policies

Achievement of the private sector development objective is contingent upon the following policies:

- Removing any conflict between prevailing laws, regulations and decisions and the investment law.
- Developing the mechanisms and measures for enforcement of judicial rulings on settlement of trade disputes.
- Ensuring consultations with the private sector in studying the draft regulations and publishing relevant data about the projects approved in the budget.
- Enhancing the role of the labor market in Saudization.
- Increasing private sector representation in the Boards of Directors of publicly owned organizations.
- Establishing specialized courts for settlement of trade disputes.
- Developing a comprehensive database for investment affairs.
- Studying demands of the economy for various types of professions and specializations, in light of actual supply in the domestic market and expected numbers of Saudi entrants.
- Finalizing the regulatory and supervisory framework for the privatization strategy.

6.6.3 Targets

The private sector is expected to achieve the following targets during the Eighth Development Plan period:

- Increasing the real GDP of the private sector, at constant 1999 prices, from SR 390.2 billion in 2004 to SR 514.3 billion in 2009, i.e., at an average annual growth rate of 5.7%.
- Increasing contribution of the private sector to GDP from 54.6% in 2004 to 57.5% in 2009.
- Ensuring the growth of private consumption at an average annual rate of 3.5%.
- Increasing private investment expenditure at an average annual rate of 10.4%.
- Increasing petrochemical exports at an average annual rate of 6.5% and achieving an average annual growth rate of 7.3% in the petrochemical sector.
- Achieving an average annual growth rate of 6.7% in the manufacturing sector.
- Achieving an average annual growth rate of 5.2% in the trade sector.
- Achieving an annual growth rate of 6.1% in the financial sector.
- Increasing total private-sector employment at an average annual growth rate of 2.2%.
- Increasing Saudi employment in the private sector at an average annual growth rate of 7.2%.

CHAPTER SEVEN

INVESTMENT

7. INVESTMENT

7.1 INTRODUCTION

Investment is the key driver of economic growth. First, it is a basic part of total demand, since it directly contributes to stimulation of domestic production. Secondly, it plays a significant role in accumulation of the productive assets necessary for maintaining and developing the production capacity of the economy and enhancing its competitiveness.

Successive development plans have emphasized enhancement of investment and development of fixed capital, in the context of efforts aimed at attaining the strategic objectives of development, including diversification of the economic base and promotion of sustainable development. Substantial achievements have been; notable among which is the pivotal role in economic activity played by the non-oil sector, which under the Seventh Development Plan accounted for about 89.6% of total investment, including investment by the private sector, which stood at about 75.6% of total investment. As a result, the non-oil sector has become the major pillar of the national economy.

Notwithstanding these major achievements, there are several challenges that require continued emphasis on improving capital investment, both quantitatively and qualitatively; challenges that include increasing economic growth rates to their potential level, improving competitiveness of the national economy and converting revenues of non-renewable resources (principally oil) into renewable and sustainable assets.

This chapter reviews the current conditions relating to investment in the national economy, highlighting its structure and main features; sheds light on development of capital accumulation; and reviews the major issues and challenges facing investment activity. Furthermore, the chapter deals with the investment goals of the Eighth Development Plan, as well as the most significant investment projects in the various economic sectors.

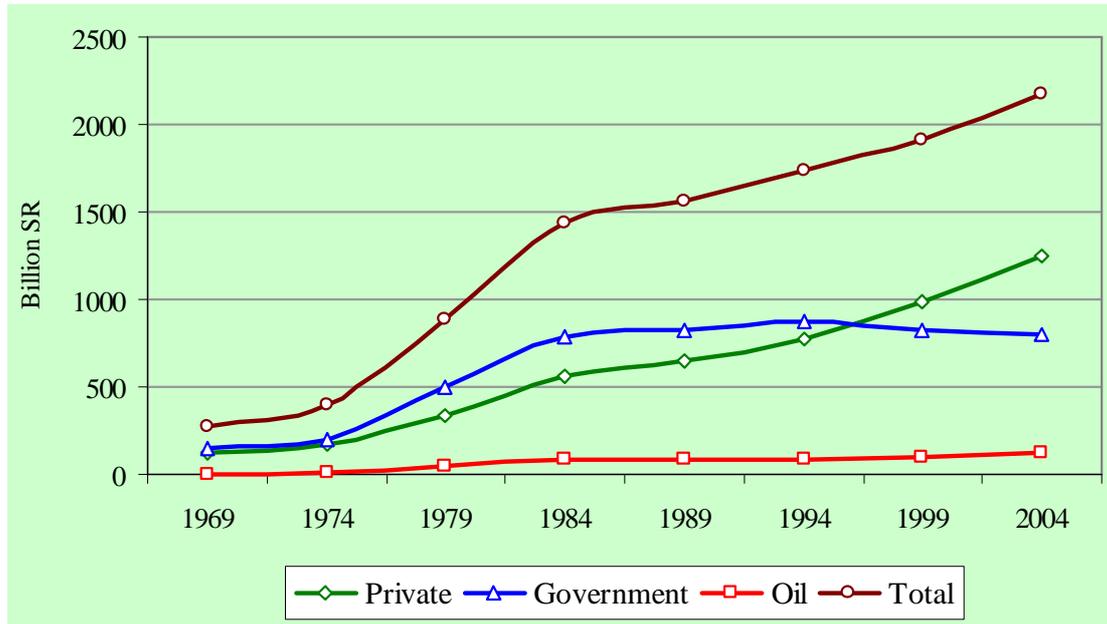
7.2 CURRENT CONDITIONS

7.2.1 Development of Capital Stock

Figure 7.1 shows development of capital stock in the three main

investment sectors: private, oil and government, according to estimates made by the Ministry of Economy and Planning. These figures show that tangible and rapid growth of the capital stock was achieved under the Second and Third Development Plans, at an average annual rate of 17.2%, and 10.2% respectively. Government capital stock contributed significantly to the achievement of the substantial growth recorded over this period. However, accumulation of government capital stock started to slowdown at the beginning of the Fourth Development Plan, due to the sharp decline in oil revenues as a result of developments in the international oil market; at a time when demand for operational (recurrent) items in the State budget was increasing rapidly, due to both development of public administration and increased demand for operation and maintenance items resulting from accumulation of public assets. Thus, government capital stock experienced negligible growth during that period, while no major investments were needed in the oil sector, given its surplus production capacity.

**Figure 7.1: Total Capital Stock
1969--2004
Constant 1999 Prices**



In contrast, the private sector has attained healthy investment rates since the Fourth Development Plan as a result of utilizing its accumulated financial resources; increased availability of investment opportunities; and the policies of the development plans aimed at enhancing its role in the

national economy. Thus, private-sector capital stock went up from SR 561 billion by the end of the Third Development Plan to about SR 1,246 billion by the end of the Seventh Development Plan.

The growing role of the private sector in fixed capital formation is a positive phenomenon that is expected to continue in the future, particularly given government policies promoting an investment environment that encourages and supports private sector efforts.

During the Seventh Development Plan period, total capital stock increased by SR 261 billion, at an average annual rate of 2.6% to reach about SR 2172 billion in 2004.

7.2.2 Investment

Under the Seventh Development Plan, the volume of investment reached about SR 667.1 billion, which constituted 99.3% of the target investment, and an increase of 27% over the level achieved under the Sixth Plan.

Investment by the non-oil sector stood at about SR 598.1 billion, increasing substantially from SR 481.5 billion under the Sixth Development Plan, but was below the Seventh Development Plan target of SR 638.3 billion. Investments in the oil sector increased substantially, mainly due to development and diversification of natural gas sources, while the share of the non-oil sector in total investment declined from 91.7% in the Sixth Development Plan to 89.6% in the Seventh Plan, as against the target of 95%. On the other hand, the share of the oil sector increased from 8.3% to 10.4% respectively for both periods.

Under the Seventh Development Plan, investment in the non-oil private sector experienced positive developments (Table 7.1), reaching about SR 504.5 billion, compared to about SR 404.6 billion in the Sixth, which raised its share in total investment to at about 75.6%. This growth is attributable to the remarkable investment by the non-oil productive sectors under the Seventh Development Plan, which amounted to about SR 277.1 billion; an increase of 27.3% over what was achieved under the Sixth Plan. These achievements are attributable to the substantial growth of investment in the Electricity, Water, Refining and Petrochemical sectors, while the Other Manufacturing Industries Sector could not attain its investment targets.

Table 7.1
Investments under the Seventh Development Plan,
Compared with the Sixth

(SR Billion)

Category	Sixth Development Plan 1995–1999 Actual		Seventh Development Plan 2000–2004 Actual	
	Value	Percentage Distribution	Value	Percentage Distribution
	<u>£81.£</u>			
A. Non-oil sectors	<u>7</u>	<u>91.7</u>	<u>598.1</u>	<u>89.7</u>
	217.6			
1. Goods Producing Sectors:	<u>7</u>	<u>£1.£</u>	<u>277.1</u>	<u>£1.0</u>
1.1 Agriculture, Forestry and Fisheries	20.09	3.9	18.8	2.8
1.2 Non-oil mining and quarrying	1.0£	0.3	1.£	0.2
1.3 Manufacturing Industries	87.00	16.6	9£.0	1£.1
1.3.1 Oil refining	11.19	2.1	8.9	1.3
1.3.2 Petrochemicals	£6.13	8.8	02.0	7.8
1.3.3 Other Manufacturing Industries	29.73	0.7	33.1	0.0
1.4 Electricity, Gas and Water	99.22	18.9	10£.£	23.1
1.5 Construction	9.26	1.8	8.0	1.3
	186.9			
2. Services Sectors	<u>7</u>	<u>30.6</u>	<u>227.£</u>	<u>3£.1</u>
2.1 Trade, Restaurants and Hotels.	23.12	£.£	20.6	3.8
2.2 Transport and Communication	23.0£	£.0	2£.7	3.7
2.3 Finance, Insurance, Real Estate and Business Services	13.10	2£.8	166.7	20.0
2.3.1 Real Estate Services	11.72	21.1	1£0.7	21.8
2.3.2 Finance, Insurance and Business Services	19.£3	3.7	21.0	3.1
2.4 Community and Personal Services	1.16	1.9	1.£	1.6
	£0.£.6			
Total Private Non-oil Sector	<u>£</u>	<u>77.0</u>	<u>0.£.0</u>	<u>70.6</u>
3. Government Services	<u>76.83</u>	<u>1£.6</u>	<u>93.6</u>	<u>1£.0</u>
B. Crude oil and Natural Gas	<u>£3.71</u>	<u>8.3</u>	<u>69.0</u>	<u>10.£</u>

	٥٢٥.١	٦٦٧.١
Total Investment	٨	١٠٠٠

* Rounded to one decimal point.

Source: Ministry of Economy and Planning.

Investment in the private services sectors amounted to SR 227.4 billion under the Seventh Development Plan, compared to about SR 187 billion under the Sixth; an increase of 21.6%. The real-estate sector and the finance and insurance sector maintained their share in total investment.

Government investment could not reach the targeted level under the Seventh Plan, due to the continuous need to maintain operational expenditures. Under the Seventh Plan, government investment stood at SR 93.6 billion, compared to about SR 76.8 billion under the Sixth Plan. However, the share of government investment in total investment did not experience a substantial change. Enhancing government investment represents a major challenge for the Eighth Development Plan.

Failure of the Other Manufacturing Industries sector to achieve its investment objectives, despite its pivotal importance for economic diversification goal and economic competitiveness, is another developmental challenge. However, the measures taken and incentives offered, under the Seventh Development Plan, to enhance domestic and foreign investment in the industrial sector may require time for their results to come to fruition.

Machinery, equipment and transport equipment enjoyed the highest share of total investment under the Seventh Development Plan, accounting for about 54.2%, followed by non-residential buildings at 24.4%, while the share of residential buildings amounted to 21.4% (Table 7.2).

Table 7.2
Investment by Category of Capital Goods
Seventh Development Plan
Constant 1999 Prices

Category	Value (SR billion)	%
Residential Buildings	142.66	21.4
Non-residential Buildings	162.74	24.4
Machinery and Transport Equipment	361.70	54.2

Total	667.1	100.0
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Source: Ministry of Economy and Planning.

The share of fixed investment in GDP increased from 19.6% in 1999 to 20.5% in 2004 (Table 7.3). This level is still below that required to attain the planned future structural shifts in the national economy.

Table 7.3
Share of Investment in GDP*
Seventh Development Plan

Category	(%)		
	1999	2004	Increase (Decrease)
Total fixed investment	19.6	20.5	0.9
Private Investment	16.3	15.4	(0.9)
Government Investment	2.1	3.0	0.9
Oil Investment	1.2	2.1	0.9

* Rounded to one decimal point.

Source: Ministry of Economy and Planning

7.2.3 Savings

Government and private national savings experienced a positive development under the Seventh Development Plan. As a result of improved government revenues and the growing savings awareness on the part of citizens, total savings increased from SR 129.2 billion in 1999 to about SR 369.6 billion in 2004; i.e., at an average annual growth rate of 23.4% over the period (Table 7.4).

Table 7.4
Savings and Investment
Seventh Development Plan
(At Current Prices)

Category	Value (S.R Billion)		Average Annual Growth Rate under the Seventh Development Plan (%)	Total Amount under the Seventh Development Plan (SR Billion)
	1999	2004		
1. Savings	129.2	369.6	23.4	1201.5
2. Investment	118.2	151.3	5.1	670.1
Balance (1 minus 2)	11.0	218.3	81.7	531.4
Percentage of GDP:				
1. Savings	21.4	39.8	—	—
2. Investment	19.58	16.3	—	—
Balance (1 minus 2)	1.82	23.5	—	—

Source: Ministry of Economy and Planning

The ratio of savings to GDP stood at about 39.8% in 2004, compared to about 21.4% in 1999. Thus, the balance of savings/investment to GDP achieved a substantial surplus of about 23.5% by the end of the period. In view of the increased availability of financial resources ready for investment, the challenge lies in providing opportunities that will stimulate investment, in order to utilize savings efficiently and productively in the development of the national economy.

7.3 ISSUES AND CHALLENGES

Notwithstanding considerable effort exerted under the successive development plans to increase the investment rate, several challenges must be addressed under the Eighth Development Plan to further enhance investment prospects in both the public and the private sectors. Foremost among these challenges are the following.

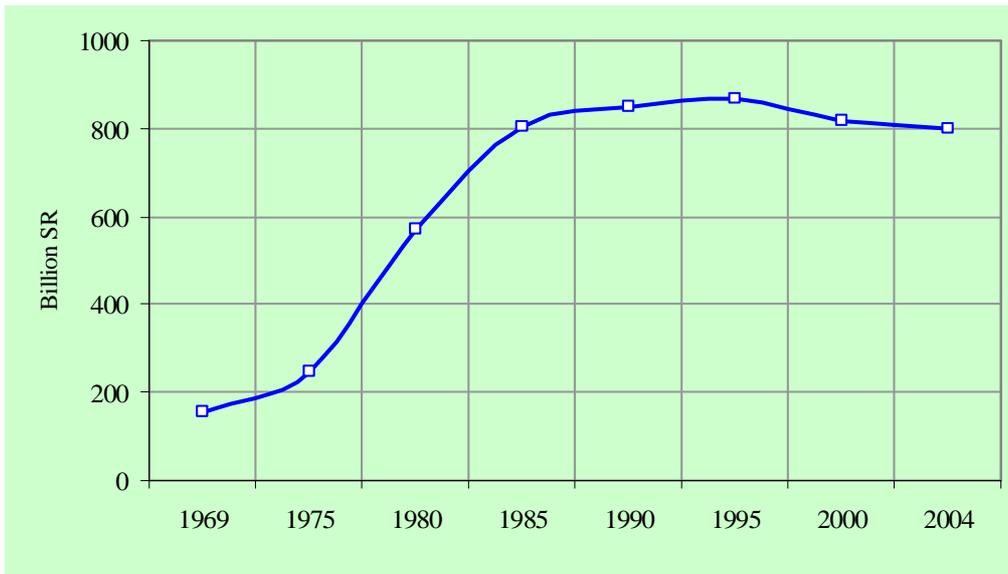
7.3.1 Government Capital Stock

The rapid growth of government capital stock during the first three development plans has led to a rapid increase in replacement requirements. Since the end of the Fifth Development Plan and the beginning of the Sixth (1995–1999), government investment has not been able to keep up with the high capital (assets) depreciation rates (Figure 7.2). These developments have had differing effects on the efficiency of government services. Those services with surplus capacity, such as the transport sector, could satisfy the growing demand resulting from population and economic growth; but pressure mounted on those services that could not keep pace with growth in demand, such as education services and certain municipal services.

Undoubtedly, the more recent attention given to recurrent expenditure for maintenance and operation has contributed to maintaining the capital assets and upgrading their operational efficiency, and hence alleviating potential pressure on some government services. Furthermore, privatization and growing public-private partnerships have eased budgetary burdens and liberated resources to be directed towards investment. However, there will be areas that require urgent government initiatives for investment with a view to providing adequate conditions for private sector participation. These include physical infrastructure for the geographical growth poles and industrial zones. Moreover, requirements of improving urban and rural environment, as well as development of the

education system and promotion of the knowledge economy, will remain a source of demand for government investment. Thus, under the Eighth Plan priority will be given to enhancing government investment expenditure, through increasing budget revenues, rationalizing operational expenditures and raising the efficiency of government expenditures.

Figure 7.2
Development of Government Capital Stock (1969-2004)
Constant 1999 Prices



7.3.2 Investment and Sustainable Development

Maintaining standards of living and improving them in the future requires use of oil revenues to finance development of human capital and increase productive assets. In this respect, the development strategy for development is based on the following principles:

- Ensuring complementarity of government and private investments.
- Increasing non-oil government revenues to a level that allows for financing a significant part of operational expenditures and government services without resort to oil revenues.
- Reducing operational (recurrent) expenditures through privatization and expansion of public-private partnerships.
- Increasing government savings and investment, along with adoption of a public investment plan that is not influenced by fluctuations in oil revenues (Chapter 4).

7.3.3 Private National Savings

Success of the investment policy is contingent upon having an efficacious savings policy. As private national savings are not confined to private domestic savings, but also include private savings abroad, the savings policy is based on the following:

- Encouragement and mobilization of domestic savings by providing diversified and profitable investment instruments in an advanced and highly efficient financial market.
- Attraction of national savings invested abroad, as well as foreign direct investments, to the domestic market, through expansion of investment opportunities in the national economy, on-going improvement of the investment climate, development of the business environment, and provision of investment incentives that serve the priorities and strategic objectives of the development plan.
- Expansion of investment opportunities in the national economy available to expatriates.

7.4 DEVELOPMENT STRATEGY

7.4.1 Objectives

- Increasing the rate of domestic private and government savings.
- Increasing government net fixed capital formation.
- Repatriation of Saudi capital invested abroad.
- Encouraging foreign direct investment.

7.4.2 Targeted Investment

As shown in Table 7.5, the main features of the expected investment and its sectoral distribution during the Eighth Development Plan are:

- Total expected investment is estimated at SR 1044.8 billion, exceeding the actual investment under the Seventh Development Plan of SR 667.1 billion by 56.6%.
- Total investment is distributed as follows: SR 920.3 billion for the non-oil sectors and SR 124.5 billion for oil sectors (crude oil and natural gas); i.e., 88.1% and 11.9% of total investment respectively.

- Expected investment in the non-oil sectors amounts to SR 438.7 billion in the productive sectors, SR 365.2 billion in the services sector, and SR 116.4 billion in the government services sector; i.e., 42.0%, 35.0% and 11.1% of total investment respectively. A substantial increase is noted in the value of expected investments of the goods producing sectors, compared to the level achieved under the Seventh Development Plan.

Table 7.5
Structure of Planned Investment
Seventh and Eighth Development Plans
Constant 1999 Prices

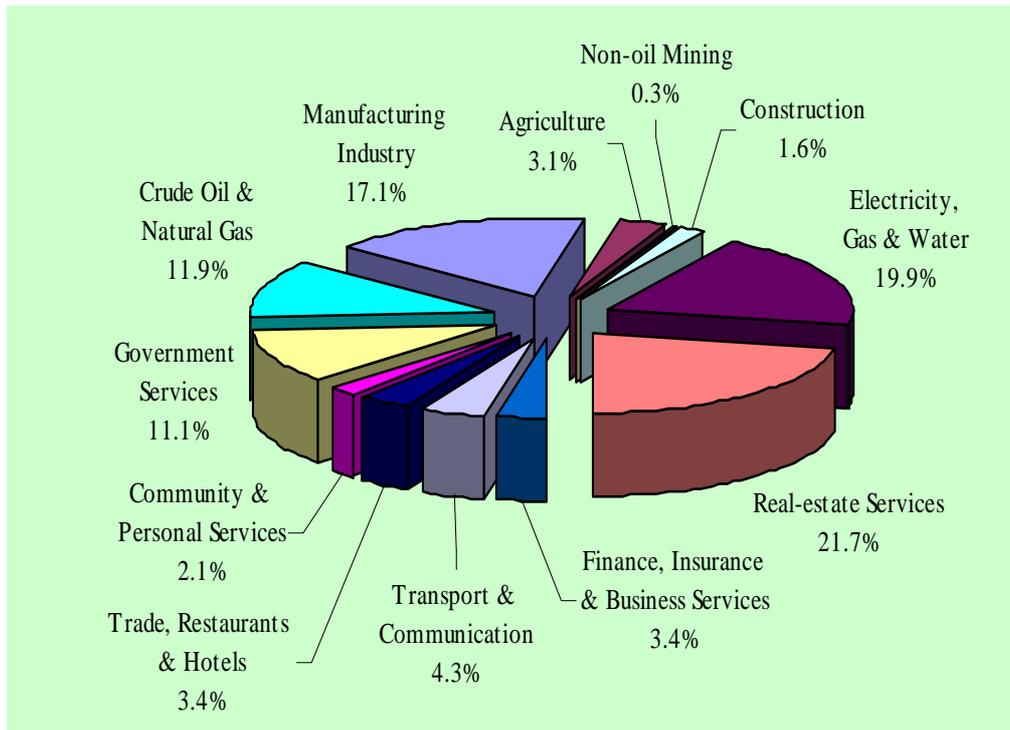
Category	7 th DP		Planned in 8 th DP	
	Actual Value (SR Billion)	%of Total	Value (SR Billion)	%of Total
A. Non-oil sectors	<u>598.1</u>	<u>89.6</u>	<u>920.3</u>	<u>88.1</u>
1. Goods Producing Sectors:	277.1	41.5	438.7	42.0
1.1 Agriculture, Forestry and Fisheries	18.8	2.8	32.5	3.1
1.2 Non-oil Mining and Quarrying	1.4	0.2	3.5	0.3
1.3 Manufacturing Industries.	94.0	14.1	178.7	17.1
1.3.1 Oil Refining	8.9	1.3	12.1	1.2
1.3.2 Petrochemicals	52.0	7.8	101.5	9.7
1.3.3 Other Manufacturing Industries	33.1	5.0	65.0	6.2
1.4 Electricity, Gas and Water	154.4	23.1	207.8	19.9
1.5 Construction	8.5	1.3	16.4	1.6
2. Services Sectors	227.4	34.1	365.2	35.0
2.1 Trade, Restaurants and Hotels.	25.6	3.8	35.7	3.4
2.2 Transport and Communication	24.7	3.7	45.3	4.3
2.3 Finance, Insurance, Real-Estate and Business Services	166.7	25.0	262.6	25.1
2.3.1 Real-Estate Services	145.7	21.8	227.3	21.7
2.3.2 Finance, Insurance and Business Services	21.0	3.1	35.3	3.4
2.4 Community and Personal Services	10.4	1.6	21.5	2.1
Total Non-oil Sector	504.5	75.6	803.9	77.0
3. Government Services	93.6	14.0	116.4	11.1
B. Crude oil and Natural Gas	<u>69.0</u>	<u>10.4</u>	<u>124.5</u>	<u>11.9</u>
Total Investment	667.1	100	1,044.8	100

* Rounded to one decimal point.

Source: Ministry of Economy and Planning.

The structure of investment by major sector (productive, services and government) is shown graphically in Figure 7.3.

Figure 7.3
Structure of Investment (*)
Eighth Development Plan



* Rounded to one decimal point.

Source: Ministry of Economy and Planning.

- With respect to Goods Producing Sectors the expected investments, in billions of Saudi Riyals, are distributed over the sub sectors as follows: Electricity, Gas and Water (207.8), Manufacturing (178.7), Agriculture, Forests and Fishery (32.5), Construction (16.4) and Non-oil Mining and Quarrying (3.5). It is clear that the expected investments in the Manufacturing Sector will almost double compared to actual investments during the Seventh Development Plan (SR 94 billion). This is attributed mainly to multiplicity of the expected investments in the petrochemical industry (SR 101.5 billion) and other manufacturing (SR 65.0 billion).
- Regarding Services Sectors, the Finance, Insurance, Real-Estate and Business Services sectors are expected to enjoy investments with a value of SR (262.6) billion. Most of such investment, will be in the

field of Real Estate Services (SR 227.3 billion), followed by Transport and Communications Services (SR 45.3 billion), Trade, Restaurants and Hotels Services (SR 35.7 billion) and Community and Personal Services sector (SR 21.5 billion).

- Total Expected investments are distributed according to main categories of capital goods, as follows: Construction of residential buildings (SR 182.6 billion), construction of other buildings (SR 260.0 billion), machinery, equipment and transport equipment (SR 60.2 billion) with shares of 17.5%, 24.9% and 57.6 respectively.

7.4.3 STRATEGIC PROJECTS UNDER THE EIGHTH DEVELOPMENT PLAN

Table 7.6 shows a number of strategic programs and projects expected to be implemented under the Eighth Development Plan by both public and private sectors. These programs and projects constitute the key areas of investment activities under the Plan.

Table 7.6
Strategic Projects under the Eighth Development Plan

Activity	Size/Outputs
1. Gas Projects <ul style="list-style-type: none"> • Agreements have been concluded for four major projects for exploration and production of natural gas with the participation of international firms. (See Oil and Gas Chapter) 	<ul style="list-style-type: none"> • Exploration area is about 330,700 km².
2. Expansion of Saudi ARAMCO's production capacity <ul style="list-style-type: none"> • Expansion of crude oil production capacity. 	<ul style="list-style-type: none"> • Addition of 1.5 million barrels/day to the production capacity.
3. Expansion and development of refining capacity <ul style="list-style-type: none"> • Expansion of refining capacity with a foreign partner. • Renovation of Rabeigh refinery with a foreign partner 	<ul style="list-style-type: none"> • Increase refining capacity by 30% during period of the plan. • Development of the refinery to become an integrated complex for refining and petrochemicals.
4. Petrochemical projects <ul style="list-style-type: none"> • Increased availability of natural gas will lead to new opportunities for the growth of petrochemical industries. This has resulted in the announcement of a 	<ul style="list-style-type: none"> • Establishment of a new complex in Yanbu for production of: <ul style="list-style-type: none"> – 1.3 million tons of ethylene. – 800 million tons of

Activity	Size/Outputs
<p>considerable number of new investment projects to be undertaken by SABIC, as well as private domestic and international companies. (See Industry Chapter).</p>	<p>polyethylene.</p> <ul style="list-style-type: none"> - 700 million tons of ethylene glycol. • Establishment of a new ethylene glycol plant at Jubail, by SABIC, with a production capacity of 625 thousand tons/year. • Establishment of a Butene-1 plant with a production capacity of 130 thousand tons/year in Jubail, by PETROCHEMYA, a subsidiary of SABIC. • The International Methanol Company will establish a 970,000 tons/year methanol plant in Jubail. • The National Petrochemical Industrialization Company will establish a plant for production of 5000,000 tons of acetic acid, 275,000 tons of vinyl and 1.8 million tons of methanol. • Saudi Chevron Philips plans to establish a new plant in Jubail for production of ethyl benzene and styrene with a capacity of 730,000 tons/year.
<p>5. Railway Projects</p> <ul style="list-style-type: none"> • Work is underway to finalize an integrated plan for expansion of the railway network with the participation of the private sector. 	<ul style="list-style-type: none"> • Construction of a 1,683 km railway line to connect phosphate and bauxite mines in the Northern Part of the Kingdom with Jubail Industrial City. • Construction of a 946 km rail road linking Jeddah with Dammam, and passing through Riyadh. • Connection of Mecca with Medina via Jeddah along with a link to Yanbu city. • Connection of Dammam with Jubail industrial city (115 km)
<p>6. Mining Projects</p> <ul style="list-style-type: none"> • Work, with the involvement of foreign investors, is expected to commence on implementation of major phosphate and bauxite projects that are linked with the railway projects. (See Mining Chapter). 	<ul style="list-style-type: none"> • Establishment of an integrated phosphate fertilizer project with a capacity of 2.9 million tons/year, including four sulfuric acid plants, three phosphoric acid plants and three DAP plants. • Completion of the bauxite project, which includes development of Al-

Activity	Size/Outputs
	Zubairah Bauxite mine with a production capacity of 3.3 million tons/year, establishment of an ammonium refinery with a capacity of 1.4 million tons/year and an ammonia melting furnace at Ras Zour north of Jubail city.
<p>7. Communication and information technology. (See the Communication and Information Technology chapter)</p>	<ul style="list-style-type: none"> • More mobile and fixed telephone services will be provided so that the number of customers will reach about 13 million for mobile telephones and about 7 million for fixed telephones by the end of the plan.
<p>8. Electricity Generation and Water Desalination.</p> <ul style="list-style-type: none"> • The Water and Electricity Company has been established to promote establishment of several independent water desalination and power generation projects. Several power generation and transmission projects will be launched on (BOT) and (BOO) basis. * 	<ul style="list-style-type: none"> • Establishment of power generation plants which will contribute about 10,996 MW, in addition to 1330 MW expected to be provided by desalination plants. • Establishment of power transmission lines to provide electricity to 1126 villages and hamlets and to add about 1163,2 thousand customers.
<p>9. Water and wastewater projects.</p> <ul style="list-style-type: none"> • Expansion of water distribution and wastewater networks and increasing wastewater treatment plants. 	<ul style="list-style-type: none"> • Expansion of water distribution network to increase coverage rate to 80%. • Expansion of wastewater networks to increase coverage rate to 50%. • Increasing rate of wastewater treatment to about 40% of wastewater volume. • Increasing desalination capacity from 1070 million cubic meters per year to 1650 million cubic meters per year.

* BOT = Build, Operate Transfer.
BOO = Build, Operate, Own.

CHAPTER EIGHT

**MANPOWER AND
EMPLOYMENT**

8. MANPOWER AND EMPLOYMENT

8.1 INTRODUCTION

Manpower development is a cornerstone of comprehensive and sustainable development, for it plays a pivotal role in upgrading skills, mobilizing capacities and developing scientific, occupational and technical abilities.

Economic globalization and rapid technological change necessitate improving manpower quality, enhancing its productivity, and developing its ability to partake in modern technological innovation. Manpower development has indeed become the primary means for assimilating technologies and scientific inventions and enhancing the ability of the country to integrate into the world economy. Moreover, the ability to acquire and use knowledge in the production of commodities has become a key measure of the progress and prosperity of nations.

Human development, including manpower, continues, therefore, to be the top priority of the successive development plans, which have focused on continuous improvement of manpower competencies, through qualitative and quantitative expansion of education, training and vocational training. They have also focused on resolving issues of efficiency of the labor market and improvement of the labor market environment, in light of the competitive challenges facing the country.

The Eighth Development Plan reinforces these efforts in the context of the requirements of a knowledge-based economy, more integrated with the global economic system, and in which the private sector plays a vital role in supporting national manpower development strategies.

This Chapter addresses the current conditions of manpower development and employment, and reviews the major developments that took place under the Seventh Development Plan. It further examines the key indicators of the labor market, as well as the major issues and challenges that should be tackled, and sets out the objectives, policies and implementation mechanisms adopted by the Eighth Development Plan.

8.2 CURRENT CONDITIONS

8.2.1 Total Manpower

Statistics of the Seventh Development Plan point to an increase in total manpower from 7.23 million in 1999 to about 8.27 million in 2003, i.e., an

annual growth rate of 3.4%. This resulted in 1.04 million new job opportunities during the period, 56.4% of which filled by national manpower.

In 2003, the national manpower stood at 3.30 million workers, with women representing 12.2%, while expatriate workers numbered 4.97 million. Although the rate of increase in national manpower of 5.1% during the first four years of the Seventh Development Plan exceeded the target of 4.7%, the number of expatriate workers also increased during the same period by 457,000 workers; i.e., at an annual rate of 2.4%, when the Plan aimed at achieving a reduction.

Table 8.1 and Figure 8.1 show that in terms of level of education, 29.2% of workers do not have educational qualifications (illiterate or can only read and write). The majority of these workers are found among the expatriate workforce, where their ratio was 41.9%, whereas the percentage of national workers who are without educational qualifications does not exceed 15.4%. On the other hand, 21.3% of the total national manpower are university graduates or postgraduates, whereas the percentage of holders of similar degrees among expatriate workers is only 14.3.

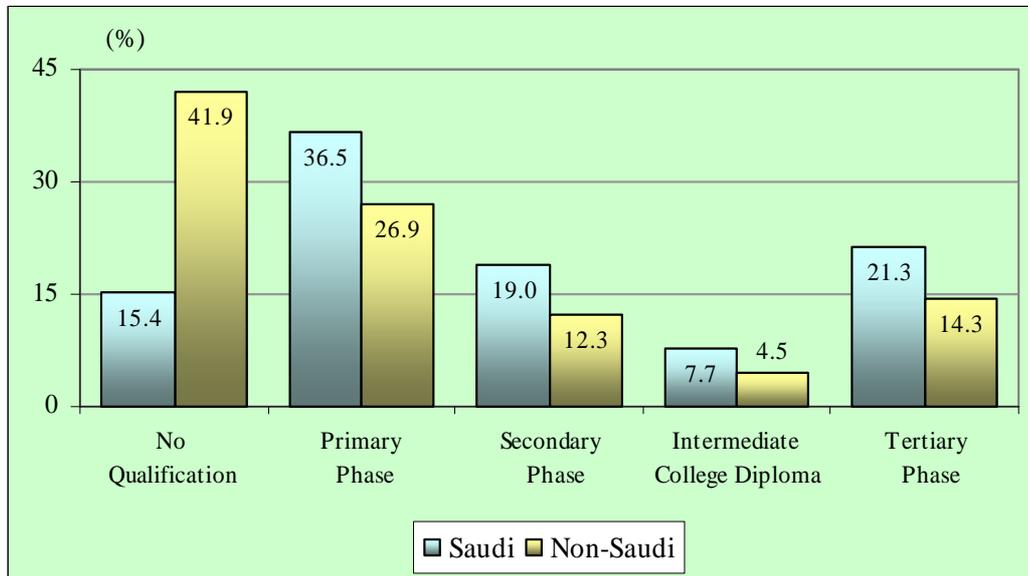
Table 8.1
Proportional Distribution of
Total Labor by Level of Education, Nationality and Gender (2002)
(%)

Level of Education	Saudi			Non-Saudi	Total		
	Male	Female	Total		Male	Female	Total
Illiterate	9.8	4.9	9.2	12.5	11.7	6.0	11.0
Able to Read & Write	7.0	0.8	6.2	29.4	16.7	28.4	18.2
Hold No Qualifications	16.8	5.7	15.4	41.9	28.4	34.4	29.2
Elementary School	20.5	1.5	18.1	12.2	16.5	5.3	15.0
Intermediate School	20.8	2.0	18.4	14.7	17.9	7.6	16.5
Primary Phase	41.3	3.5	36.5	26.9	34.4	12.9	31.5
Secondary Phase	19.4	16.2	19.0	12.3	16.1	11.8	15.6
Intermediate College Diploma	5.4	23.3	7.7	4.5	5.1	12.3	6.0
Bachelor Degree	15.1	49.3	19.5	12.5	14.1	26.8	15.9
Higher Diploma / Master	1.2	0.9	1.2	1.3	1.2	1.1	1.2
Ph.D.	0.6	1.0	0.7	0.5	0.6	0.7	0.6
Tertiary Phase	16.9	51.3	21.3	14.3	16.0	28.6	17.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Labor Size (000)	2671.0	437.1	3108.1	5136.6	7250.6	994.1	8244.7

Totals are rounded up to one decimal place.

Source: *Proportional Distribution, Manpower Bulletin 2002 – CDS.*

Figure 8.1
Distribution of Total Labor by
Nationality and Level of Education (2002)



8.2.2 The Labor Market

The most significant features of the labor market in 2003 are as follows:

- The occupational structure of labor by nationality (Saudi / Non-Saudi) shows that a high percentage of Saudi workers work in service 32.6% and scientific and technical jobs 25.9%. Expatriate workers are concentrated in the production and transportation equipment 39% and 28.4% work in service jobs. There is a significant deficit of Saudi workers in the category of production jobs, which largely depends on skilled and semi-skilled workers, with 4,400 expatriate workers to each 1,000 Saudi workers. This poses a real challenge in terms of requirements of training of Saudi workforce.
- The structural composition of labor by economic and institutional sector indicates that the services and productive sections of the private sector employ 96.5% of total expatriate labor and about 70% of total Saudi labor. About 56.2% of Saudi labor in the private-sector work in the service sector, particularly in personal and community services 41.2 %, which is characterized by low technology and low value added. In comparison, expatriate workers

in the private sector are homogeneously distributed among goods producing and service sectors.

- The rate of female participation is estimated at only 10.25%, compared to 63.64% for men. The limited economic activity of women is largely due to work opportunities available to them being limited.
- There is large dependency on expatriate labor, particularly in the private sector. At the aggregate economic level, the ratio of expatriate labor to Saudi labor is 1.5 to 1, while the ratio in the private sector is 2 to 1.
- Official statistics recorded in Manpower Bulletins indicate that the unemployment rate stood at 9.7% of the total national manpower in 2002. A detailed analysis by age category shows that the rate of unemployment is higher than the national average among those who are less than 24 years of age.

8.2.3 Employment in the Public Sector

At the end of 2003, total employment in the public sector in graded, professional and employee positions (exclusive of other employment categories, such as ordinary workers and direct recruits) reached 747,000 employees, of whom 677,500 were Saudis (90.7% of the total). Saudi women occupied 225,000 positions, which represent 89% of total female employment and 30.1% of total Saudi labor in the public sector. In the first four years of the Seventh Development Plan, the number of Saudi employees increased by 14.5% over the 1999 level, with an average annual growth rate of about 3.4%. During the same period, expatriate labor dropped at an average annual rate of 4.3%. This is clear evidence of a change in the structure of labor in the public sector in favor of national workers.

Table 8.2 shows public sector employees by nationality and job category in 2003. It indicates that the majority of Saudi and non-Saudi workers in the public sector are employed in education and health, with 52% of total public sector employees employed in the former and 10.8% in the latter.

Table 8.2
Public Sector Employees by
Nationality and Jobs (2003)

	(Thousands)		
Jobs	Saudi	Non-Saudi	Total
Public Jobs (Grades)	173.7	7.1	180.8
Education Sector	373.1	15.1	388.2
Health Sector	38.5	41.8	80.3
Teaching Staff, Lecturers and Assistant Teachers	12.7	4.9	17.6
Judges	1.0	–	1.0
Members of Saudi Commission for Investigation & Prosecution	1.2	–	1.2
Other Employees	77.3	0.5	77.8
Total	677.5	69.4	746.9

Source: Ministry of Civil Service, Achievements Report, 2003.

Data on employment of nationals in the public sector show that 15,520 citizens were hired in 2003, including 2,588 women (16.7 %). Holders of bachelor degrees constituted 75.1% of these new entrants, and 19.1% of them were females. These data also show that education was the largest employer, accounting for 68% of the total, with women occupying 16.8%.

8.2.4 Employment in the Private Sector

Labor statistics on the private sector indicate a continued increase in employment of Saudi nationals during the first four years of the Seventh Development Plan. This was also accompanied by an increase of expatriate workers through the first three years. However, from 2003 the flow of expatriate workers decreased, in accordance with the government Saudization strategy. With respect to the distribution of labor across various sectors (Table 8.3), the goods producing sectors employ 55.5% of total workers in the private sector. The construction and building sector alone employs 36.7% of the total; about 28.7% of total Saudi workers and about 37.4% of total expatriate workers. The services sector employs 42.8% of the total, and the wholesale and retail trade 26.4%. Table 8.3 shows the relative share of Saudis and Non-Saudis in each category in 2003. The large share of non-Saudis in the construction and wholesale/retail trade sectors is worth noting.

Statistics on Saudi employment in the private sector indicate that the vast majority of job applicants who registered at labor offices have been placed

in jobs. In 2002, 97.3% and in 2003, 94.5% of applicants were nominated for vacancies in the private sector. This is clear evidence of the intensive efforts made by labor offices to assist Saudis to join the private sector. The majority of applicants are holders of high school certificates; 46.0% in 2002 and 41.2% in 2003. The percentage of those registered as illiterate dropped to as low as 1.7% of total registered job seekers in 2003 and they constituted 1.6% of those nominated for jobs in the same year. The corresponding percentages for those who can read and write (but are without qualifications) are 2.8% and 3.8% respectively. These data indicate that Saudi nationals are tending to obtaining qualifications before entering the labor market.

Table 8.3
Distribution of Labor in the
Private Sector by Economic Activity & Nationality (2003)

		(%)		
Activity Code	Economic Activity	Saudi	Non-Saudi	Total
1.	Agriculture, Forestry, Terrestrial Hunting & Fisheries	1.91	8.15	7.69
2.	Mining, Oil, Gas and Quarries	0.88	0.37	0.41
3.	Manufacturing	10.72	10.38	10.41
4.	Electricity, Gas and Water	0.53	0.25	0.27
5.	Construction and Building	28.73	37.38	36.74
	Total Productive Sectors	42.77	56.53	55.52
6.	Wholesale and Retail trade	28.28	26.24	26.39
7.	Transportation, Storage and Communications	2.96	2.08	2.14
8.	Finance, Insurance, Real Estate and Business Services	5.87	1.36	1.69
9.	Community, Social and Personal Services	18.25	12.11	12.56
	Total Services Sectors	55.36	41.79	42.78
10.	Other Activities	1.87	1.68	1.70
	Total	100.00	100.00	100.00
	Total Labor in the Private Sector (000)	2388.9	4816.5	7205.4

Source: Proportional Distribution – Database of the Ministry of Labor.

8.3 MANPOWER AND EMPLOYMENT ISSUES

A major challenge is to increase participation of Saudi manpower in economic activity. Other key challenges are elimination of macro and structural imbalances in the labor market, improving employment opportunities for Saudi nationals, and addressing unemployment among new graduates, in addition to development of labor market services.

8.3.1 Participation of Saudi Manpower in Economic Activity

The rate of participation in the labor force is an important measure in studying the factors that determine current and future manpower supply, as well as in defining employment policies and estimating training needs.

Although male participation has almost reached international levels, the low level of female participation makes the overall participation rate low by international standards. Participation by females with secondary-level education is very low (10.5 %), but the rate increases dramatically for those with post secondary schooling (to 71 %). However, demand for post-secondary school female graduates is beginning to decline, which requires re-qualifying them to suit the new types of jobs expected to be available to women in future.

8.3.2 Macro and Structural Imbalances in the Labor Market

Macro and structural imbalances between supply and demand in the labor market pose challenges that require more immediate answers, as well as long- term remedies. The most significant imbalances are:

- Increased dependency of the national economy on expatriate labor, due to the failure of national manpower to meet increased demand for labor. It is estimated that in 2003, there were about 1.5 expatriate workers to every national worker. This gap emerged as early as the Fourth Development Plan and is now one of the most critical issues to be addressed by the Eighth Development Plan.
- Structural and occupational imbalances in the labor market reflected in the mismatch between outputs of the education and training system and labor market needs. In addition, the types of vacant jobs available and terms of employment fall short of expectations of job seekers.

It is the objective of the Eighth Development Plan to remedy these imbalances through better control over the quantity and quality of expatriate labor, as well as over the supply and demand sides of the labor market. This would contribute to reducing unemployment ratios, given that a large percentage of unemployment is structural in nature.

8.3.3 Saudization of Employment

Strongly focused on reducing dependency on expatriate workers and providing practical means for implementing Saudization, the Fourth Development Plan was a turning point in manpower planning. However, Saudization continues to face challenges, and this is now one of the most important issues of manpower and employment planning. In addition to the abovementioned structural and occupational imbalances, the most important challenges include:

- Continued importation of expatriate labor, particularly unskilled and low- paid workers, occasionally in excess of actual need; resulting in an increase of marginal workers in the private sector.
- Ensuring strict compliance with the decisions and circulars regarding Saudization and enhancing the relevant implementation mechanisms.
- Enhancing the role of the Human Resources Development Fund in providing efficient support to Saudization programs, through direct employment or training that ends with actual employment.
- Setting up an appropriate organizational and administrative environment that encourages job seekers to join the private sector, particularly small and medium size enterprises.
- Provide more information on vacant positions to Saudi job seekers and on characteristics of job seekers to employers.

The Eighth Development Plan seeks to intensify efforts to enhance Saudization, through a package of policies and mechanisms aimed at increasing employment opportunities of Saudi labor in the private sector. Further, the Plan stresses the need to increase the effectiveness of the agencies entrusted with providing Saudi labor with the necessary skills and strengthening their technical and occupational capabilities to meet the requirements of the labor market.

8.3.4 Partnership with Private Sector

There are several mechanisms for coordination between the private and public sectors. However, in view of the mounting role of the private sector in economic activities, there is a need for strengthening these mechanisms and involving the private sector more closely in manpower planning,

education, labor market policies and training of the Saudi workforce. The next phase would focus on reducing the excessive reliance of the private sector on expatriate labor through Saudization.

8.3.5 Disparities in Employment Benefits

Some segments of the national workforce continue to prefer public-sector employment, due to the perception that the public sector provides better benefits, including wages, allowances, job security and training. However, public-sector employment has now reached a saturation point. The focus in the next phase should therefore be on improving the organizational and administrative environment of private-sector establishments, particularly Small and Medium Enterprises (SMEs), in order to make them more attractive to Saudi job seekers.

8.3.6 Employability of National Workforce

Some categories of the national workforce face intense competition from expatriate workers in qualifications, experience and wages, which limits employment opportunities available to the national workforce.

The next phase thus requires encouraging private sector initiatives for training- leading-to-employment of Saudis, as well as ensuring that educational and training programs meet the needs of the labor market.

8.4 OBJECTIVES OF MANPOWER DEVELOPMENT

The manpower development objectives of the Eighth Development Plan are:

- Achieving optimum utilization of national manpower and encouraging Saudi nationals to undertake productive work in all economic sectors.
- Ensuring that educational and training programs of Saudis meet labor market needs.
- Providing more employment opportunities to Saudi nationals in the private sector to meet demand resulting from natural growth, as well as replace existing expatriate workers.
- Rationalizing recruitment of expatriate workers to limit it to actual

needs, enforcing Saudization regulations and restricting employment in certain job categories to Saudi nationals.

- Providing more employment opportunities to Saudis; in particular women, and adopting appropriate policies to enhance women's participation in the labor market in positions that best suit their skills and do not contradict Sharia.
- Reducing Saudis unemployment rates.
- Encouraging investment in productive and service activities that use high technology and have high value added.

8.5 POLICIES AND IMPLEMENTATION MECHANISMS

The Eighth Development Plan adopts a package of policies designed to ensure increased participation of Saudi manpower in economic activity, improve employability, and address qualitative and quantitative imbalances in the labor market; in addition to developing labor market services, and the agencies entrusted with manpower and employment planning and monitoring implementation. These policies and mechanisms include the following:

8.5.1 Policies for Improving Workforce Skills

1. Ensure that manpower training policies are focused on the skills mostly sought after by the private sector. This will be achieved through the following implementation mechanisms:
 - Ensuring closer coordination and integration between the private sector and the agencies responsible for national manpower policies.
 - Encouraging and expanding training-leading-to-employment initiatives by the private sector, and utilizing its training capacities in the formation of the technical and professional workforce.
 - Intensifying the efforts being made to improve productivity of the national workforce and to expand training programs aimed at enabling Saudi nationals to take advantage of employment opportunities available through growth or substitution of

- expatriate workers.
- Continuing to modernize educational curricula and develop them to meet labor market needs, and expand participation of relevant sectors and agencies.
 - Enhancing media initiatives aimed at improving work behavior and ethics, as well as increasing employment of Saudi nationals in the private sector.
2. Continue to improve and develop education and training systems, making them cost effective, through the following implementation mechanisms:
- Introduce indicators for performance measurement of public sector service institutions, and develop and monitor performance by means of such indicators and information systems.
 - Allocate more funds to the training budgets of government institutions to satisfy the need for specialized training.
 - Expand scholarship programs to send more suitably qualified students to study abroad so as to build a Saudi cadres with the requisite skills and qualifications in areas of priority.
 - Establish in-Kingdom specialized training centers, within the framework of bilateral agreements with industrialized countries, and enroll more Saudi trainees in advanced specialized training courses abroad.

8.5.2 Employment Policies

Employment policies are designed to improve employment opportunities available to Saudi nationals, particularly in the private sector and reach full employment. The implementation mechanisms of these policies and guidance include the following:

- Continue to strengthen the agencies responsible for training and employment of the national workforce and enhance their human and technological potentials; e.g., the General Organization for Technical Education and Vocational Training (GOTEVT), Labor offices of the Ministry of Labor, the National Organization for Cooperative Training organized by the GOTEVT, and the Human Resources Development Fund.
- Link expatriate labor recruitment policy with Saudization to ensure

that recruitment of expatriate labor is restricted to job categories where supply of national workforce is insufficient.

- Continue to conduct field studies on unemployment phenomenon as per international standards, in order to identify causes, types and impact.
- Review and update the list of jobs that are exclusively reserved for Saudi nationals.
- Review the present working conditions of private SMEs that employ the majority of expatriate labor and make them more attractive to Saudi nationals.
- Study wage levels and adopt appropriate wage policies to ensure balancing employment of Saudis with private sector need for growth and profitability.
- Identify and expand the capacities of major sectors with potential employment opportunities for Saudis, e.g., construction, tourism and services.
- Encourage Saudi citizens to establish SMEs, by providing support and incentives, simplify company formation procedures, and using technological incubators.
- Continue coordination between the parties concerned to minimize disparities in employment benefits between the public sector and the private sector, and ensure consistency between military and civil service retirement plans and Social Security benefits.

8.5.3 Expanded Women Participation Policies

Council of Ministers Resolution 120 of 31/5/2004 approved a set of regulations and procedures aimed at offering more employment opportunities to Saudi women. Chapter 17 of this plan document, entitled “Women and Development”, includes a set of policies and mechanisms designed to increase women participation in the labor market, through employment or investment opportunities.

8.5.4 Policies of Labor Market Services Development

1. Support institutions directly involved in planning and implementation of manpower and employment programs, through the following implementation mechanisms:

- Build capacities of the labor offices to enable them to pursue Saudization.
 - Intensify coordination among agencies dealing with manpower and employment.
 - Enhance the efforts made to improve work environment in the private sector to make that sector more attractive to Saudis.
 - Expedite arbitration processes for resolving labor disputes and consider setting a timeframe for issuing settlement decisions.
 - Ensure closer coordination between the Ministry of Labor and the private sector in matters pertaining to labor market regulation.
2. Develop an effective, comprehensive, up-to-date and accessible labor market information system, through the following implementation mechanisms:
- Improving labor market indicators and issuing them regularly.
 - The Ministry of Labor completing a detailed labor market database that includes data on current and prospective jobs of all categories, benefiting from information on labor market structure and conditions made available by the Population and Housing Census, and make the data widely available.

8.6 LABOR MARKET KEY INDICATORS

8.6.1 National and Total Manpower Indicators

The Eighth Development Plan envisages increasing the annual growth of Saudi workforce to 5.13% per annum, in order to raise total participation of Saudi nationals in the workforce from 36.9% in 2004 to about 39.2% in 2009. Thus, the national workforce, estimated to number at the beginning of the Plan 3.80 million citizens, of whom 14% are women, would increase by the end the Plan to 4.89 million citizens, 18.2% of whom women. The plan will therefore focus on increasing participation of women in the Saudi workforce from 10.3% at the beginning of the plan to about 14.2% by the end of the plan, which would increase participation of women in economic activities and reduce the gender gap in the national workforce.

The Plan expects total manpower to increase from 8.28 million at the

beginning of the Plan in 2004 to 9.22 million workers by the end of the Plan in 2009, with national manpower participation increasing from 42.7% to 51.5% of all workers (Table 8.4).

Table 8.4
Key Indicators of Labor Market
Eighth Development Plan

Description			2004	2009	Change During Eighth Development Plan	
					Number	Average Annual Growth (%)
National Workforce and Participation	Saudi National Workforce	Total (000)	3804.2	4887.0	1081.8	0.13
	Participation Rate	(%)	36.88	39.16	2.28	
Employment & Unemployment of National Workforce	Saudi Employment	Total (000)	3036.3	4747.1	1710.8	6.1
	Saudi Unemployment	Total (000)	267.9	138.9	(129)	(12.3)
	Saudi Unemployment Rates	(%)	7.0	2.8	(4.2)	
Saudis and Non-Saudi Labor & Total Labor	Non-Saudi Labor	Total (000)	4745.5	4474.2	(271.3)	(1.17)
	Saudi Labor	Total (000)	3536.3	4747.1	1210.8	6.1
	Total Labor	(000)	8281.8	9221.3	939.5	2.17
		Saudi percentage of Total Labor Force	42.7	51.5	8.8	

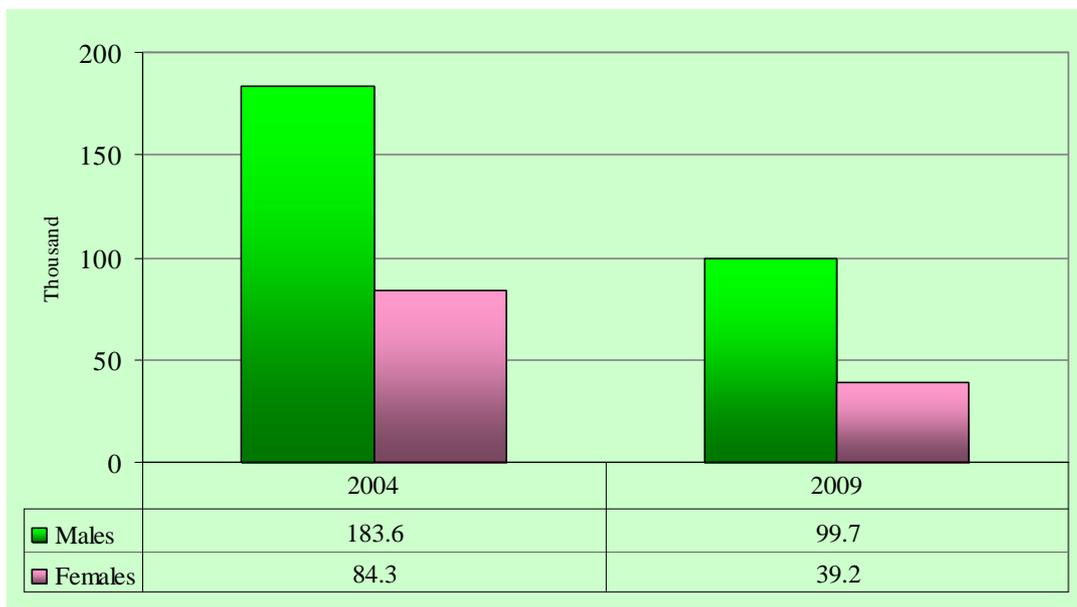
Source: Central Department of Statistics, Ministry of Economy & Planning.

8.6.2 Employment and Unemployment

The Eighth Development Plan forecasts that the number of employed Saudi national workers would jump from 3.54 million at the beginning of the Plan, with women representing 12.2%, to 4.75 million workers at the end of the Plan, with women representing 17.9%. This implies that 1.21 million additional jobs would be made available to the national workforce, 33.2% of which would be filled by women.

Unemployment among nationals stood at 9.6% in 2003, but dropped to 7.04% in 2004, as a result of intensive effort made to employ nationals by the end of the Seventh Development Plan. The Eighth Plan envisages providing employment to 129,000 job seekers, which would absorb 48.2% of those searching for jobs at the beginning of the Plan. The overall objective of the Plan is to reduce unemployment among nationals to 2.8% by the end of the Plan in 2009. Thus, by 2009, only 138,900 would remain unemployed; 99,700 of whom male (Figure 8.2).

Figure 8.2
Unemployment by Gender
Eighth Development Plan



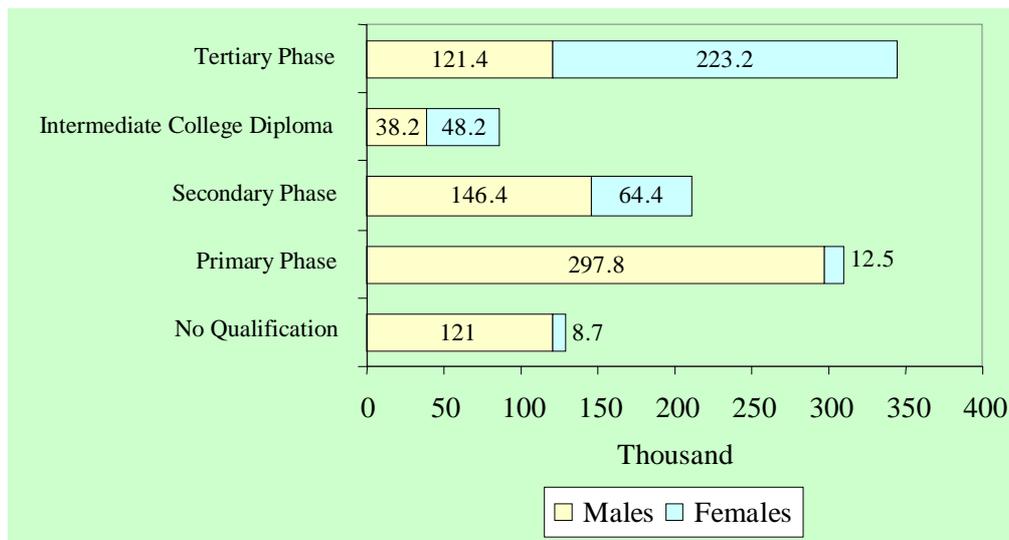
8.6.3 Educational Composition of New Entrants to the Labor Market

The most important educational features of the new Saudi entrants to the labor market during the course of the Eighth Development Plan are as follows (Figure 8.3):

- New entrants to the labor market from the educational and training system are estimated at 952,100 graduates, 36.6% of them are females. This represents 88% of all new entrants, whose number is estimated at 1.08 million.
- Population statistics indicate that the rate of growth of the 15–24 years age group is greater than that of the below-15 age group, which will increase demand for secondary and post-secondary

- education at a rate higher than for pre-secondary education.
- The Eighth Development Plan envisages increasing participation of post-secondary female graduates from 82.8% to 88.8%. It also envisages enhancing employment opportunities for women without educational qualifications.
 - Graduates of tertiary education (male and female) who hold bachelor and postgraduates degrees are estimated at 31.9% of all new entrants to the labor market under the Eighth Plan, which indicates a relative increase in the rate of participation of the 25–54 age group.
 - Post-secondary school female graduates represent 76% of the all new female entrants to the labor market during the course of the Eighth Development Plan, in comparison with a ratio of 22% for males, which clearly indicates that the increase in participation of post-secondary graduates in the workforce is mainly due to increasing participation by post-secondary female graduates.

Figure 8.3
New Entrants to the Labor Market by Level of Education
Eighth Development Plan



8.7 LABOR NEEDS AND SAUDIZATION

The key sources of demand for Saudi labor:

- Demand for labor by various economic activities.
- Need to reduce dependency on expatriate workers and replace them with Saudi nationals.

The Eighth Development Plan envisages providing Saudi nationals with 939,500 new jobs, in addition to 271,300 made available through substitution of expatriate workers. However, attaining Saudization requires strict enforcement of applicable resolutions and policies, the most important of which are:

- Council of Ministers Resolution 50 of 26/9/1994, which required private sector institutions that employ more than 20 workers to achieve an annual growth rate of Saudi employees of not less than 5% of total employees, and specified the occupations reserved for Saudis; and Royal Decree 2.T.B/58847 of 17 January 2004, which approved the mechanisms for enforcing this Resolution.
- Council of Manpower Resolution 1/M48/1423 of 2/2/2003 which stipulates that by the end of 2013, expatriate labor and their families shall not exceed 20% of the total Saudi population, and that a balance among nationalities be achieved such that any expatriate nationality shall not exceed 10% of total expatriate residents.
- Decisions that reserve some activities, jobs and occupations for Saudis.
- Decisions and circulars on Saudization of some trading activities.

The Eighth Development Plan aims at cutting expatriate manpower by some 5.7%, at an annual reduction rate of 1.2%. Thus expatriate manpower would decrease from about 4.75 million to about 4.47 million, which would result in increasing the ratio of nationals to total manpower from 42.7% in 2004 to about 51.5% in 2009 (Table 8.4).

8.7.1 Demand by Economic Sectors

Achieving the projected economic growth under the Plan requires increasing total labor from 8.28 million in 2004 to 9.22 million in 2009, at an average annual growth rate of 2.17%, with workers distributed among sectors (economic activities) as shown in Table 8.5.

Table 8.5
Sectoral Structure of Total Labor Force
Eighth Development Plan

	2004		2009		Change 2004 – 2009		
	Number (000)	%	Number (000)	%	Number (000)	Percent	Growth Rate %
Agriculture	096.7	7.2	702.6	6.0	0.89	0.7	0.20
Non-oil Mining & Quarrying	17.8	0.2	18.7	0.2	0.88	0.1	0.97
Oil Refining	20.4	0.3	21.3	0.2	0.90	0.1	0.87
Petrochemical Industries	23.2	0.3	26.7	0.3	3.37	0.4	2.70
Other Manufacturing Industries	707.0	7.3	734.4	8.0	127.40	13.7	3.88
Electricity, Gas & Water	77.3	0.9	76.7	0.8	-0.64	-0.01	-0.17
Building & Construction	1080.2	19.1	1772.4	19.2	187.18	19.9	2.26
Goods Producing Sectors	2927.7	30.3	3202.7	30.2	324.98	34.7	2.13
Trade, Restaurants, & Hotels	1137.1	13.7	1417.0	10.4	280.31	29.8	4.01
Transport & Communication	341.9	4.1	390.3	4.3	53.43	0.7	2.90
Financial Services	47.4	0.7	53.1	0.7	5.77	0.7	2.33
Real-Estate Services	291.9	3.0	316.4	3.4	24.01	2.7	1.73
Community & Personal Services	2330.0	28.1	2433.2	27.4	103.23	11.0	0.87
Service Sectors	4148.3	50.1	4710.0	50.1	467.20	49.7	2.16
Total Private Sectors	7070.9	80.4	7878.1	80.3	797.23	84.3	2.10
Government Services	1100.4	13.3	1237.9	13.4	131.49	14.0	2.27
Non-oil Sectors	8181.3	98.8	9100.0	98.7	923.72	98.3	2.16
Crude oil & Gas	100.0	1.2	117.3	1.3	15.72	1.7	2.90
Total Labor	8281.8	100.0	9221.3	100.0	939.44	100.0	2.17

Totals are rounded up to one decimal place.

Source: Ministry of Economy and Planning.

The most important features of sectoral changes of labor are as follows:

- Labor employed by the private sector would grow at an annual rate of 2.2%, and will, therefore, increase from 7.08 million to 7.87 million.
- The relative contribution of government services to employment would increase from 13.3% to 13.4%.
- Employment in the productive sectors would grow at an average annual rate of 2.1%. The highest rates of employment growth would be achieved in the Other Manufacturing Industries sector (3.9% per annum), Petrochemical industries (2.8 %) and Construction and Building (2.3 %), while the rate of employment in the Electricity, Water and Gas sector would decrease by about 0.2%.

- The highest rates of employment growth among the service sectors would be achieved by the Trade, Hotels and Restaurants sector and the Transportation, Storage and Communications sector, at 4.5% and 3.0% respectively.

8.7.2 Demand by Key Occupational Category

The most important features of the growth of labor by key occupation category under the Eighth Development Plan are (Table 8.6):

- Relative contribution of technical and scientific jobs would increase from 18.6% to 20.7%, while proportion of employees in services would drop from 30.4% to 27.9%. These changes are consistent with the objective of restructuring Saudi manpower to increase its employment in productive sectors.
- Number of production workers would increase by 298,500, at an average annual rate of 2.7%, in line with the objective of supporting the productive sectors, particularly Manufacturing, and Construction and Building.
- Clerical jobs would grow at a rate of 3.1%, with numbers of managers and administrators growing at 2.8%, which would contribute to employment of nationals and substitution of expatriates in these job categories.

Table 8.6
Occupational Structure of Total Labor Force
Eighth Development Plan

Key Occupational Category	2004		2009		Change (2004–2009)	
	Number (000)	percent	Number (000)	%	Number (000)	Annual Average
Scientific & Technical Positions	1040.4	18.6	1908.8	20.7	868.4	4.38
Managers & Administrators	273.3	3.3	313.0	3.4	40.7	2.78
Clerical Jobs	703.9	8.0	820.7	8.9	116.8	3.12
Sales Jobs	740.4	9.0	783.8	8.0	43.4	1.01
Services Workers	2017.7	30.4	2072.7	27.9	55.0	0.43
Agriculture Workers	438.9	0.3	471.1	0.5	32.2	0.99
Production Workers, etc	2072.2	24.9	2370.7	20.7	298.5	2.74
Total Occupations	5581.8	100.0	9221.3	100.0	3639.5	2.17

Source: Ministry of Economy and Planning.

8.8 EMPLOYMENT DISTRIBUTION

The Eighth Development Plan envisages providing new employment to 1.21 million Saudi nationals, both new entrants to the labor market and unemployed. The most significant features of the expected distribution of this growth by main economic and institutional sectors are (Table 8.7):

Table 8.7
Saudi Total Employment Growth by Economic Sector
Eighth Development Plan

Economic Sector		Substitution Jobs (000)	Growth Jobs (000)	Total Employment (000)
Private Sector	Productive Sectors	٤٠.١	٣٢٥.٠	٣٦٥.١
	Service Sectors	٢١٣.٠	٤٦٧.٢	٦٨٠.٢
	Total	٢٥٣.١	٧٩٢.٢	١.٤٥٣
Government Services		١٦.٣	١٣١.٥	١٤٧.٨
Nonoil Sector		٢٦٩.٤	٩٢٣.٧	١١٩٣.١
Oil & Gas Sector		١.٩	١٥.٨	١٧.٧
Total		٢٧١.٣	٩٣٩.٥	١٢١٠.٨

Source: Ministry of Economy and Planning.

- The productive sectors would increase Saudi employment by 365,100 jobs; 30.2% new jobs and 40,100, i.e 12.3% resulting from substituting expatriate workers. The higher number of new jobs would result from productive sectors needing more labor to achieve the targeted economic growth.
- The service sectors are expected to account for some 56.2% of all new Saudi employment (both substitution and new jobs). This is attributed mainly to the fast growing demand for labor in transportation and communications, wholesale and retail trade, hotels and restaurants, and real-estate services related to tourism.
- New employment in the private sector as a result of substitution of expatriate workers is expected to be 253,100, which would increase the share of Saudi labor in employment in the private sector from approximately 36.1% in 2004 to 45.8% in 2009.
- Government services would employ 147,800 new Saudi workers, i.e., only 12.2% of total additional employment. This is consistent with

government- sector employment reaching saturation, so that new jobs result only from natural expansion, mainly in health and education, and limited substitution of expatriates, which would create some 16,300 jobs only during the term of the Plan.

- Overall, substitution of 271,300 expatriate workers with Saudi workers is expected, which represents 22.4% of all new jobs created.

Table 8.8 shows the expected occupational distribution of Saudi entrants to the labor market (1.2 million). The most important feature are:

Table 8.8
Occupational Balance of Saudi total Employment growth
Eighth Development Plan

Key Occupational Category	Entrants to Labor Market (000)	Substitution Jobs (000)	Growth Jobs (000)
Scientific and Technical Occupations	٤١٦.٤	٤٨.٠	٣٦٨.٤
Managers and Administrators	٤٦.٩	٦.٧	٤٠.٢
Clerical Jobs	١٤٠.٢	٢٣.٤	١١٦.٨
Sales workers	٧١.٥	٣٣.١	٣٨.٤
Services Workers	١٧١.٦	١١٦.٥	٥٥.١
Agriculture Workers	٤٥.٢	٢٣.١	٢٢.١
Production Workers, etc.	٣١٩.٠	٢٠.٥	٢٩٨.٥
Total Occupations	١٢١٠.٨	٢٧١.٣	٩٣٩.٥

Note: Differences between Tables 8.7 and 8.8 are due to differences between “Economic Sectors” and “Occupational Categories”.

Source: Ministry of Economy and Planning.

- The increase in the numbers of Saudi workers in the various occupational categories depends on rates of substitution of expatriate workers and numbers of new openings resulting from economic growth. In the services sector, the substitution proportion is very high; while in the scientific and technical occupations category, the proportion of growth jobs is highest.

- Despite the increasing relative importance of category of production workers, which will provide 319,000 new jobs, the substitution rate in this category is very low; amounting to a mere 7.6% of all substitution. This indicates that training of the national workforce to acquire the necessary skills required for substitution is still inadequate.
- The scientific and technical occupations category would provide a total of 416,400 new Saudi jobs, i.e 34.4% of jobs opportunities reflecting a larger post-secondary education output expected, particularly of females.

CHAPTER NINE

**POPULATION AND
STANDARD OF LIVING**

9. POPULATION AND STANDARD OF LIVING

9.1 INTRODUCTION

This chapter addresses population and demographic characteristics, with a view to providing an objective framework and a reference point for the policies and programs of the Eighth Development Plan, since these characteristics provide the key data and inputs required for estimating various infrastructure and services needs and developing economic and social policies consistent with these needs in terms of location and timing.

The chapter also discusses living standards in general and poverty in particular, dwelling on what resources the Plan will mobilize to deal with poverty and address its causes, within the framework of a comprehensive poverty reduction strategy that is under preparation by the government. The chapter also reviews the population policy in the context of the proposed comprehensive development strategy.

9.2 CURRENT CONDITIONS

9.2.1 Structure of Population

Statistics derived from the Population and Housing Censuses, demographic surveys and population projections, point to a considerable rise in population size over the past three decades. According to the 1974 census, the population was estimated at some 7 million, of whom 6.2 million were Saudi citizens, i.e., 89% of total population. In the second census conducted in 1992, the population was found to have increased to 16.9 million; 12.3 million citizens and 4.6 million expatriates (72.6% and 27.4% respectively of total population). The considerable rise in population over such a short span of time is attributed to two major factors; namely, the high rate of natural growth of the Saudi population, estimated at about 3.8% per year for that period, and the influx of a large number of foreign workers, who were recruited to meet the needs of economic and social development.

Over the 1992–2004 period, the natural growth rate of the Saudi population has remained high at 2.5% annually. Preliminary results of the

2004 Population and Housing Census indicate that the population stood at some 22.6 million in 2004; 16.5 million citizens and 6.1 million non-citizens, i.e., 73% and 27% of total population respectively.

9.2.2 Population Characteristics

Preliminary results of the 2004 Population and Housing Census indicate that the sex ratio among the Saudi population is 101 males per 100 females, and that the annual average growth rate during the preceding twelve-year period is 2.5%.

The high growth rate among Saudis is primarily due to the high total fertility rate (TFR) of women of child-bearing age (15–49 years), which averages about 4.8 live births per woman. The TFR continues to be high despite the increase in the singulate mean age at marriage (SMAM) from about 21 years in 1988 to about 24.9 years in 2000. The main reason for this high TFR is the high tempo of child-bearing, measured by the length of the interval between two consecutive births, which, estimated at about 28 months, is short compared to other Arab countries. This, in turn, is attributable to the short duration of breast feeding, a natural method of spacing births, in addition to low use of artificial devices. Studies conducted in many countries confirm that longer spacing of births leads to lower fertility rates, as well as to improved health for mothers and children.

9.2.3 Implications of the Demographic Characteristics of the Saudi Population

The age structure of the Saudi population in 2004 indicates strong dynamics, with significant economic and social and demographic implications. Key among these are:

- Table 9.1 and Figure 9.1 show that younger age groups dominate the population, with the below-15-years age group constituting 40.4% of total population. The median age is estimated at 17.3 years, which means that about one half of the population is at or below 17.3 years of age.
- The high age-dependency ratio (the ratio of the number of those below 15 and above 64 years of age over the number in the 15–64 years age group), which is estimated at 79%, translates into higher

consumption and, consequently, lower savings, with a negative impact on economic growth, as well as leading to higher demands on health, education and other services needed by the growing number of children.

It should be noted, however, that the age-dependency ratio is not equal to the economic dependency ratio, since not all people of working age are necessarily part of the workforce, as in the case of students and non-working women, which means that the economic dependency ratio is usually higher than the age-dependency ratio.

Table 9.1
Total Population by Age, Sex and Nationality
2004 Estimates

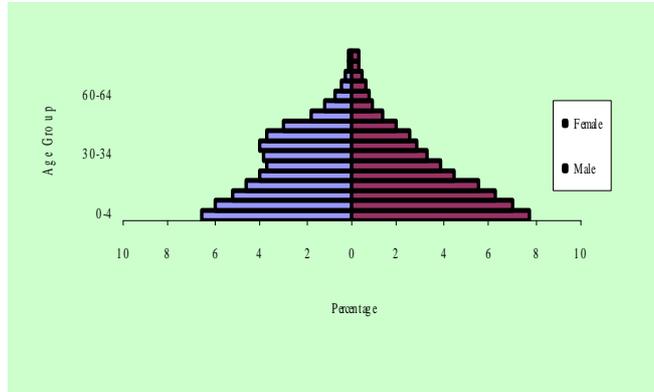
Age Group	Saudi (%) *			Non-Saudi (%) *			Total		
	Male	Female	Both Sexes	Male	Female	Both Sexes	Male	Female	Both Sexes
0-4	14.1	13.0	13.8	0.1	10.6	7.9	11.1	12.9	11.9
5-9	13.8	13.3	13.6	0.3	10.9	7.1	10.9	12.9	11.8
10-14	13.3	12.7	13.0	0.3	10.9	7.0	10.0	12.4	11.4
15-19	12.0	11.7	11.7	0.6	10.8	7.3	9.8	11.6	10.6
20-24	10.2	10.2	10.2	0.8	8.2	7.6	8.7	9.8	9.2
25-29	7.6	8.0	8.0	7.3	7.7	7.4	7.0	8.3	7.9
30-34	0.9	6.6	7.2	11.1	8.6	10.3	7.7	7.9	7.3
35-39	0.0	0.2	0.1	14.2	8.8	13.1	8.2	0.9	7.1
40-44	4.1	4.3	4.2	13.7	8.1	11.9	7.4	0.0	7.3
45-49	3.7	3.8	3.7	11.6	7.2	10.2	7.4	4.4	0.0
50-54	2.7	2.8	2.8	7.2	4.3	7.3	4.3	3.1	3.8
55-59	2.0	2.2	2.1	3.7	1.0	3.0	2.6	2.1	2.4
60-64	1.0	1.8	1.6	2.0	0.8	1.6	1.7	1.6	1.6
65-69	1.2	1.3	1.2	1.1	0.6	0.9	1.1	1.2	1.2
70-74	1.1	0.8	1.0	0.0	0.4	0.0	0.9	0.7	0.8
75-79	0.8	0.7	0.7	0.3	0.3	0.3	0.6	0.6	0.6
80+	0.9	0.6	0.7	0.2	0.3	0.2	0.6	0.6	0.6
Total	100	100	100	100	100	100	100	100	100

* Figures show the percentage ratio of population in each age group over the total population in each category.

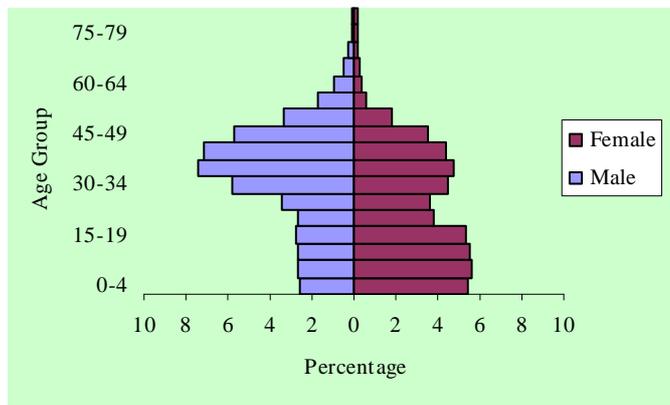
Source: Central Department of Statistics.

Figure 9.1
Population Pyramid of Saudis and Expatriates
2004 Estimates

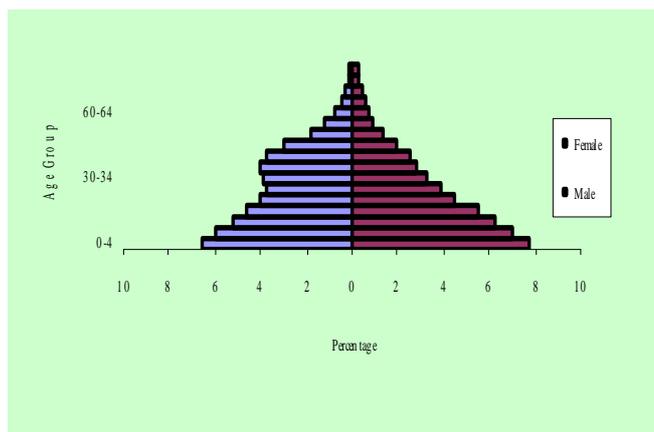
Saudis



Expatriates



Total Population



The average size of the Saudi household is 6 to 7 persons. Large household size leads to an increased burden of meeting the food, health, education and entertainment needs of the members of the household. In fact, inability to meet the basic needs of children has a tremendous effect, particularly among poor families making them perpetual in the poverty for long periods.

- The Saudi population age structure points to a high rate of new entrants to the labor market over the next two decades; currently estimated at 3% annually. This creates an opportunity by increasing supply of national manpower, but also poses the challenge of providing the young with high-quality education and training, as well as rewarding job opportunities.
- The high fertility rate creates a momentum which poses the demographic challenge of continued high population growth because of the large young generation reaching reproductive age during the coming years of births.

9.2.4 Characteristics of Expatriate Population

Table 9.1 and Figure 9.1 show that the proportion of expatriates in the below-15-years age group is only 21% of total expatriate population, the median age is 34.1 years, and the age-dependency ratio is 30%.

The sex ratio, at 228 males per 100 females, is high. This is due to the fact that most expatriates are males who came for work and most of them are either single or are married but unaccompanied by their families.

The age and sex structure of expatriates has a noticeable impact on total population age and sex structure, as shown in Figure 9.1, since they constitute about 27.1% of total population. As a result, the sex ratio of total population stands at 124 males per 100 females, the below-15-years age group accounts for about 35% of the total population, and the age-dependency ratio is about 62%.

9.2.5 Geographic Distribution of Population

The majority of the population is concentrated in 3 administrative regions; namely, Riyadh, Makkah and the Eastern Region, accounting together for 64.5% of total population in 2004 (Table 9.2).

The population growth rate in each region is influenced by the rate of natural increase of population, coupled with net immigration of citizens and expatriates. Table 9.3 shows population size, average annual growth rate and share of expatriates in population of each region during the periods 1974–1992 and 1993–2004. Data on geographic distribution of population show that:

Table 9.2
Distribution of Population by Administrative Region

Region	1974–1992			1993–2004		
	Population	Annual Growth Rate (%)	Share of Expatriates (%)	Population	Annual Growth Rate (%)	Share of Expatriates (%)
Riyadh	18.9	22.6	24.1	18.9	22.6	24.1
Makkah	26.1	26.4	20.7	26.1	26.4	20.7
Al Madinahh	7.7	6.4	7.7	7.7	6.4	7.7
Qassim	4.7	4.4	4.0	4.7	4.4	4.0
Eastern Region	11.4	15.2	14.8	11.4	15.2	14.8
Assir	10.1	7.9	7.4	10.1	7.9	7.4
Tabuk	2.9	2.9	3.1	2.9	2.9	3.1
Hail	3.9	2.4	2.3	3.9	2.4	2.3
Northern Borders	1.9	1.3	1.2	1.9	1.3	1.2
Jizan	6.0	5.1	0.2	6.0	5.1	0.2
Najran	2.2	1.8	1.8	2.2	1.8	1.8
Baha	2.8	2.0	1.7	2.8	2.0	1.7
Al-Jouf	1.4	1.6	1.7	1.4	1.6	1.7
Total	100	100	100	100	100	100

Source: Central Department of Statistics.

- The number of regions with a population of over one million has increased from 2 (Makkah and Riyadh) in 1974 to 5 in 1992, with the addition of Al Madinahh, the Eastern region, and Assir, and to 7 in 2004, with the addition of Qassim and Jizan.
- As shown in Table 9.3, all regions experienced a high population growth rate during 1974–1992, particularly the Eastern region (6.9 %), and the Riyadh region (6.3 %).

During 1992–2004, the population growth rate declined noticeably in all regions, compared with the average growth rate during 1974–1993. This decline was significant particularly in the Eastern Region,

Makkah, Baha and Jouf. The table also shows that during 1993–2004, Riyadh and Tabuk experienced the highest population growth rate (3% each) while Baha and the Northern Borders experienced the lowest (1.1% and 1.7%, respectively).

- The influx of expatriates has influenced population growth rates of regions at varying levels. Expatriates account for some one-third of the population of Riyadh, more than one-third of Makkah, about one-fourth of the Eastern region and Al Madinah and about one-fifth of Qassim. On the other hand, the share of expatriates in the overall population has dropped slightly during the period 1992–2004 in seven regions (Riyadh, Eastern Region, Tabuk, Hail, Northern Borders, Najran and Jouf), but increased in all others.

Table 9.3
Population Distribution by Administrative Region

Region	Total Population			Average Annual Growth Rate (%)		Share of Expatriates in Total Population (%)	
	1974	1992	2004	1974–1992	1992–2004	1992	2004
Riyadh	1,272,270	3,834,987	0,400,373	7.3	3.0	31.8	31.7
Makkah	1,704,108	4,477,770	0,797,971	0.3	2.2	37.8	38.1
Al Madinah	019,294	1,084,947	1,012,076	4.2	2.8	22.8	24.3
Qassim	317,740	700,979	1,017,707	4.9	2.7	18.7	19.7
Eastern Region	779,748	2,070,820	3,370,107	7.9	2.2	26.2	23.9
Assir	781,371	1,340,178	1,788,387	3.8	1.9	14.2	10.0
Tabuk	193,763	487,134	791,017	0.2	3.0	17.3	14.0
Hail	209,929	411,284	027,033	0.7	2.1	10.8	14.3
Northern Borders	128,740	229,070	279,287	3.3	1.7	22.0	14.3
Jizan	403,107	870,971	1,187,139	4.3	2.7	10.2	17.2
Najran	147,970	300,994	419,407	4.0	2.8	20.1	17.9
Baha	180,900	332,107	377,739	3.3	1.1	12.7	13.1
Jouf	97,898	278,228	371,777	0.8	2.0	17.7	14.8

Source: Central Department of Statistics.

9.3 FUTURE VISION

9.3.1 Population Policies

Population policy comprises measures and programs aimed at achieving specific demographic objectives in the context of overall development objectives. Population policy aims at influencing factors such as size of population, population growth rate, and population age and geographical distribution and balancing these factors with the resources available to society, as well as through improving health and education. Due to the significance of the influence of the demographic conditions on the process of sustainable economic and social development, the Ministry of Economy and Planning embarked upon formulating a population policy based on the long-term strategic vision for the Saudi economy 2005–2024 and on the general framework of the population strategy of the GCC countries.

The population policy of the Kingdom focuses on the following themes:

1. *Population Dynamics*

This theme covers the main demographic issues related to population size, growth rates, age and sex structure and geographical distribution; and birth and mortality rates among various population segments, along with studying the influence of social, economic and behavioral factors on population demand.

2. *Health Services and Health Conditions*

This theme covers monitoring the development of healthcare infrastructure, incidence rates of infections and chronic diseases among various population segments, and the health conditions of children, mothers and the elderly, as well as rates of the various types of disability.

3. *Education and Future Challenges*

Improvement in educational standards is a cornerstone of human development, and one of the most effective means for alleviating poverty and reducing mortality and fertility rates. This theme addresses the substantial expansion in education services in the previous decades and the resulting increase in enrollment rates at all educational levels, as well as the decline of illiteracy. However,

notwithstanding the substantial achievements in education and training, the growing number of school-age children, which is linked with the steady growth of population, calls for providing large educational resources, to stave off a possible decline in enrollment rates and achieve full enrollment of school-age children.

4. *Labor and Employment Opportunities*

This theme analyzes the present condition of the labor market, reasons for the relatively poor participation of Saudi citizens in the labor market, and discusses means and arrangements necessary to ensure absorption of the growing number of Saudi youth entering the labor market during the coming years.

5. *Opportunities for Women in Education and Work*

This theme monitors developments in the education of women over the past decades, and the required job and training opportunities for women to enable them to contribute more effectively to economic and social development.

6. *Environmental Considerations*

This theme addresses the influence of population changes on environmental conditions in the country, due to population growth and urban expansion. The challenges include: increased household liquid and solid waste; environmental pollution; industrial and municipal wastewater disposal; and increased demand for water for domestic, municipal, industrial, and agriculture use. The theme also deals with conservation of non-renewable ground water resources to prevent depletion, as well as protection of the vegetation cover in rural and urban areas.

7. *Population Database*

This theme emphasizes the importance of availability of a reliable, up-to-date database on population characteristics consistent with databases adopted internationally. It also stresses the significance of continuous training of the staff of statistical agencies, and conducting population research to define priorities and monitor and evaluate population and social programs.

The objectives of the population policy are in line with the Millennium Development Goals adopted by the UN in 2000, which include eradication of poverty; universal access to primary education; gender equality in education; reduction of maternal mortality and under-five mortality rates; control of HIV-AIDS, malaria and other infectious diseases; and conservation of the environment.

Undoubtedly, addressing population issues will help consolidate the major economic and social development achievements of the Kingdom to attain sustainable development and raise the standard of living in all regions of the country.

9.3.2 Standard of Living

Standard of living can be measured by per capita income, and by access of the population to basic services (education and health). Thus, the standard of living in the Kingdom has been estimated through the following indicators:

- Per capita income.
- Life expectancy at birth.
- Enrollment rate in primary education.
- Percentage of population with access to safe water supply.

Statistical data for 2004 show that the per capita income stands at SR 56,100 (US \$ = SR 3.75 at current prices), which is six times the average per capita income in the Middle East and North Africa, and about three times the per capita income of upper-middle income countries.

The decline in prevalence of infectious diseases and epidemics and decline of mortality rates, particularly the infant mortality rate, have resulted in an increase of life expectancy at birth from 53 years during the 1970s to about 71.9 years in 2003. The life expectancy in the Kingdom is now almost equal to that of upper-middle income countries and exceeds that of the Middle Eastern and Northern African countries (69 years) by about 3 years.

Available data shows also that 95% of the population of the Kingdom has access to safe water, which exceeds the rates prevailing in the Middle East

and North Africa countries (88%) and in upper-middle income countries (90%).

All these indicators show that the standard of living of the population of the Kingdom is high, in comparison with the Middle East and Northern Africa countries and with upper-middle income countries. Nevertheless, growing disparity in economic growth and availability of job opportunities among the various regions have led to unevenness of living standards and to immigration to the more prosperous regions. Likewise, while the overall rates of illiteracy (among the 10-years old and above) have declined considerably, the illiteracy rate varies considerably from region to region.

Greater attention should, therefore, be paid to adoption of policies, programs and projects covering all regions aimed at improving job opportunities and raising incomes and living standards. Emphasis should also be placed on improving housing standards of poor households, along with expansion of illiteracy eradication campaigns.

9.3.3 The National Strategy for Addressing Poverty

Poverty alleviation is a pivotal goal of development. The definition of poverty has been expanded to include material deprivation (measured by level of income or consumption), low educational attainment, poor health conditions, and exposure to risks. Data on these dimensions can be collected through surveys, as well as through qualitative methods for creating risk exposure indicators.

Royal Decree 41395 of 29/12/2002 ordered the preparation of a comprehensive national strategy for poverty alleviation. In compliance, the Ministry of Economy and Planning, in collaboration with the National Poverty Alleviation Strategy taskforce, is developing this strategy within a scientific framework that takes the specific conditions and capabilities of the Kingdom into consideration, while benefiting from the experience of other countries. Using specialized surveys, the strategy aims at establishing a database of various poverty measures and identifying the social groups and geographical areas where poverty is concentrated. The causes of poverty are also being examined with a view to implementing the programs and policies necessary for alleviating poverty and reducing adverse effects on economic and social development. The poverty measures used include: extreme poverty, absolute poverty, relative

poverty, poverty ratio, poverty gap, and poverty severity.

The poverty alleviation strategy focuses on the following main aspects:

1. Providing the poor with opportunities for creating and consolidating their material and human assets, through provision of jobs, credit, education and training opportunities, health services, and improving their access to markets to enable them to market their products.
2. Enhancing the ability of the poor to participate effectively in economic activities.
3. Improving the standard of living of the poor through reducing their exposure to risks such as health problems, economic shocks related to market fluctuations and natural disasters, as well as assisting them to overcome such disasters and shocks.

The strategy encompasses proposed policies for addressing poverty along the following five themes:

First: Macroeconomic policies, which include policies for speeding up economic growth and distributing its benefits in a balanced manner among various regions and social strata.

Second: Economic empowerment of the poor, which includes policies for providing poor individuals and families with production means of needed for increasing their income and upgrading the production capacities of productive families and SMEs, in addition to policies aimed at improving employment opportunities and wages.

Third: Public services policies, which include policies for improving health, education and municipal services for the poor.

Fourth: Social safety net policies, which include policies for enhancing the social security system, increasing the contribution of Zakat to poverty alleviation, and consolidating the role played by charitable associations and voluntary organizations in addressing poverty.

Fifth: Households properties policies, which include policies and programs for addressing housing problems and providing adequate housing for the needy at lower costs on easy terms.

Among the steps taken to address poverty is the establishment of the Charitable Fund for Humanitarian Services. The government contributes part of the Fund's capital, with the rest provided by the private sector and individuals. The Fund aims at helping the poor help themselves. The strategy of the Fund is based on:

- Improving the labor market opportunity of the poor by providing guidance through a database about available jobs at various community institutions and the private sector.
- Help establishing productive families through provision of soft loans for establishing small-size enterprises commensurate with the resources of poor families to help them secure more stable incomes.

These efforts are complemented by other material assistance provided by the government, including social security, by charitable associations, and by social care institutions.

9.4 DEVELOPMENT STRATEGY

The development strategy aims at raising the living standard of the population through achieving the following:

9.4.1 Objectives

The main objectives of Eighth Development Plan in relation to raising the standard of living of the population are:

- Increasing per capita income.
- Alleviating poverty.
- Providing education to all.
- Providing potable water to all.
- Providing telephony and Internet services to all.
- Reducing internal migration.
- Achieving a population growth rate commensurate with the efforts to raising the standard of living.
- Reducing the mortality rate of children under five years of age.
- Reducing the maternal mortality ratio.

- Improving health and education of the youth.
- Improving the quality of life of the elderly.

9.4.2 Policies

Achieving the objective of raising the living standard of the general population depends on the following policies:

- Ensuring continuous growth of per capita income.
- Enforcing mandatory primary education.
- Expanding the provision of telephony and Internet services at affordable costs in all regions.
- Sustaining the provision of health and educational services and job opportunities in a way that encourages people to stay in their areas of origin.
- Expanding the vaccination of children against infectious and common diseases.
- Persisting in improving the quality of medical care services provided to pregnant women and child delivery services, along with encouraging mothers to attend post-natal healthcare services.
- Expanding media campaigns aimed at spreading awareness among the youth of the dangers of harmful habits.
- Encouraging non-governmental organizations and the private sector to participate in establishing projects and programs for the healthcare and social care of the elderly.
- Encouraging the elderly to use their experience and abilities in social and voluntary work.

9.4.3 Targets

The Eighth Development Plan aims at achieving the following targets:

- Attaining an average annual growth rate of per capita income of 2.2%.
- Eradicating extreme poverty.
- Reducing the number of the extremely poor by 18%.

- Increasing the proportion of pregnant women receiving pre-natal healthcare to 98%.
- Increasing the proportion of deliveries attended by trained health professionals to 97%.
- Increasing the enrollment rate in primary schools to 100%.
- Attaining 100% access to potable water services.
- Attaining 97% coverage of telephone services.

CHAPTER TEN

REGIONAL DEVELOPMENT

10. REGIONAL DEVELOPMENT

10.1 INTRODUCTION

The economic conditions and prospects of the various regions are substantially affected by a number of major factors, including geographic location, climate, natural and human resources, infrastructural facilities, and material and intellectual wealth. To leverage these factors, a comprehensive planning approach was adopted, aiming at achieving more balanced growth across the various regions within available resources. Examples of this approach in action are enhancement of the capacities of the holy sites, establishment of the industrial cities of Jubail and Yanbu, and creation of development centers in various regions. Moreover, efforts to attain balanced growth across the regions needed a supporting organizational and administrative base, which was provided by, inter alia, the creation of provincial councils, approval of the National Spatial Strategy, and identification of development centers.

However, notwithstanding the efforts made to rise to the challenge of balanced development across the regions, through providing basic economic and social development requirements, such as basic infrastructure and vital services, in all regions, considerable regional disparities persist; a matter that constitutes a challenge for the Eighth Development Plan to deal with.

This chapter reviews the current status of regional development by highlighting some demographic, social and economic indicators, and deals with the main challenges involved. It also reviews the regional development strategy, as well as the objectives and policies adopted by the Eighth Development Plan.

10.2 CURRENT CONDITIONS

10.2.1 Population Distribution

Favorable economic opportunities and living conditions are important factors that substantially affect long-term population trends of the country as a whole, as well as of the individual regions. Three regions; namely, Riyadh, Makkah and the Eastern region, have witnessed high population growth over the successive development plans mainly due to internal

migration. Together, these regions comprised 64.5%, or almost two thirds, of the total population in 2004 (Table 10.1).

Table 10.1
Population Distribution by Administrative Region

Region	1992		2004	
	Number	(%)	Number	(%)
Riyadh	٣,٨٣٤,٩٨٦	٢٢.٦	٥,٤٥٥,٣٦٣	٢٤.١
Makkah	٤,٤٦٧,٦٧٠	٢٦.٤	٥,٧٩٧,٩٧١	٢٥.٦
Al Madinah	١,٠٨٤,٩٤٧	٦.٤	١,٥١٢,٠٧٦	٦.٧
Qassim	٧٥٠,٩٧٩	٤.٤	١,٠١٦,٧٥٦	٤.٥
Eastern Region	٢,٥٧٥,٨٢٠	١٥.٢	٣,٣٦٠,١٥٧	١٤.٨
Assir	١,٣٤٠,١٦٨	٧.٩	١,٦٨٨,٣٦٨	٧.٤
Tabuk	٤٨٦,١٣٤	٢.٩	٦٩١,٥١٧	٣.١
Hail	٤١١,٢٨٤	٢.٤	٥٢٧,٠٣٣	٢.٣
Northern Borders	٢٢٩,٠٦٠	١.٣	٢٧٩,٢٨٦	١.٢
Jizan	٨٦٥,٩٦١	٥.١	١,١٨٦,١٣٩	٥.٢
Najran	٣٠٠,٩٩٤	١.٨	٤١٩,٤٥٧	١.٨
Baha	٣٣٢,١٥٧	٢.٠	٣٧٧,٧٣٩	١.٧
Jouf	٢٦٨,٢٢٨	١.٦	٣٦١,٦٧٦	١.٦
Kingdom	١٦,٩٤٨,٣٨٨	١٠٠	٢٢,٦٧٣,٥٣٨	١٠٠

Source: Central Department of Statistics.

Regional population growth trends reveal the existence of economic and social disparities. While regions like Riyadh, Al Madinah, Qassim, Tabuk, Jizan, Najran and Jouf had population increases considerably above the overall annual average of 2.5% over the period 1992–2004, population growth rates in the regions of Makkah, the Eastern region, Assir, Hail, Northern Border and Baha were below the overall average. This is attributable to the size and direction of internal migration among the individual regions.

Internal migration was not restricted to migration between regions but also included migration from rural areas to urban areas within individual regions, leading to the concentration of population in the major cities. In 2004, the ratio of the population of the two biggest cities of a region to its total population was almost 82% for Riyadh region, 85% for the Northern Border, 82% for Al Madinah, 78% for Tabuk and 73% for Makkah. However, in other regions, urban concentration of population was lower. The share of the two biggest cities in the total population amounted to 41%

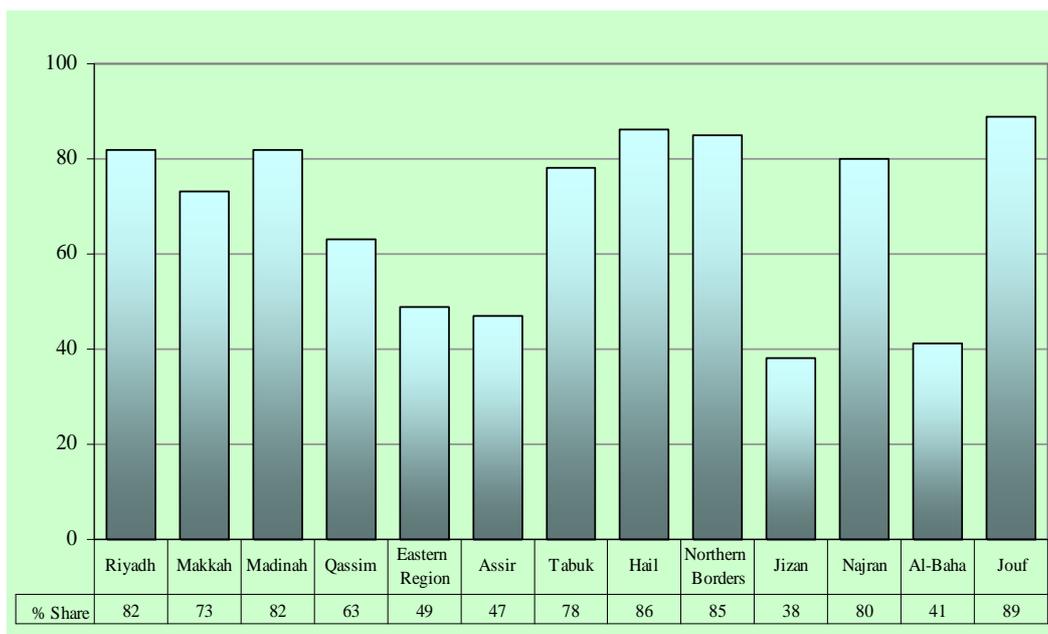
in Baha region, 47% in Assir and 38% in Jizan, (Table 10.2 and Figure 10.1). While the phenomenon of rural-urban migration is complex and is determined by many factors, evidence suggests that availability of agricultural resources constituted a major factor affecting the relative stability of the rural population in these regions.

Table 10.2
Population Concentration in the Two Largest
Cities of Each Administrative Region (2004)

Region	Principal Cities of the Region (Share of Regional Total)				Ratio of population of the two cities to total population of region (%)
	Largest		Second Largest		
	Name	(%)	Name	(%)	
Riyadh	Riyadh	٧٦	Kharj	٦	٨٢
Makkah	Makkah	23	Jeddah	50	٧٣
Al Madinah	Al Madinah	٦٥	Yanbu	١٧	٨٢
Qassim	Buraidah	٤٩	Unaizah	١٤	٦٣
Eastern Region	Dammam	٢٢	Ahssa	٢٧	٤٩
Assir	Abha	٢١	Khamis Mushait	٢٦	٤٧
Tabuk	Tabuk	٧٠	Umluj	٨	٧٨
Hail	Hail	٦٨	Gazalah	١٨	٨٦
Northern Borders	Arar	٥٩	Rafha	٢٦	٨٥
Jizan	Jizan	٢١	Sabia	١٧	٣٨
Najran	Najran	٦٣	Sharorah	١٧	٨٠
Baha	Baha	٢٥	Baljarshi	١٦	٤١
Jouf	Sakakah	٥٤	Qurayat	٣٥	٨٩
Kingdom		٤٤		٢٥	٦٩

Source: Central Department of Statistics.

Figure 10.1
Ratio of Population in the Two Largest Cities in
Each Administrative Region to its Total Population (2004)



10.2.2 Distribution of Economic Activity

The geographical distribution of economic activity is in line with population distribution, being highly concentrated in the Riyadh, Makkah and Eastern regions. Thus, in 2003, of the total number of operating business firms (570,000) 30% were located in the Riyadh region, 28% in the Makkah region and 16% in the Eastern region; a total of 74%. The distribution by type of activity was as follows:

A. *Industry*

The regional distribution of industrial activities is highly uneven. For instance, the average number of industrial jobs per 10,000 people ranges from 237 in the Riyadh region to only 7 in the Northern Border region. This unevenness is mainly attributable to the unbalanced distribution of the productive sectors and hence employment opportunities. The Eighth Development Plan will, therefore, adopt policies to encourage investment in the productive and service sectors in the least developed regions.

B. *Agriculture*

The actual cultivated area amounts to about 1.2 million hectares, or only 0.6% of the total area of the country. This is due to several factors, foremost among which are the limited availability of cultivable land and irrigation water.

The ratio of cultivated area to total area is above the national average in the regions of Jizan, Qassim, Jouf, Hail and Riyadh, but below it in the Makkah, Al Madinah, Najran and Eastern regions.

The Riyadh, Hail, Qassim and Eastern regions provide together about 87% of the total production of wheat, 67% of barley, 72% of vegetables, 65% of fodder, 52% of fruits and 62% of dates. Production in the Assir region is concentrated on fruits and dates, with 9.4% and 10.3% respectively of total national production, while the Jizan region specializes in producing fodder, with 7.7% of total national production. The region of Tabuk produces mainly barley, fodder and fruits, with shares of 19.5%, 10.7% and 10.1%, respectively, of total national production.

The geographical distribution of animal production is quite similar to that of crop production. The Riyadh region accounts for about 75% of total production of milk, while Qassim and Makkah regions account for 40% and 24% respectively of total poultry production. However, the animal stock of sheep, goats and camels is distributed more evenly over the various regions.

C. *Services*

The two holy cities of Makkah and Al Madinah are historic centers of services for the Hajj and Umrah. In the course of the development process, existing services centers grew bigger and new ones emerged. All enjoy unique advanced facilities such as hotels, conference and exhibition centers, and industrial cities, such as Riyadh as a government services center and the cities along the western and eastern coasts where large financial, professional, industrial and trade institutions abound. Tourism is becoming more important for the services sector; particularly recreational tourism, which is concentrated in the coastal cities of the Red Sea and the Arabian Gulf, as well as the mountainous summer resorts, such as Taif, Assir and Baha, which have started to attract increasing numbers of GCC citizens.

10.3 ISSUES AND CHALLENGES

10.3.1 Development of Regional Production Base

Achieving balanced development across all regions requires not only the providing physical infrastructure and basic services, but also

synchronously creating a production base primarily based on the development potentialities of each region and implementing a national strategy that encourages and directs investments and activities to the regions.

Under the Eighth Development Plan, several developments will contribute directly or indirectly to increasing participation of the least developed regions in economic activity. The most noteworthy of these developments include:

- Studying the feasibility of establishing a free zone and an integrated development corridor in Jizan to make use of its strategic location near the Horn of Africa and Yemen, and another such zone in Tabuk, on the northwestern coast, to utilize its regional and international strategic location.
- Expanding the national energy network (oil, natural gas and electricity) to provide fuel and feedstock to the new development corridors.
- Expanding the railway network to link, in the medium term, the mining sites in the Northern part of the country with the Eastern Region via the central part, thus facilitating transportation of extracted raw materials to processing centers and linking the Central region with the Western.
- Initiating development of the tourist sites identified in the long-term tourism strategy, which marked more than 10,000 natural, historical and cultural sites expected to be utilized for tourism over the next two decades.

10.3.2 Completion of Infrastructure

Achieving balanced regional development is a major objective and a basic strategic principle of economic and social development. Hence, the government has been keen to provide infrastructure and public services in all regions. As a result, disparities among regions are limited to a small number of services. Arguably, some of the gaps cannot be fully bridged due to factors relating to the development potential and specificities of individual regions. Nevertheless, provision of adequate infrastructure and basic services in the less developed regions would raise their standard of living and enhance their rates of growth and general development, and should, therefore, be the main thrust of the regional development policy.

10.3.3 Administrative Decentralization

The outstanding economic and social development achieved has been accompanied by similar developments in the administrative and institutional capacities at both local and central levels. This has contributed to overcoming many obstacles to administrative decentralization, which aims at improving administrative efficiency and enhancing opportunities for promoting development at the regional and local levels. Under the provincial system adopted in 1991, a provincial council for each region undertakes identifying economic, social and services needs of the region; defining priority projects and programs and pursuing their approval and implementation; and supervising public services and monitoring their efficiency.

In this context, Council of Ministers resolution 224 of 13/10/2003, which provides for the election of half of the members of Municipal Councils, is a large step forward towards enhancing the role of local authorities and achieving more administrative decentralization.

Under the Eighth Development Plan, the process of devolution of responsibilities to local levels would proceed apace, in line with the goal of consolidating participation of the regions in the development process through optimal utilization of their natural, economic and human resources.

10.3.4 Regional Data and Information Base

Detailed data and information on the economic and social conditions in all regions are of vital importance in formulating appropriate regional development plans and strategies. Hence, under the Eighth Development Plan, a comprehensive regional database will be established.

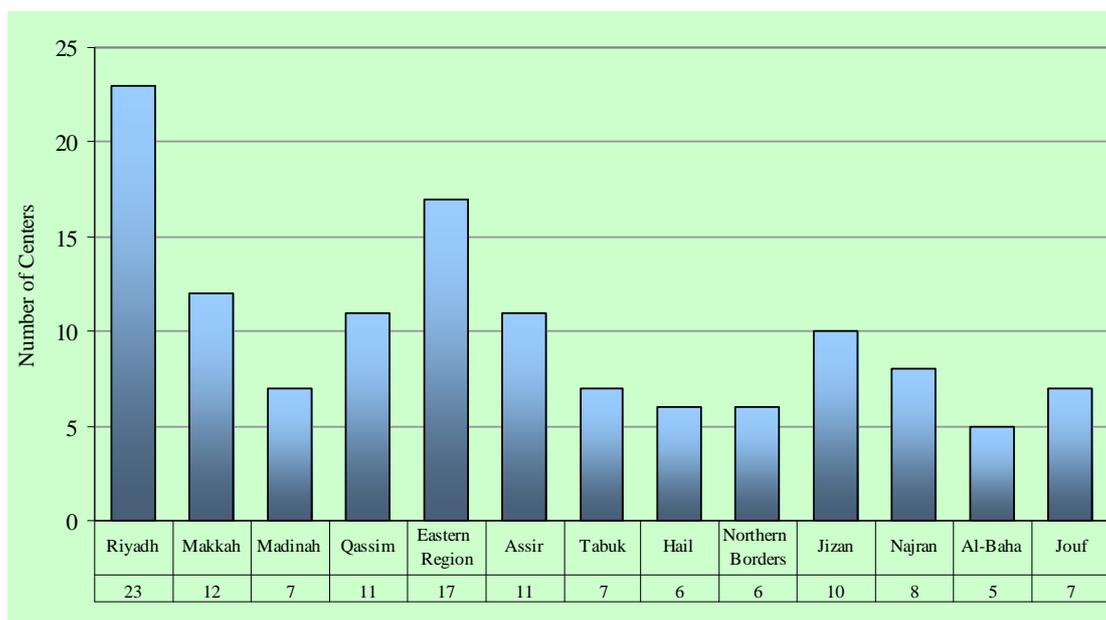
10.4 FUTURE VISION

The future vision of regional development is part of the long-term future vision of the Saudi economy up to 2024. It is based on the development corridors identified in the National Spatial Strategy issued by Council of Ministers Resolution 127 of 28/8/2000. Each corridor comprises

population centers of various sizes, concentrated along the main intercity transport network. The Strategy identified 130 development centers in the 13 administrative regions (Figure 10.2), taking into consideration geographic location, national security considerations, future development potentials, and economic and environmental aspects, as well as the relative population density.

The future vision of regional development envisages developing small and medium-size towns to become development centers capable of accelerating the process of development, reducing the disparities in the level of development, and limiting internal migration to relieve pressure on the major cities.

Figure 10.2
Distribution of Development Centers by Administrative Region



The strategy envisages reducing regional disparities through a long-term process implemented in stages under the five-year development plans, with development efforts concentrated on a selected number of centers during each plan. The development centers selected so far are predominantly in the three main regions of Riyadh, Makkah and Eastern, which are inhabited by about 64% of the total population.

The main dimensions of the long-term future vision for developing the regions are:

- Enhancing the developmental role of the provincial councils through gradual adoption of decentralization. This does not mean canceling the role of the central ministries and government agencies, which will continue to undertake supervision and coordination at the national level, in light of the available resources. The future vision also calls for establishing databases at the level of regions to support the provincial councils.
- As per Royal Decree 7/B/48468 of 6/12/2003, improving the living conditions of citizens in all regions with respect to housing, health, education, infrastructure such as electricity and water, transport, agriculture, telecommunication, within the framework of the poverty

alleviation strategy and the unemployment reduction strategy.

- Achieving economic, social and environmental sustainable development, which requires intensive efforts throughout the future five-year development plans in various domains, including encouraging the private sector to invest in the least developed regions, transforming the comparative advantages of each region into competitive advantages, and strengthening environmental protection policies and measures.
- Measuring regional disparities in activities and services, if any, through the Regional Development Indicators, to help the provincial councils and other agencies concerned in selecting the best available alternatives to reduce disparities and direct investments towards the least developed regions.

10.5 DEVELOPMENT STRATEGY

The regional development strategy aims at achieving balanced growth across all regions and reducing development disparities among them.

10.5.1 Objectives

The main objectives for regional development during the Eighth Development Plan include:

- Reducing disparities in living conditions and economic activities among the various regions through a balanced sustainable development process.
- Providing economic and social infrastructure and public services in all regions at an appropriate level of efficiency and effectiveness, with particular attention to small settlements.
- Moving gradually towards administrative decentralization and consolidating management at the regional and local levels.

10.5.2 Policies

Achieving the main objectives of regional development under the Eighth Development Plan will depend on implementation of the following policies:

- Diversifying the economies of the regions to enhance complementarities.
- Identifying the resources available in each region and ensuring their optimal utilization.
- Encouraging the private sector to invest in the productive sectors in the least developed regions.
- Developing municipal and other public services in accordance with the hierarchical structure of the development centers specified in the National Spatial Strategy.
- Ensuring congruence between the share of a region in public services with its share in the total population of the country.
- Upgrading the technical and administrative capabilities of the local authorities and increasing their contribution to the development process.

10.5.3 Targets

The Eighth Development Plan envisages the following:

- Establishing a comprehensive reliable database at the regional level.
- Developing specific criteria for optimal distribution of services in all regions.
- Preparing specialized training programs for local authorities, in collaboration with the educational agencies.
- Identifying the capabilities of each region to define the most promising investment opportunities.

CHAPTER ELEVEN

BUILDING AND CONSTRUCTION

11. BUILDING AND CONSTRUCTION

11.1 INTRODUCTION

The construction sector consists of a series of activities related to various types of buildings and engineering structures, as well as related maintenance. Being closely related to other economic sectors, this sector is regarded as an important and reliable indicator of the direction and health of the national economy.

This chapter reviews performance of the construction sector and highlights the major developments in it over the past years. It also examines the key issues and challenges the sector faces, and presents the main features of the future vision for the sector, in addition to the policies and targets envisaged for it under the Eighth Development Plan.

11.2 CURRENT CONDITIONS

11.2.1 Developments

The construction sector achieved substantial development under the Seventh Development Plan, reflected in the increase of its value added from SR 39.44 billion in 1999 to about SR 46.96 billion in 2004, by an average annual rate of 3.6%, compared to 2.16% under the Sixth Plan. The volume of investments made in the sector under the Seventh Plan amounted to SR 8.53 billion.

11.2.2 Companies and Establishments in the Construction Sector

In 2002, there were some 139,000 contractors registered in the Kingdom, compared to around 113,000 in 1997. Out of these, some 51,000, or 36.7%, were registered in the Riyadh region. However, only about 20,632 contractors were members of the Saudi Chamber of Commerce and Industry, with only 3,690 contractors, or 2.6% of the total, classified in the various areas of activity (Table 11.1). Most of the classified contractors are concentrated in the Riyadh, Eastern and Makkah regions, constituting 54%, 15% and 14.7% of the total, respectively.

Table 11.1
Distribution of Classified Contractors
by Administrative Region (2002)

Region	Grade (1)	Grade (2)	Grade (3)	Grade (4)	Grade (5)	Total
Riyadh	97	124	188	241	1301	2001
Makkah	34	49	06	77	326	042
Madinah	2	4	11	14	63	94
Qassim	3	2	13	17	124	109
Eastern Region	22	48	77	80	321	003
Assir	2	0	11	10	84	117
Tabuk	0	0	2	1	18	21
Hail	0	2	0	7	62	71
Northern Borders	0	1	1	3	16	21
Jizan	0	0	3	2	22	27
Najran	0	1	2	4	37	44
Baha	0	0	0	4	17	21
Jouf	0	0	2	2	10	19
Total	160	236	366	472	2,456	3,690

Source: MOMRA, Deputy Ministry of Contractors Classification

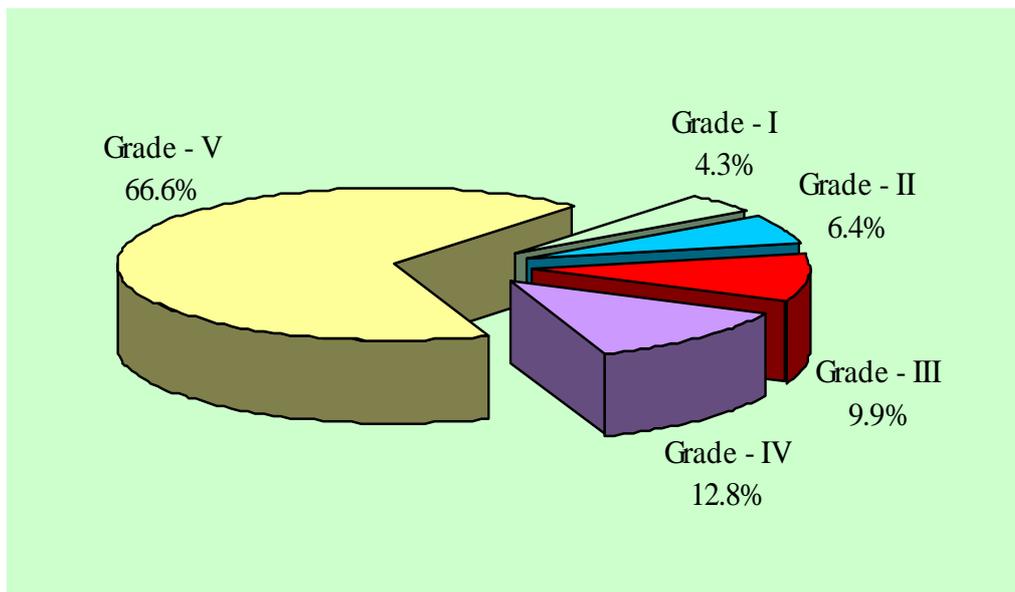
The standards of performance among contractors in the Kingdom vary considerably. There is only a limited number of general contracting companies that meet international standards, in terms of capability and competence, and qualify to cooperate with large international companies in the execution of large-scale projects.

Performance of classified contractors improved noticeably in recent years, thanks both to the higher standards required and to increasing competition. However, increasing competition among non-classified contractors in the small-to-medium-size construction sector has come at the expense of quality of construction. Nevertheless, contracting companies have attained a high degree of knowledge and skills, with foreign knowhow and skills being needed only in certain cases to support some special engineering structures and highly sophisticated works.

The major constraint on small and medium contracting companies, not only in Saudi Arabia but also in most countries, is the limited financial

liquidity. In contrast to the large and some medium companies, small companies normally lack the necessary financial resources, credit facilities and other financing instruments to improve their capabilities. This normally leads to a shortage of necessary machinery and equipment, forcing such companies to increasingly rely on manpower, which results in lower quality, inadequate performance and lower productivity.

Figure 11.1
Percentage Distribution of Contractors
by Category of Classification (2002)



11.2.3 Building Materials

Most available modern and traditional building materials are locally produced, but some are imported. In addition, a broad range of mineral deposits, raw materials, and non-metallic minerals used in the production of modern building materials are also available from within the Kingdom, and there is a growing number of companies that produce and provide basic building materials.

The local building materials industry has successfully diversified its products, increased its production and improved the quality of produced materials. Cement, building blocks, iron, steel, tiles and glass are among the main materials produced by local enterprises. Furthermore, locally produced building materials occupy a favorable competitive position,

compared to imports. Consequently, imports of building materials, including iron ore and other solid raw materials, dropped from 26% to 21.1% of total imports via sea ports.

The number of factories involved in the production of building materials reached about 585 in 2004. However, there was a decreasing trend in the average size of these establishments. Consequently, most lack economies of scale. Further, the local demand for specialized building materials is relatively small and does not create sufficient economies of scale. Therefore, in order to operate on an economically viable scale, the industry should become more export-oriented, which requires enhancing support for it.

11.2.4 Manpower

Compared to about 1.1 million in 1999, manpower employed in the construction sector reached in 2004 about 1.6 million, which amounts to 19.1% of the total labor force in the Kingdom and 22.4% of the total number of employment in the private sector. Notwithstanding the large employment opportunities provided by this sector, most jobs are still occupied by non-Saudis, with the share of Saudi manpower standing at only 2.3% in 2004. The small magnitude of this share is attributable to several factors, including intensive reliance on unskilled and semi-skilled workers, and the lower level of wages. Moreover, the small size of companies operating in this activity and their inadequate resources make them unattractive for skilled national labor.

11.3 ISSUES AND CHALLENGES

The Eighth Development Plan addresses the following main issues and challenges facing the construction sector:

11.3.1 Performance of Small and Medium-Size Contractors

Notwithstanding the tangible advance in the performance of classified small and medium-size contracting companies, performance of similar non-classified companies needs upgrading still. Shortage of qualified trained staff, under-mechanization, and under capitalization are leading to unsatisfactory results.

Addressing this situation requires adopting restrictive licensing criteria; effectively developing and enforcing the regulatory framework; improving managerial and technical qualifications of staff; promoting contractor specialization; developing mechanization, through encouraging establishment of cooperative arrangements to provide machinery on a rental basis; and enhancing institutional support for the sector, through developing an integrated database and providing advisory services.

11.3.2 Financial Structure of Small and Medium-Size Companies

The inadequate financial structure of many small and medium-size contracting companies is one of the most significant factors that affect their efficiency and quality of work. Indeed, their performance is directly linked to availability of the necessary financial resources. Commercial banks are reluctant to provide such companies with finance due to the higher risks involved. It is, therefore, necessary to develop the financial structure of these companies; introduce specific criteria for assessing their financial efficiency; and adopt mandatory licensing for all contractors, on the basis of specific qualification conditions and objective performance criteria. It is also imperative to offer guarantees to encourage the banks to provide credit facilities at an acceptable risk level, encourage cooperation among companies through subcontracting, and adopt and enforce adequate regulations for subcontracting.

11.4 FUTURE VISION

Activity in the construction sector is closely linked to economic activity in general and availability of credit-finance in particular. Hence, its future looks promising especially with continuous economic diversification process. Moreover, the sector is likely to be one of the main beneficiaries of the current privatization policy and direct foreign investment.

The Eighth Plan aims at strengthening and advancing the sector to enable it to contribute efficiently to economic development and provide gainful jobs to Saudi citizens. The Plan also delineates the main features of the future vision for the sector, which are:

- An advanced regulatory framework that would enhance quality of performance and ensure that work is undertaken by companies licensed on the basis of specific quality criteria.

- A number of large-scale construction companies that are active not only in the local market, but also in the region and internationally, and can support the national economy.
- An adequate number of specialized construction companies that possess higher standards of professional competency.
- A higher share of Saudi manpower in all occupations and specializations in the sector.
- Contractor associations in the various areas of contracting activity, which would provide required services and help in regulating activities and developing competence.
- Completion of the necessary legislation, such as the Saudi Building Code and subsidiary regulations, and provision of adequate training programs.
- Development of the engineering sector, including engineering education, professional formation programs and job certification.

11.5 DEVELOPMENT STRATEGY

11.5.1 Objectives

The main objectives for the construction sector under the Eighth Development Plan include:

- Improving performance of contractors, particularly small and medium-size ones.
- Developing the regulatory framework for contracting.
- Developing a set of services to support operating companies.
- Developing Saudi manpower and increasing rates of its participation.

11.5.2 Policies

Achieving the main objectives is contingent upon the following policies:

- Developing performance of small and medium-size contractor companies.
- Improving and expanding the legal framework, with the aim of

- enhancing performance standards steadily.
- Increasing participation of qualified local contractors.
 - Improving access to finance by qualified small and medium-size contracting companies.
 - Continuing to improve control over construction activities and enforcing pertinent regulations.
 - Raising rates of participation of Saudi manpower in the activities of the sector.
 - Intensifying training of Saudis to provide them with the necessary qualifications for all types of work in the sector.

11.5.3 Targets

The targets of the construction sector in the Eighth Development Plan are:

- Achieving growth at an annual rate of 6.7%.
- Completing the Saudi Building Code and commencing its application.
- Establishing a construction industry database.
- Compiling a contractors' manual covering all existing rules, regulations, specifications and guidelines.
- Enforcing environmental and safety criteria in construction activities.
- Adopting a professional licensing system for workers in the sector.
- Increasing employment of Saudis.

CHAPTER TWELVE

**ENVIRONMENT AND
SUSTAINABLE DEVELOPMENT**

12. ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

12.1 INTRODUCTION

The environment has over the years received considerable attention, as evidenced by enactment of environmental laws and regulations; issuance of climatic research and reports; and carrying out meteorological, environmental and air pollution measurements. In addition, Saudi Arabia has joined several international environmental protection conventions.

By their very nature, environmental issues are handled by a number of development bodies and public and private sector agencies. The Presidency of Meteorology and Environment (PME) has the prime responsibility for environmental protection at the national level, and, along with other competent agencies, is jointly responsible for implementing and monitoring environmental programs and activities.

The National Commission for Wildlife Conservation and Development (NCWCD) is responsible for the preservation of both terrestrial and marine wildlife, along with maintenance of ecological balance, and bio-diversity; in addition to conservation of environmental and natural resources.

The Ministry of Agriculture is responsible for maintaining pasture, forestry, animal resources and fisheries; in addition to establishing national parks. Other executive agencies assume significant environmental conservation roles in their efforts to ensure sustainability of natural resources. Thus, the Ministry of Water and Electricity is responsible for managing water resources, sanitation systems and electric power; the Ministry of Petroleum and Mineral Resources assumes responsibility for the mineral and oil industries; the Ministry of Municipal and Rural Affairs provides environmental health services, and is responsible for waste management, cleaning of cities and landscaping; the Ministry of Health is responsible for management of medical waste; the Ministry of Interior is in charge of regular inspection vehicles to limit air pollution due to vehicle exhaust fumes); the Ministry of Culture and Information is responsible for environmental awareness campaigns; and the Saudi Arabian Standards Organization is responsible for setting the standards and specifications for environmental protection and pollution control.

In addition, agencies and organizations such as the Royal Commission for Jubail and Yanbu, the King Abdulaziz City for Science and Technology, Saudi Aramco, and SABIC play a role in environmental protection.

This chapter addresses the current conditions of the environment in the country and reviews the key environmental issues and challenges. It then focuses on the objectives, policies and targets of environmental operations under the Eighth Development Plan.

12.2 CURRENT CONDITIONS

12.2.1 Developments

Under the period of the Seventh Development Plan, the legal and regulatory framework of the environment sector underwent significant developments, including: enactment of the General Regulations of Environment by the Royal Decree M34 of 15/10/2001 and the executive bylaws by Council of Ministers Resolution 1/4/5/924 of 29/9/2003, which made MEPA, in coordination with appropriate agencies, responsible for enforcement of environmental regulations; and Council of Ministers Resolution 78 of 5/12/1994 approving the Environmental Agenda for the 21st Century, issued by the Earth Summit of 1992, which offers an environmental development plan and a roadmap for achieving sustainable development.

During the same period, Saudi Arabia joined several international environment conventions, including the UN Framework Convention on Climate Change (UNFCCC) and the attached Kyoto Protocol, which was approved by Royal Decree M57 of 1/1/2005; the UN Bio-Diversity Convention; and the UN Desertification Control Agreement.

In addition, MEPA, in close coordination with the appropriate agencies, monitored implementation of the environment conventions that fall under its area of responsibility, including the Basel Convention on the Control of Transboundary Movement of Hazardous Waste, the Vienna Ozone Layer Protection Convention, and the Montreal Protocol on substances that deplete the ozone layer.

Moreover, drafts of several national environment strategies and related regulations have been prepared, including the National Strategy for Health and Environment, the National Environmental Strategy, the National

Strategy and Action Program for Desertification Control, the National Strategy for Biodiversity, the National Forestry Strategy, and the National Plan for Management of Coastal Regions.

In water conservation and rationalization of consumption, wastewater treatment and reuse regulations have been issued, and the Ministry of Water and Electricity is currently updating the water resources studies, as part of formulating the National Water Plan.

12.2.2 Meteorology and Environmental Measures

Since the Third Development Plan, MEPA was tasked with establishing an integrated network of climate monitoring and environment measurement stations covering the entire country. A separate administration, the National Meteorology and Environment Center, was established within MEPA to assume responsibility for preparing research studies, analyses and climatic and environmental reports at the national level, for use in navigation, transportation and environmental health. A Scientific Information and Document Center has also been established to provide relevant climatic information efficiently. By the end of the Seventh Development Plan, there were 39 synoptic weather stations for the analysis and prediction of basic climatic elements, such as solar radiation, temperature, air pressure, moisture, and wind direction and speed. Additionally, there were 8 stratospheric radar stations dedicated that measure air pressure, temperature, and moisture up to a height of 15 km. Many other types of radar systems are available to MEPA to monitor the movements, changes and characteristics of clouds, in addition to stations that receive meteorological satellite pictures, and 9 environmental monitoring stations that measure air pollution (Figure 12.1).

In collecting environmental data, MEPA maintains close coordination with relevant agencies, particularly those that have independent environmental stations, such as the Royal Commission for Jubail and Yanbu, Saudi Aramco, and King Abdulaziz City of Science and Technology. In addition, there is similar coordination with other agencies concerned with meteorology, such as the Ministry of Agriculture and the Ministry of Water and Electricity.

12.2.3 Wildlife Conservation and Development

Under the Seventh Development Plan, there were several organization and implementation achievements.

Organizationally, the National Commission for Wildlife Conservation and Development (NCWCD) prepared the national strategy for conservation of the major flora and fauna. In addition, many regulations were issued, including on trading in endangered wildlife species and associated products, which was enacted by Royal Decree M/91 of 8/6/2000; and the executive bylaw on wildlife protected zones, which was approved by NCWCD resolution 118/16 of 25/6/2000.

In implementation, the boundaries of Harat Alhurra (Jouf) and Khinfa (Tabuk) Protected Zones were demarcated. These are the largest such zones in the country, with an area that constitutes 40% of the total area of protected zones. In addition, a new protected zone was declared at Shada Al'ala Mountain at Al-Baha region, which brought the total number of protected natural zones to 16, covering 83,700 km², i.e., 4.2% of the entire Saudi Arabian territory (Figure 12.2 and Table 12.1).

Moreover, 1500 birds were marked at Mahazat Al-Said Protected Zone in the Makkah region and at Taif Research Center, while 883 birds are being monitored at Taif and Hair in the Riyadh region. Maps of endangered plants were prepared and a specialized Juniper Research Center was established in Abha. 10,000 mangrove trees were grown, and fences and buildings were constructed in Bani Malik in Jizan for the protection of the Labak trees, which play an important role in balancing the environment. Maps of the natural distribution of herbivorous and carnivorous wild mammals and some types of birds were made. Wildlife restoration centers were established, such as the one for bustards and ostriches at the Saja and Umm Al-Ramth protected zone in the Makkah region, and the six gazelle enclosures at the Qassim Research Center.

**Figure 12.1: Locations of Surface Meteorological Stations
(2004)**

MAP

Figure 12.2: Locations of Protected and Non-Hunting Zones

MAP

Table 12.1
Wildlife Protected Zones

No.	Name	Administrative District	Area (km ²)	Year Established
1	Harat ALHURRA	Jouf	13775	1987
2	Al-Khanfa	Tabouk	20450	1987
3	Tubaig	Tabouk	12200	1989
4	Al-Woaul	Riyadh	2369	1988
5	Mahazat Al-Said	Makkah	2190	1988
6	Um AlGamari Islands	Makkah	1.5	1988
7	Farasan	Jizan	696	1989
8	Raida	Assir	9	1989
9	Erouq Bani ma-arid	Riyadh	11980	1992
10	Magamea Al-Hadab	Riyadh	3400	1992
11	Nufud Al-Ariq	Al Madinah	1767	1996
12	Taisiya (Aja mountain)	Hail	2080	1998
13	Al-Gandaliya	Northern Borders	1160	1998
14	Saja – Umm Al-Ramth	Makkah	7190	1998
15	Jubail	Eastern Region	2000	1998
16	Shada Al'ala mountain	Baha	65	2001

Source: National Commission for Wildlife Conservation and Development.

12.2.4 Pollution Levels & Environmental Health

Air Pollutants

Table 12.2 illustrates concentrations of air pollutants during the period 1998–2003 at seven environment surveillance stations. The data reveals the following:

- The annual average of carbon monoxide pollution dropped by about 1 part per million (PPM) at all monitoring stations in 2003, compared to 1997. Thus, international standards of environment protection were not violated in 2003.
- The major cities (Makkah, Riyadh, Dammam and Jeddah) experienced the highest levels of nitrogen monoxide and dioxide pollution, with concentrations ranging in 2003 between 0.029 and 0.036 PPM, which are close to the approved international standard of 0.035 PPM. This is attributable to the heavy transportation traffic in these cities, in addition to industrial activities. Other Saudi cities are below the acceptable international limit.
- Pollution from sulfur dioxide emissions is below the acceptable international limits of 0.007 PPM in most Saudi Arabian cities and regions. The exception is Riyadh at 0.011 PPM and Jeddah at 0.08–0.021 PPM. This is attributable to the high sulfur content in

petroleum products, including fuel for vehicles and boiler fuel, and requires reduction of sulfur content in these products.

- Ozone gas levels vary from one city to another. The lowest reading was recorded in Jeddah (0.016 PPM) and the highest in the Sawdah site of Aseer and the East Coast cities (0.024–0.036 PPM). However, these levels are lower than in most industrial countries, where concentration is close to 1PPM. Variations are attributable to gases emitted by industrial compounds, the direction of winds, and other atmospheric factors.
- Concentration of suspended particles increased steadily in the major cities and the various regions (excluding Sawdah) to a level exceeding the standard concentration of 80 microgram/m³. This is primarily attributable to the sand storms, but also to a rise in other sources of pollution, such as transportation and industrial manufacturing, particularly cement and similar industries.

Table 12.2
Concentrations of Air Pollutants
in Selected Meteorological Stations
1997–2003

Name of Station	Year of Testing	Carbon Monoxide PPM	Nitrogen Oxides PPM	Sulfur Dioxide PPM	Ozone PPM	Suspended Particles Microgram/M ³
Riyadh	1997	0.75	0.026	0.012	0.026	85
	2003	0.64	0.035	0.011	0.032	157
Makkah	1997	1.10	0.030	0.004	0.027	80
	2003	0.72	0.036	0.007	0.026	142
Jeddah	1997	0.62	0.028	0.08	0.018	100
	2003	0.51	0.029	0.021	0.016	129
Dammam	1997	0.60	0.030	0.006	0.025	95
	2003	0.49	0.033	0.007	0.024	121
Al-Sawdah	1997	0.21	0.004	0.002	0.045	70
	2003	0.19	0.009	0.005	0.036	75
Al-Hafouf	1997	0.26	0.018	0.005	0.030	60
	2003	0.45	0.014	0.006	0.035	151
Yanbu	1997	0.38	0.017	0.005	0.028	105
	2003	0.23	0.017	0.007	0.027	108

Source: Meteorology and Environmental Protection Administration (MEPA).

Solid and Liquid Waste Management

a) Household Waste

The average volume of household waste in Saudi Arabia is estimated at 1.2 kg per individual per day. However, this average jumps to 1.5 kg in Riyadh

and 2.0 kg in Makkah, during the Hajj and Umrah seasons. As a result of population growth and improvement in the quality of life, the amount of household waste has grown steadily, reaching 10.4 million tons in 2004 (Table 12.3). In view of the importance of proper and safe disposal of waste and the benefits of recycling, measures have been taken to utilize household wastes for the production of organic fertilizers and recycling of mineral, plastic and paper wastes from households. Three (processing/recycling) factories with a combined capacity of 65 tons of fertilizers were established and eight additional factories were licensed. The production capacity of these new factories is expected to reach 400,000 tons by the end of the Eighth Development Plan. In addition, there are existing factories which re-manufacture metal, paper and plastic materials, and there are plans to produce recycled paper at an annual capacity of 100,000 tons per annum.

b) Medical Wastes

Hospitals, medical clinics, primary healthcare centers, medical tools and appliances manufacturers and dealers are the primary producers of medical waste. The volume of medical waste is estimated to have increased dramatically during the past ten years; from 25,500 tons in 1999 to 30,100 tons in 2004. The most advanced techniques are used to dispose of the majority of medical wastes. However, as an additional precaution, an integrated and secure program of medical waste disposal should be put in place. This would start with the safe and secure storage of medical waste in the medical facilities, then transportation to approved processing centers, and finally safe treatment. It is worth noting that radioactive medical waste is being disposed of safely under the direct supervision of the Ministry of Health.

Table 12.3
Volume of Household, Medical and Industrial Waste
1999 and 2004

Description	1999	2004(*)
Solid Household Waste (million ton)	8.5	10.4
Hazardous Medical Waste (000 ton)	25.5	30.1
Industrial Waste (million ton)	2.1	2.7

(*) Estimates.

Source: *Reports of the Metrology and Environmental Protection Administration, and the Ministry of Health (General Directorate for Health and Environment).*

c) Industrial Waste

The volume of industrial waste was estimated at 2.7 million tons in 2004, as compared to 2.1 million tons in 1999. At present, some industrial waste is partially utilized by the paper and metal recycling industry. However, due to certain factors, including the high costs of collection and sorting, which does not need take place at source, the capacity of the recycling industry is below the amount of industrial wastes generated.

Sewerage and Sewage Treatment Stations

Coverage of the household sewerage facilities rose from 26% in 1999 to 30% in 2003, while sewage treatment stations increased from 26 to 37, with a total capacity of 1.5 million m³ / day, which is equivalent only 22% of the total household, commercial and industrial wastewater. It is worth noting that rates of sewage treatment have reached 100% at the industrial cities of Jubail and Yanbu.

Achieving complete coverage by sanitation networks and enhancing the capacity of sewage treatment stations would reduce environment pressures on the coastal regions and valleys. Therefore, priority would be given to development of sewage networks, raising their coverage and treatment capacity, and increasing re-use of treated wastewater.

12.2.5 Budget Allocation

The actual financial allocations for the development programs in the environment sector (MEPA & NCWCD) under the Seventh Development Plan totaled SR 1175.1 million, which is equivalent to 91% of the planned allocations.

12.3 KEY ISSUES

Despite encouraging achievements in environmental affairs, wildlife conservation and development, there are some issues and challenges that must be addressed under the Eighth Development Plan; the most important of which are outlined below.

12.3.1 Conservation of Natural Resources

Depletion of groundwater resources, soil stress and deterioration, and

random livestock grazing are among the most challenging sustainable development issues. The national water balance indicates a large water deficit that is being compensated for by drawing from the strategic resources of non-renewable groundwater, which is rapidly depleting this valuable resource. Moreover, water aquifers are vulnerable to pollution by seepage of industrial pollutants and liquid waste from landfills. In addition, intensive farming of soil exhausting crops in the severe climatic conditions of the country has resulted in rapid soil deterioration in some areas. Hence, laws and regulations for rational use of agricultural land, to preserve soil and ensure sustainability of the water resources, must be established and enforced. Furthermore, practical methods for increasing fresh water resources, such as cloud seeding to stimulate rainfall in the neediest regions, are also required.

12.3.2 Sewage Treatment

Raw untreated sewage is a primary source of pollution, particularly of groundwater, soils and coasts. Addressing this issue requires achieving full coverage by sewage networks, treating sewage and recycling treated water. Priority should, therefore, be given to extending sewage networks; providing adequate treatment capacity; conserving natural resources, particularly water; reusing treated water for agriculture; and afforesting urban centers (See Chapter 23 on Water and Chapter 26 on Agriculture).

12.3.3 Clean Fuels and Control of Emissions

Achieving acceptable concentration levels of pollutant that result from fuel combustion by various sectors, e.g., transportation, power generation, desalination of seawater and industrial factories, requires control of pollutant concentrations at source, i.e., during refining, as well as controlling emissions by adopting the highest quality standards and periodical inspection of motor vehicles. It is, thus, essential to reduce levels of sulfur and lead in diesel and gasoline and other oil products consumed locally, and supply and encourage use of public transport, particularly within cities.

12.3.4 Coastal Environment

Disposal of treated and raw sewage into the sea, pollution caused by oil tanker and ship waste, urban and industrial development, and severe over

utilization of coastal areas, have all had a devastating impact on the coastal environment. Coastal cities have suffered, and growth of mangrove forests, which are important for marine life, such as invertebrates, sea plants, crustaceans, and fish, in addition to migrating birds, slowed down. Indeed, some coastal regions are no longer fit for fishing, swimming or recreation.

To remedy this situation, sewage must be properly treated and recycled for agricultural and forestation, discharges from oil tankers and ships in regional or international waters must be controlled, and coasts must be protected. It is also necessary to provide marine and atmospheric metrological information on coasts and regional waters, as well as an early warning system of extreme climatic conditions to help mitigate negative effects on environment.

12.4 FUTURE VISION

The National Environment Strategy proposes an integrated environmental management system aimed at maximizing exploitation of available resources, while taking into account principles of sustainable development. The following are the key features:

- Ensure that all economic and social activities are consistent with the requirements of conservation and sustainability of natural resources and to observe optimum use of non-renewable resources, in the best interests of present and future generations.
- Use only renewable water resources for all economic and social activities, while rationalizing usage and observing conservation.
- Intensify desertification control efforts; develop agriculture that suits arid areas; and develop renewable, economically feasible water resources for agriculture and forestation.
- Enact laws and regulations that punish and penalize environment polluters, including measures to protect facilities, roads, and public parks, from waste pollution.
- Use the most modern techniques and equipment for control and reduction of air-polluting gas emissions by industry, transport and power plants, and ensure that power plants are equipped for safe disposal of greenhouse and other polluting gases, in collaboration with advanced countries.
- Sort waste at source to facilitate the recycling process.

- Collect and treat sewage, and use treated water in agriculture and industry, as appropriate.

12.5 DEVELOPMENT STRATEGY

For the environment, the objective of the development strategy is to achieve sustainable development, while reducing the negative effects on natural resources, the quality of life and public health, and protecting the environment from harmful activities and practices.

12.5.1 Objectives

- Protect and safeguard the environment against pollution.
- Improve the quality of life and public health.
- Achieve sustainable development by balancing human activities with the need for protecting and sustain the natural resources base and conserving non-renewable natural resources, as well as by searching for additional and alternative resources.
- Protect and develop wildlife to ensure sustainability.

12.5.2 Policies

- Enhance efficiency of the mechanisms necessary for protecting the environment and natural resources.
- Review and update environmental standards.
- Enhance the databases on the weather and climate and the environment.
- Enhance the role of the private sector in the protection of the environment, natural resources and wildlife conservation, and encourage especially adoption of green technologies and environmentally friendly processes in industry.
- Develop the institutional capacities of the environmental agencies.
- Introduce environmental awareness into school curricula and in the media.

12.5.3 Targets

- Condition licensing factories and other facilities on providing an adequate environmental impact assessment.
- Form scientific committees to update air, soil, groundwater, surface water and coastal water pollution standards.
- Intensify environmental awareness programs.
- Encourage formation of environmental protection societies in all regions.
- Strengthen inspection and environmental assessment of existing industrial establishments and ensure compliance of new industries with environmental protection requirements.
- Extend the meteorological monitoring network to cover the entire country.
- Review and modify school curricula to cover environmental awareness, starting from primary schools.
- Coordinate with the Ministry of Information the preparation of shows, programs and TV serials with an environmental awareness content and provision of coverage of regional and international environment news and issues.

12.6 FINANCIAL REQUIREMENTS

The financial requirements of the environment sector (MEPA & NCWCD) under the Eighth Development Plan are estimated at SR 1440 million. These allocations would be used to finance: projects and programs for conservation of available natural resources, expansion of environmental infrastructure, conservation and development of wildlife to ensure sustainability, and promotion of environmental awareness by both individuals and institutions. They will also be used to fund cooperation at regional and international levels and with regional and international organizations and agencies, in order to enhance the capacity of the environment sector for strengthening environmental protection and developing regulations within the framework of sustainable development, maintaining ecological balance and biodiversity, and conserving natural resources.

CHAPTER THIRTEEN

TOURISM

13. TOURISM

13.1 INTRODUCTION

The Kingdom of Saudi Arabia is endowed with rich and deep-rooted Arabic cultural traditions and ancient Islamic religious sites of worship and pilgrimage. It also has a considerable number of enchanting coastal, mountainous and desert locations that are prized by visitors. The existing infrastructure covering all regions of the Kingdom is well-developed and is complemented by an integrated transport network that connects all cities and regions of the country and also connects the country with the world outside. The economic importance of tourism is evidenced by its contribution to the GDP and the job opportunities it generates.

This chapter reviews the current conditions of tourist activity, including infrastructure and institutional and organizational development. It also reviews the key issues and challenges facing the development of various forms of tourism, the role of the private sector in tourist development, and future expectations for the sector. In addition, it highlights the major objectives, policies and targets of the Eighth Development Plan.

13.2 CURRENT CONDITIONS

13.2.1 Tourism Institutions and Organizational Development

As part of the increasing attention given to tourism, the Supreme Commission for Tourism was established by Council of Ministers Resolution 9 of 17/4/2000. Subsequently, Council of Ministers Resolution 2A of 30/4/2003 put the antiquities and museums sector under the Commission, in a move that aims at consolidating the preservation and development of antiquities, and enhancing the interest of citizens and foreign visitors in antiquities and museums.

This section reviews the development of the tourism sector and points out the most significant achievements made since the Supreme Commission for Tourism was established.

13.2.2 Significant Developments

Under the Seventh Development Plan, significant progress was made in creating an environment conducive to the development of tourism. The following are the major developments involved:

- Completion of the first stage of the National Tourism Development Project, with the preparation of a general strategy for the development of the tourism industry over twenty years, which was then approved by the Council of Ministers on 16/3/2004.
- Completion of the second stage of the National Tourism Development Project, which was aimed at setting up an action framework to implement the general strategy for the development of the tourism industry, with making a five-year plan for the period 2003–2007, in the form of an integrated program of implementation.
- Commencement of the preparation of detailed twenty-year strategies and plans for the development of tourism in all regions of the Kingdom, along with five-year implementation plans.
- Establishment of partnerships between the Supreme Commission for Tourism and various government agencies, with the signing until July 2004 of 10 memoranda of understanding with Regional Governorates and 12 with Ministries and government agencies involved in tourism development.
- Holding specialized symposia and programs to train officials responsible for tourism in both the public and private sectors, under the designation “Preparation of Partners in Development of Tourism in Regions of the Kingdom.”
- Establishment and operation of the Tourist Information Center in 2002 and launching of its internet web-site. The center will serve as the basic reference point for providing tourist information in the Kingdom. In addition, the Electronic Tourist Geographic Information System (GIS) was established to help in identifying the basic factors and priorities related to the development of tourism in the various regions of the Kingdom. The number of natural, environmental, cultural, and heritage tourist attractions covered by the System now exceed 12,000, distributed over the 13 regions of the Kingdom.
- Establishment of appropriate and attractive markets (sites) for

environmental and cultural tourism, as well as tourist activities linked with shopping, sports and medical treatment, in addition to organizing the "First Annual Forum for Tourism" and a "National Travel Market", in Jeddah in 2003.

- Establishment by the Commission in 2000 of a specialized program on cultural tourism, with the aim of interacting actively with the national cultural heritage to achieve sustainable tourism.
- Completion of the "Antiquities and Museums Sector Development Strategy" and preparation of the initial draft of the "Antiquities and Museums Regulation", which builds on the Antiquities Regulation issued under Royal Decree M/26 of 3/8/1972.
- Starting in 2004 preparations for the "National Project for the Development of Traditional Crafts and Industries", which constitute an important asset of the tourist industry, with the aim of preserving and developing traditional crafts and maximizing their economic return.

13.2.3 Demand for Tourism Services

Surveys show that in 2002 domestic tourist trips numbered 44.55 million, of which 47% were for recreation, 34% for visits to friends and relatives, and 19% for other purposes. Jeddah had the greater share of these trips which totaled 10.6 million trips, followed by Riyadh with 7 million trips. Land trips constituted 86% of the total, while air trips represented 14% (Table 13.1). Private accommodation was the major form of accommodation during domestic tourist trips (39 %) followed by rented apartments (34 %) and hotels (23 %). Total expenditure on these trips amounted to 50.7 billion Riyals of which 33% was spent on shopping, 20% on food stuffs, 18% on accommodation and 29% on other purposes.

Visitors, excluding Hajj and Umrah performers, numbered 3.2 million in 2002. These visitors came for business, or recreation, or for visiting relatives and friends, or for medical treatment. Middle Eastern countries are the main source of tourism to the Kingdom, followed by South Asian countries.

Table 13.1
Distribution of Domestic Tourist Trips by Purpose
(2002)

Tourist Purposes	Number of visitors ('000)	(%)
Holidays and recreation	21,063	47
Visits to friends and relatives	14,932	34
Business	3,614	8
Medical treatment	774	2
Other purposes	4,167	9
Total	44,550	100

Source: Supreme Commission for Tourism.

On the other hand, tourist trips abroad during 2002 numbered 7.9 million; of which the greater share (70%) was for recreation and holidaying, followed by visits to friends and relatives (16%); business (7%) and other purposes (7%). With 6 million trips, Middle Eastern countries were the major destinations. Of these trips, 1.9 million were to GCC countries, 1.7 million to Egypt and 1.4 million to Syria. In contrast to domestic trips, 54% of foreign trips were by air. Total expenditure on foreign tourism is estimated at about SR 27.6 billion.

13.2.4 Tourist Resources and Facilities

Under the Seventh Development Plan, more than 12,000 natural, historical and cultural sites were identified, registered and electronically documented. These sites were also appraised for potential touristic value and current condition. 40 tourism development areas were thus identified in the various regions. Of these, 8 already exist, while 15 are considered promising and 15 are new. All are amenable to development into well designed tourist destinations in the future. In the 40 identified tourist areas, 903 sites were approved as sites having potential for tourism and appropriate mechanisms have been set up to protect and preserve them (Figure 13.1).

The major cities have 69 museums, of which 27 are registered under the Ministry of Culture and Information. In addition, there are several permanent culture and arts exhibitions that constitute part of the integrated tourist system. Also, there are 16 protected zones distributed throughout the Kingdom.

**Figure 13.1: Tourism Development Regions
MAP**

In 2002, hotels of all grades totaled 796, with more than 81,000 rooms. In terms of number of rooms, luxury hotels constitute 6% of the total number, while first, second and third class hotels constitute 18%, 43% and 33% of the total, respectively. Although these hotels are distributed throughout the country, the Makkah region is first in terms of number of hotels and hotel rooms, followed by the Madinah region. In addition to hotels, there are 1,493 compounds of furnished apartments, containing 33,000 housing units, distributed over the various regions, but a large share of these compounds is concentrated in the Makkah, Riyadh, Madinah and Eastern regions, as shown in Table 13.2.

Table 13.2
Hotels and Residential Compounds
(2003)

Region	Hotels		Residential Compounds	
	Number of Hotels	Number of Rooms	Number of Apartments compounds	Number of Housing Units
Riyadh	73	7,261	223	4,353
Makkah	469	53,902	604	12,577
Madinah	56	9,662	221	7,976
Qassim	10	560	62	1,022
Eastern Region	71	5,067	188	3,939
Assir	35	1,764	123	1,790
Tabuk	24	898	6	184
Hail	3	170	32	375
Northern Borders	20	559	–	–
Jizan	10	472	–	–
Najran	12	420	29	371
Baha	6	265	–	–
Jouf	7	197	5	61
Total	796	81,197	1,493	32,648

Source: Ministry of Commerce and Industry.

As regards transport, the Kingdom's regions and major cities are connected by a sophisticated and modern network of highways, and a railway connects Riyadh with Dammam. In addition, there are 26 international, regional and

domestic airports. The national air carrier, SAUDIA, provides air services within the domestic market. In 2003, it carried a total of 9 million passengers domestically. SAUDIA also participates with 44 foreign airlines in connecting the Kingdom with various countries of the world. In 2003, passengers traveling from the Kingdom numbered 31.85 million. Some 1,100 travel and tours agents operate in the Kingdom.

13.2.5 Heritage and Cultural Sites

The Kingdom possesses a large number of archeological sites belonging to various historical eras. The major cities also have a number of museums and permanent cultural and arts exhibitions that constitute a significant part of the tourism system.

In 2000, the Supreme Commission for Tourism initiated a program dedicated to culture and heritage tourism, in order to use the assets represented by archeological, historical and cultural sites, as well as traditional crafts, industries and folklore, in the development of tourism. This program has contributed substantially to many achievements related to architectural heritage, antiquities, historical sites, and traditional crafts and industries. Furthermore, the Commission adopted, in collaboration with the Ministry of Municipal and Rural Affairs, an initiative to improve the condition of historical cities that contain elements of distinguished traditional architectural heritage.

The National Heritage and Folk Culture Festival organized annually by the National Guard in Al Janadiriya is an important cultural event that also indicates the significant attention being given to genuine Arabic culture, traditions and values. The activities of the festival include symposia, lectures, exhibitions and poetry sessions, and men of letters and intellectuals, well known at the domestic, regional and international levels, participate in these activities.

13.2.6 Targeted Tourism Markets

The general strategy for the development of tourism targets domestic tourism, in addition to developing activities appropriate for certain segments of foreign tourists, in line with the Kingdom's social and cultural heritage. Thus, the strategy envisages establishing tourist sites and events for environmental and cultural tourism, and activities associated with shopping,

sports and medical treatment, education and business.

In line with this strategic approach, the Commission, in association with the Council of Saudi Chambers of Commerce and Industry, organizes the annual forum for tourism and its side event the national travel market. The forum discusses the issues pertaining to the development of domestic tourism, and the travel market offers providers of tourist services and tourist travel operators the opportunity to present their products and services.

13.2.7 Recreational Tourism

Recreational tourism is considered the core of domestic tourism. The various regions of the Kingdom possess many tourist attractions. Coastal areas, especially in the Makkah and the Eastern regions, have undergone remarkable development of tourist facilities and have become a favored destination for domestic tourists. Taif, Assir and Baha are also major summer resorts for many Saudis and GCC citizens interested in environmental tourism. Jizan in the South West and Tabuk in the North have a substantial tourist potential, and are expected to be developed in the coming years.

13.2.8 Budget Allocation

The total allocations for the development of the tourism sector (the Supreme Commission for Tourism) were SR 416 million under the Seventh Development Plan, of which 97% were spent during the Plan period.

13.3 ROLE OF THE PRIVATE SECTOR

The private sector is playing the principal role in developing tourism, through direct investment in tourist projects; development of tourism sub-sectors; implementation of the development and marketing policies of the tourist industry; and training national manpower to assure quality of tourist services.

On the other hand, the Supreme Commission for Tourism and other competent government agencies play an important role in regulating, stimulating and guidance in order to provide a general climate conducive to investment in tourism, as well as to development and quality assurance of tourist products.

Enhancing the role of the private sector in the development of tourism requires creating an appropriate investment climate, by streamlining regulations, providing information, and adopting a fair pricing policy that ensures good returns, reduces risks and generally enhances the economic feasibility of tourist projects.

The coming period requires that the private sector develop new tourist products that employ Saudi labor, mainly, and calls for reviewing distribution of investments in a manner that would contribute to the development of the various regions by fully exploiting their tourist potential. In particular, the Eighth Development Plan envisages that the private sector would:

- Increase its investments in:
 - Hotels of various grades, particularly in tourist sites.
 - Furnished apartments in tourist areas.
 - Rest facilities on major highways.
 - Quality medical facilities to attract more medical tourism.
- Invest in:
 - Recreational facilities.
 - Appropriate facilities for coastal and seashore recreational tourism, such as boating, diving and water sports.
- Build tourist resorts and complexes.
- Promote crafts that have brisk markets in tourist areas.

13.4 ISSUES AND CHALLENGES

Notwithstanding the remarkable strides made by tourism, a number of issues and challenges need to be dealt with to promote the sector further; foremost among which are the following.

13.4.1 Improving Services

Tourism is a global activity, marked by intense competition. Environmental, archeological, cultural and recreational assets are essential, but may fail to attract tourists if they are not supported by administrative and technical

services on par with the prevailing standards in competing tourist countries; regionally and globally. Thus, increasing the competitiveness of the sector in the next stage calls for assessing tourist centers and facilities against regional and global standards to identify the actions required.

13.4.2 Employing National Labor

The tourist industry currently faces shortages of qualified national manpower, with Saudi citizens employed in tourism constituting around 10–15% of the total labor force engaged in this sector.

The Supreme Commission for Tourism has adopted a national plan for the development of tourist human resources, which calls for implementation of a number of programs, in coordination with the Ministry of Labor, the Human Resources Development Fund and the General Organization for Technical Education and Vocational Training. These programs seek, inter alia, to promote awareness and encourage Saudis to take up jobs in tourism, Saudize tourist jobs, improve the work environment in the tourist industry, implement an accreditation system for national tourism based on specification of required job skills, and increase the number of tourism education and training institutes. The Eighth Development Plan aims at expanding tourism training programs in order to cultivate the various relevant skills.

13.4.3 Marketing and Promotion

Attracting citizens to domestic tourism is contingent upon increasing their awareness of the relative advantages of local tourist products over comparable products in neighboring markets; a process that requires carefully crafted marketing.

The Eighth Development Plan aims at implementing a comprehensive integrated strategy for promoting tourist products, with a view to developing the domestic tourism market, and providing attractive competitive national tourist products and services, along with innovating plans for marketing these products. Moreover, the Plan will conduct a study of ways to ease and streamline tourism visa procedures. Implementation of this strategy is expected to make the Kingdom an attractive tourist destination.

13.4.4 Seasonality

Seasonality of demand is a major challenge, for it leads to low occupancy levels, which in their turn lead to higher costs and prices and lower rates of revenues and profits. For this reason, seasonality, which is aggravated by the nature and timing of holidays, reduces investment potential, slows down growth of the tourism sector, and causes a shortage of attractive tourist products at reasonable prices. Hence, it is necessary under the Eighth Development Plan to study this issue and develop appropriate solutions.

13.4.5 Information

Developing the tourism sector, enhancing its competitiveness, and integrating it into the system of global tourism require an integrated tourist information database to provide the necessary information from the time a tourist starts planning a trip, until leaving the country. Such a database would contain basic information on the Kingdom and its society, tourist maps, information on tourist sites and on accommodation facilities, and advice on means of transport and schedules.

Hence, the next stage requires developing this database, together with a tourist guide that provides tourists with information and data about tourism in the Kingdom in general.

13.4.6 Development of Traditional Crafts and Industries

In addition to providing job opportunities especially in rural areas, traditional crafts and industries are inputs to tourism. The Eighth Development Plan aims at supporting and developing activities related to traditional crafts and industries. Moreover, the possibility of organizing these activities at the national and local levels through establishing cooperatives for training, production and marketing is being explored, along with ways of extending soft finance to craftsmen.

In addition, a national plan for the revival of traditional crafts and industries, linked to development of tourism, needs to be devised in the coming period.

13.5 FUTURE VISION

The National Tourism Plan rests on the principles and objectives adopted by

the Kingdom with regard to developing tourism, including adopting a scientific planning approach that ensures congruence with the national development plans. Thus, tourism will be developed on the basis of sustainability; socioeconomic, cultural and environmental feasibility; respect for Islamic values; and traditional hospitality.

The number of tourist trips both from inside and outside the Kingdom is expected to increase from 65.1 million in 2002 to 83.0 million in 2009 and will further rise to 141.1 million in 2020; with domestic tourist trips numbering 128 million and foreign tourist trips reaching 13.1 million, mostly from GCC states and other Arab countries.

Gross tourism expenditure is anticipated to grow from 63.5 billion Riyals in 2002 to 101.3 billion Riyals in 2020. In order to accommodate this expected growth, it is necessary to build additional hotels, tourist complexes, and furnished apartments through private sector investments.

In terms of spatial distribution, about 40 sites suitable for tourist development have been identified in the various regions of the Kingdom. Development of these sites is expected to motivate development of tourist activities in general and individual enterprises in particular. Tourism plans for all regions of the Kingdom are under preparation with the aim of consolidating the strategic framework of the National Tourism Plan at the level of regions, including provinces and centers.

As for the domestic tourism market, and its expected growth, the proposed strategy gives priority to developing this market in conformity with cultural heritage of the Kingdom, along with development and promotion of environmental tourism, physical feature-based tourism and cultural tourism.

13.6 DEVELOPMENT STRATEGY

13.6.1 Objectives

- Development of national tourism and increasing its contribution to GDP, to diversification of the economic base, and to creation of job opportunities for citizens.
- Enhancement of the role of the private sector in utilizing investment opportunities in tourism in various regions of the Kingdom.
- Exploration, development and preservation of the antiquities and

cultural heritage of the Kingdom and increasing awareness of the value of popular heritage.

- Development of traditional crafts and industries.
- Development of high quality tourist facilities.
- Familiarization of the domestic and international community with the Kingdom's civilization and its Arabic-Islamic heritage.

13.6.2 Policies

- Planning and development of tourism infrastructure.
- Development and promotion of the tourism database.
- Development of traditional crafts and industries.
- Quality control of tourism services.
- Development of national labor in the field of tourism.
- Encouragement of private sector investment in tourist projects.
- Development of archeological sites and museums.
- Revival and preservation of Arabic architectural heritage.

13.6.3 Targets

- Completion of the institutional structure of the tourism sector in regions and localities.
- Setting up tourism strategies and development plans in the regions.
- Finalizing identification of sites of tourism development.
- Approving the organization of the Supreme Commission for Tourism and Antiquities.
- Establishing the electronic tourism "market".
- Updating classification of hotels and accommodation facilities for tourism.
- Setting up standards of building of tourist accommodation facilities in rural areas.
- Preparing the Saudization programs of tourism jobs.
- Introduction of "tourism culture" in the educational process.

- Implementing comprehensive tourism awareness campaigns.
- Establishing tourism services centers.
- Development of tourism investment regulations.
- Development of the electronic geographic (tourism) information system (GIS).
- Establishing an integrated tourism portal of the Kingdom on the internet.
- Establishing a database of tourist accommodation facilities and resources.
- Preparing and implementing the archeological sites and museums development strategy.
- Finalizing the national project for the development of traditional crafts and industries.
- Formulating and implementing standards for the renovation of historical heritage buildings.

13.7 FINANCIAL REQUIREMENTS

The financial requirements for the tourism sector (Supreme Commission for Tourism) under the Eighth Development Plan amount to 882 million Riyals. The allocation will finance the operational expenses of the Commission, planning and development of national tourism, promoting tourism awareness and marketing, provision of tourism studies and information, and development of the facilities and equipment of the Commission.

CHAPTER FOURTEEN

TRADE

14. TRADE

14.1 FOREIGN TRADE

14.1.1 INTRODUCTION

The size and structure of foreign trade are indicators of the level of economic development and competitiveness of an economy. They also give an indication of the degree of openness to the world and integration into the economic globalization thrust. Individual trade components also reflect the extent of integration and diversity of the domestic economic base.

From the outset of its development process, the Kingdom has adopted the principle of free economy and openness to the world. Such openness was enhanced by the progress of economic and social development, which had diversification of the economic base as its most important aim. In this context, the Kingdom achieved noticeable improvement in exports, in terms of diversification and competitiveness, benefiting from the comparative advantage it has in commodities produced by energy-intensive industries, such as petrochemicals, basic minerals and their products, as well as other commodities. Thus, the economic openness indicator (represented by the ratio of the gross value of exports and imports to GDP) fluctuated less in the past two decades than in previous years, as a result of the growth of non-oil exports on one hand, and the stable growth of imports on the other.

This chapter describes the current state of foreign trade, and reviews the key issues and constraints. It then focuses on the future vision, objectives, and policies of the trade sector under the Eighth Development Plan.

14.1.2 CURRENT CONDITIONS

14.1.2.1 Current Account of Balance of Payments

The current account experienced a significant surplus during the initial four years of the Seventh Development Plan, rising from SR1.5 billion in 1999 to SR44.5 billion in 2002 and then doubled to SR105.1 billion in 2003 (Table 14.1.1). This favorable development in the current account balance is attributable to a number of factors, the most significant of which are:

Table 14.1.1
Development of Key Balance of Trade and
Balance of Payment Items
Seventh Development Plan *

SR Billion			
Key Balance of Payment Items	1999	2003	Average Annual Growth (%)
1. Balance of Trade (FOB)	93.3	221.7	24.2
2. Total Exports**	189.6	348.7	16.4
a. Oil Exports	167.8	307.6	16.4
b. non-oil Exports	21.8	41.1	17.2
3. Imports	96.3	127.0	7.2
4. Services & Transfers Balance	-91.7	-116.6	6.2
a. Receivables:	42.4	33.5	-5.7
Investments Returns	21.8	11.2	-15.2
Ships Fuel	0.5	0.9	15.8
Other returns	20.1	21.4	1.6
b. Payables:	-134.1	-150.1	2.9
Freight & Insurance	8.7	11.4	7.0
Oil Sector	10.8	16.0	10.3
Private Sector Services	26.7	18.3	-9.0
Other Government Services	35.6	48.8	8.2
Private Transfers	52.3	55.4	1.5
5. Current Account Balance	1.5	105.1	189.3

* Values in current prices.

** Does not include ships fuel item.

Source: *Central Department of Statistics, Exports and Imports Statistics, 1423/24 (2003) and Saudi Arabian Monetary Agency (SAMA).*

- An annual average growth rate in the balance of trade (surplus) of 24.2% during this period, resulting from the growth of oil and non-oil exports at an annual rate of 16.4%, while imports grew by 7.2%. The growth in oil exports was a result of increased world demand for oil, which was accompanied by a rise in oil prices, accentuated by factors beyond the normal supply and demand relationships, including regional security, environmental concerns and oil market speculation. The growth of non-oil exports was improved by competitiveness of Saudi products and increased global demand for petrochemicals and other commodities and materials produced in Saudi Arabia.

- The deficit in the balance of services and transfers decreased from SR132.2 billion in 2000 to SR116.6 billion in 2003. This development was a result of the relative stability in collections during the period; following the noticeable decline experienced in the first year of the Seventh Development Plan, due to the decline in external investment revenues, as a result of several factors, the most significant of which was the drop in global interest rates. Meanwhile, other revenues from various external services experienced positive growth during the period. On the other hand, services payments decreased from SR163.4 billion in the first year of the Plan to SR150.1 billion in its fourth year. This decrease resulted from the decline of payments for private sector services and the stability of government services payments and private transfers. Shipping and insurance services payments increased in parallel with growth of imports, and so did oil and gas sector payments due to expansion in investment activities in this sector, particularly in natural gas production.

14.1.2.2 Imports and Exports

As a result of increases in the volume of both oil and non-oil exports on the one hand and the course taken by imports on the other, there was a noticeable, albeit fluctuating, growth in the ratio of total exports to imports, which jumped from 196.9% in 1999 to 274.6% in 2003 (Table 14.1.2). This is primarily due to the large fluctuations in the value of oil exports. On the other hand, the ratio of non-oil exports to total imports also grew during the period from 22.6% to 32.4%. It is worth noting that this ratio too is subject to the indirect influence of the oil sector on the value of imports, which in turn contributes to reducing the index below the level it may have reached.

Table 14.1.2
Exports to Imports Ratio

Description	1999	2000	2001	2002	2003
Ratio of total Exports to Imports (%)	196.9	278.9	236.9	243.9	274.6
Ratio of non-oil Exports to total Imports (%)	22.6	23.8	28.6	29.2	32.4

Source: Ratios calculated from Central Department of Statistics data.

14.1.2.3 Growth of Commodity Exports

Oil exports accounted for 88.2% of total commodity exports in 2003, which is almost the same percentage as was in 1999. Thus, the relative contributions of the two basic categories of exports, i.e., oil and non-oil, did not change tangibly. However, the proportional contributions of the components of oil exports, namely, crude oil and refined products, changed during the period, with the contribution of crude oil increasing from 81% in 1999 to 85.9% in 2003 as indicated in Table 14.1.3.

Table 14.1.3
Commodity Exports
Current Prices

Items	Value (SR Billion)					Proportional Share (%)		Average Annual Growth Rate (%)
	1999	2000	2001	2002	2003	1999	2003	
a. Oil Exports *	168.3	265.7	224.2	239.3	308.5	88.5	88.2	16.4
Crude Oil	136.3	232.2	190.6	206.5	264.9	81.0	85.9	18.1
Refined Products	32.0	33.5	33.6	32.8	43.6	19.0	14.1	8.0
b. Non-oil Exports	21.8	24.8	30.7	32.4	41.1	11.5	11.8	17.2
Petrochemicals	9.2	12.1	13.5	13.7	16.2	42.2	39.4	15.2
Building Materials	2.8	2.7	2.8	3.5	4.4	12.8	10.7	12.0
Agricultural, Animal and Food Products	1.8	1.7	1.5	1.8	3.0	8.3	7.3	13.6
Other Commodities**	8.0	8.3	12.9	13.4	17.5	36.7	42.6	21.6
c. Total Commodity Exports	190.1	290.5	254.9	271.7	349.6	100	100	16.4

* Inclusive of Ships Fuel.

** Inclusive of Re-exports.

Source: Central Department of Statistics.

The structure of non-oil exports changed noticeably during the period. Between 1999 and 2003, the share of petrochemicals fell from 42.2% to 39.4%, the share of building materials from 12.8% to 10.7%, and the share of agricultural, animal and food products from 8.3% to 7.3%. In contrast, there was a remarkable improvement in the share of other commodities, which include a number of manufactured and basic commodities where Saudi Arabia enjoys a competitive advantage (plastic products, rubber, tools, electric appliances, leather products, etc), and this category includes re-exports.

14.1.2.4 Geographical Distribution of Commodity Exports

Table 14.1.4 shows the growth of exports by country group and region between 1999 and 2003.

Table 14.1.4
Geographical Distribution of Commodity Exports
Current Prices

Region/Country	Value (SR Million)		Proportional Share (%) *		(%) Average Annual Growth Rate
	1999	2003	1999	2003	
1. GCC Countries	13,310	23,309	7.0	6.7	15.2
2. Other Arab Countries	5,425	14,783	2.9	4.2	28.7
3. Muslim Countries (Non-Arab)	9,697	18,267	5.1	5.2	17.2
4. Asian Countries (Non-Muslim, Non-Arab)	81,118	156,347	42.7	44.7	17.8
5. African Countries (Non-Muslim, Non-Arab)	5,391	9,701	2.8	2.8	15.8
6. Australia	1,937	1,644	1.0	0.48	-4.0
7. North America	38,468	67,666	20.2	19.3	15.2
8. South America	2,802	5,170	1.5	1.5	16.5
9. Western Europe	31,789	52,619	16.72	15.1	13.5
10. Eastern Europe	33	29	0.02	0.01	-3.2
11. Other Countries	114	33	0.06	0.01	-26.1
Total World	190,084	349,568	100.0	100.0	16.5

* Percentages are rounded to nearest decimal.

Source: Central Department of Statistics.

In Table 14.1.4 the following interesting features can be observed:

- Asian countries (non-Arab, non-Muslim) continue to be the dominant export destination, with their share rising from 42.7% to 44.7% during the period. Exports to this region and other geographically distant regions are composed mainly of petroleum and petrochemical products.
- Despite a slight drop from 20.2% to 19.3%, North America remained in second position during the period.
- Western Europe came third, but its share dropped from 16.7% to 15.1%.
- GCC countries came fourth, with their share dropping from 7.0% to 6.7%, followed by non-Arab Muslim countries which increased their share slightly from 5.1% to 5.2%, followed by the group of Arab countries which increased their share from 2.9% to 4.2%.

It is worth noting that despite the decline in the relative share of the GCC group of countries, the Arab countries group and the non-Arab Muslim countries group due to the dominance of oil exports to other regions, exports to these groups consist mostly of non-oil products, particularly petrochemicals, which reflects the growing competitive advantage of the

Saudi economy. As geographic proximity is a factor of competitiveness, due to the effect of transportation costs on export prices of non-oil products, competitive advantage considerations require that the Kingdom intensify its trade exchanges with neighboring countries.

Examination of the destinations of crude and refined oil exports shows that the percentage of crude oil exported to Asian countries and the Far East grew from 44.2% in 1999 to 48.3% in 2003, while the percentage of refined products decreased from 71.9% to 67.2% (Table 14.1.5). The share of crude oil exports to North America decreased from 25.6% to 25.1%, while the percentage of refined products increased from 2.2% to 2.6%. The share of crude oil exports to Western Europe decreased from 21.8% to 18.3%, while the percentage of refined oil products increased from 4.9% to 7.2%. The structural change in the destinations of oil exports is primarily due to the sound economic growth achieved by Asian and Far East countries, particularly the People's Republic of China and India.

Table 14.1.5
Geographical Distribution of Oil Exports *

Region	Million Barrels		Share (%)		Average Annual Growth Rate (%)
	1999	2003	1999	2003	
a. Crude Oil:					
North America	534.20	596.92	25.6	25.1	2.8
South American	26.95	23.84	1.3	1.0	-3.0
Western Europe	454.33	434.86	21.8	18.3	-1.1
Middle East	68.97	72.69	3.3	3.0	1.3
Africa	73.66	96.34	3.5	4.0	6.9
Asia & Far East	921.77	1,149.87	44.2	48.3	5.7
Australia	7.8	6.33	0.3	0.3	-5.1
Subtotal	2,087.68	2,380.85	100.0	100.0	3.3
b. Refined Products:					
North America	10.43	10.61	2.2	2.6	0.6
South American	16.44	11.43	3.5	2.8	-8.7
Western Europe	22.83	29.76	4.9	7.2	6.9
Middle East	33.75	45.93	7.2	11.1	8.0
Africa	33.20	34.25	7.1	8.3	0.8
Asia & Far East	335.66	276.82	71.9	67.2	-4.7
Australia	14.77	3.14	3.2	0.8	-32.1
Subtotal	467.08	411.94	100.0	100.0	-3.1
Total Crude Oil & Refined Products	2,554.76	2,792.79	100.0	100.0	2.3

* Includes natural gas liquids.

Source: Ministry of Petroleum and Mineral Resources.

14.1.2.5 Growth of Imports

In 2003, the value of imports reached SR138.4 billion, compared with SR105.0 billion in 1999, (Table 14.1.6); a growth at an average rate of 7.2% per annum. This expansion was spurred by the growth of the Saudi economy under the Seventh Development Plan, which averaged 3.4% per annum.

Machinery, equipment and appliances came first, with a share of 21.8% in 2003 and an annual growth rate of 4.7% during the 2000–2003 period. Transportation equipment came next, with a share of 21.2% and an average annual growth rate of 17.8%; followed by food stuff, with a share of 16.2% and an average annual growth rate of 5.5%. Petrochemical and mineral products were fourth, with a share of 13.7% and an average annual growth rate of 7.5% (Table 14.1.6).

Table 14.1.6
Imports by Major Category
Current Prices (CIF) *

Category	Value (SR 000,000)		Share (%)		Average Annual Growth Rate (%)
	1999	2003	1999	2003	
Machinery and Equipment	25,187	30,210	24.0	21.8	4.7
Foodstuffs	18,107	22,461	17.3	16.2	5.5
Chemical & Mineral Products	14,221	19,005	13.6	13.7	7.5
Textiles and Clothes	6,494	7,513	6.2	5.4	3.7
Plain Metals & Derivatives	8,808	12,533	8.4	9.1	9.2
Transportation Equipment	15,201	29,299	14.5	21.2	17.8
Leather, Wood and Jewelry	6,372	2,834	6.0	2.1	-18.3
Other Commodities	10,590	14,580	10.0	10.5	8.3
Total Imports	104,980	138,435	100.0	100.0	7.2

* Numbers are rounded to nearest decimal.

Source: Central Department of Statistics.

The substantial relative weight of machinery and transportation equipment reflects the need for advanced means of production and transportation and high technology products to achieve economic development. This also determine the distribution of imports in terms of kind and source, with advanced industrial countries occupying top positions (Table 14.1.7). Western Europe came first, with a share of 35% in 2003, although this share declined from 37.1% in 1999, and Germany, Britain and Italy were at the forefront of this group of exporting countries to the Kingdom.

Table 14.1.7
Imports by Source
Current Prices (CIF)

Region/Country	Value (SR Million)		Share (%)		Average Annual Growth Rate (%)
	1999	2003	1999	2003	
1. GCC Countries	4,082	6,051	3,9	4,4	10.4
2. Other Arab Countries	4,186	4,783	4,0	3,5	3.4
3. Muslim Countries (Non-Arab)	4,634	6,502	4,4	4,7	8.8
4. Asian Countries (Non-Muslim, Non-Arab)	23,277	35,981	22,2	26,0	11.5
5. African Countries (Non-Muslim, Non-Arab)	1,739	896	1,7	0,6	-15.3
6. Australia	2,564	4,298	2,4	3,1	13.8
7. North America	21,203	22,167	20,2	16,0	1.1
8. South America	2,876	4,082	2,7	2,9	9.1
9. Western Europe	38,943	48,517	37,1	35,0	5.6
10. Eastern Europe	1,293	3,207	1,2	2,3	25.5
11. Other Countries	183	1,951	0,2	1,4	80.7
World	104,980	138,435	100,0	100,0	7.2

Source: Central Department of Statistics.

Asian countries (non-Arab and non-Muslim) were second, having raised their share of total imports from 22.2% to 26.0%, with Japan, Mainland China and South Korea taking the lead.

North America retained its third place, although its share declined from 20.2% to 16.0%. In this group, the United State of America is ahead of Canada with a big margin. The group of non-Arab Muslim countries,

headed by Turkey, came fourth with a share of 4.7%. Following this group came the GCC group with a share of 4.4%, headed by the United Arab Emirates; followed by the other Arab group with 3.5%, headed by Syria; Australia with 3.1%; and South America with 2.9%, headed by Brazil and Argentina. It is worth noting the rapid growth in imports from Eastern Europe which grew at an average annual rate of 25.5% to rise from 1.2% to 2.3%; a development that came as a result of the greater involvement of this group in the global economy.

14.1.2.6 Competitive Advantage of Saudi Economy

There are 64 Standard International Trade Classification (SITC) categories of products where Saudi exports exceeded SR100 million in 2003 (Box 14.1.1), which underlines the increasing competitive capacity of the Saudi economy and its improving position in world trade.

Table 14.1.8 shows that Saudi non-oil exports to GCC and other Arab countries are more diversified compared to exports to other regions, while exports to non-Arab Muslim countries and to non-Arab non-Muslim Asian countries are concentrated in a limited number of products.

Diversification of non-oil exports is of crucial importance in indicating the overall competitive capacity of the Saudi Economy. Analysis of trade destination indicates that there are 9 commodity groups for which non-Muslim non-Arab Asian countries are the receiving markets, including refined petroleum products, petrochemicals, leather, and flat iron rolls. In contrast, there is a group of 29 products that are mainly received by GCC markets, including foodstuffs and other consumer products; such as soap, cosmetics, building materials, furniture, plastic products, and mineral and electric appliances. For many of these products, neighboring Arab countries are the next large destination.

Comparison of non-oil exports to imports by product group indicates that in most cases the same products within a specific group are exported and imported. This is normal, in view of experience of advanced industrialized countries, which confirms that trade between countries in mostly trade were within the same product group.

Box 14.1.1: Non-oil Exports By Commodity Group, 2003

Value: SR Million

Code	Commodity Description	Value	Code	Commodity Description	Value
334	Refined Oil Products	27,230.35	664	Glass	287.92
512	Phenols & Derivatives	5,082.53	553	Perfumes, Toiletries and Cosmetics	282.14
571	Polymers of Ethylene in Primary Forms	4,691.78	782	Trucks & Special Purpose Vehicles	277.33
511	Hydrocarbons & Derivatives	3,980.30	572	Polymers of Styrene in Primary Forms	271.24
344	Petroleum Gases & Other Gaseous Hydrocarbons	3,866.41	048	Preparations of Cereals or Flour or Starch	244.82
516	Other Organic Chemicals	2,841.08	573	Polymers of Vinyl Chloride	240.98
562	Fertilizers (not included in Item 272)	1,656.56	784	Vehicle Spare Parts & Accessories	225.52
642	Paper & Board Shapes & Articles Thereof	1,049.97	111	Non-Alcoholic Beverages	213.06
335	Residual Petroleum Products	935.25	811	Prefabricated Buildings	201.66
971	Gold (Non-Monetary)	817.78	693	Wire Products & Fencing Grilles	195.44
022	Milk and Cream	763.01	513	Carboxylic Acids & Derivatives	170.11
676	Iron & Steel Bar & Sections	692.13	012	Other Edible Meat & Offal	168.53
533	Pigments, Paints, Varnishes & Related Materials	619.58	054	Vegetables; Fresh, Frozen & Dried	165.77
741	Heating, Air Conditioning and Related Spare parts	563.24	611	Leather	165.72
554	Soap, Cleansing & Polishing Preparations	541.70	641	Paper and Paper Boards	163.38
575	Basic Plastic Material	528.10	269	Clothing & other Textile Articles	160.47
661	Lime, Cement & Ready Mixed Building Material	520.73	723	Civil Engineering & Contractors Plant & Equipment.	160.05
692	Metal Containers for Storages or Transport	496.67	057	Fruits and Nuts (not Including Oil Nuts); Fresh or Dried.	155.97
773	Equipment for Distributing Electricity	495.73	024	Cheeses & Curds	150.5
893	Plastic Material	495.49	056	Fruits, Roots, Tubers; Prepared & Preserved.	148.76
522	Inorganic Chemical Elements, Oxides, Halogen Salts	490.78	574	Polyacetals, Polycarbonates, in Primary Forms.	148.69
673	Flat-Rolled Iron, Non-Alloy Steel Products, Not Coated	473.85	674	Flat-Rolled or Non-Alloyed Steel, Coated.	143.92
781	Passenger Vehicles, Not for Public Transport	472.46	523	Metallic Salts & Peroxy Salts, Of Inorganic Acids	143.33
691	Structures & Parts of Iron, Steel or Aluminum	458.72	682	Copper	137.07
659	Floor Coverings, etc.	454.66	581	Tubes, Pipes & Hoses of Plastics	135.96
897	Jewelry of Precious or Semi-Precious Material	454.16	821	Furniture & Parts thereof, Beddings	130.26
059	Fruit & Vegetable Juices	445.93	288	Non-Ferrous Base Metal Waste & Scarp	120.96
679	Iron & Steel Tubes & Pipes and their Fittings	445.93	786	Trailers & other Non-Motorized Vehicles	117.24
582	Plates, Sheets, Films, Foil & Strips of Plastic	444.86	542	Medicaments (including Veterinary Medicaments)	115.08
343	Natural Gas; Liquefied & Non-Liquefied	365.10	421	Vegetable Fats & Oils	114.46
684	Aluminum	327.89	598	Miscellaneous Chemical Products	110.96
699	Basic Mineral Industries	316.40			

Source: Central Department of Statistics.

Table 14.1.8
Coefficient of Concentration of
Non-oil Saudi Exports by Region

Gulf Cooperation Council	. . ٦١
Other Arab Countries	. . ٦٥
Non-Arab Muslim Countries	. . ٨٦
Non-Arab Non-Muslim Asian Countries	. . ٩٤
Non-Arab Non-Muslim African Countries	. . ٩٢
North America	. . ٩٢
Western Europe	. . ٨٣
Other Countries of the World	. . ٩١
Total	. . ٧٤

* The coefficient of concentration of exports reflects the extent of diversification of exports to a specific region. Its value ranges from zero to one (0–1). The lower the value, the greater is the diversification.

Source: Ministry of Economy and Planning Estimates.

Table 14.1.9 gives the import/export ratios by product categories. These are all greater than one. However, a ratio that is just a little over one indicates a potential opportunity for promoting exports and/or for imports substitution. Such a ratio also indicates that Saudi producers are able to export and compete. Moreover, where there are imported products, there are opportunities for substitution.

In summary, there are two sources of Saudi competitive advantage. The first is the comparative advantage enjoyed by availability of the natural resources of the Kingdom in world markets; especially in oil, petrochemical products and energy-intensive manufactured products. The second source is the competitive advantage achieved at the regional level, in relation to GCC countries and neighboring Muslim and Arab countries, in a wide range of manufactured products in which transportation costs are a large element of total cost.

Table 14.1.9
Import/Export Ratio for Selected Product Categories
(2003)

Code	Products Category	Imports /Exports Ratio
012	Other edible meat and offal; fresh, refrigerated & frozen	13.06
022	Milk and cream, dairy products other than butter and cheese	2.02
024	Cheese and curd	6.17
048	Grains and flour preparations or vegetable or fruit starches	2.70
054	Vegetables; fresh, refrigerated, frozen & preserved	3.72
056	Fruits and roots; prepared & preserved	3.29
057	Vegetables and nuts (oil nuts); fresh & dried	8.29
098	Edible products and preparations	11.14
241	Vegetable oil & fat (light); raw, refined & distilled	3.10
013	Carboxylic acids and derivatives and the relevant hydride and boron acids and their halogenated and carbonated derivatives or nitro derivatives	1.60
023	Metallic salts and peroxy salts of Inorganic Acids	3.43
053	Perfumers, cosmetics & toilet preparations (other than soap)	0.66
074	Polyacetals, and others, such as polyether, Epoxide resins in primary forms, polycarbonates, alkyl resins and polyallyl esters (organic salts) and other polyesters in primary forms	1.03
070	Plastic products in primary forms	1.12
081	Tubes, pipes and hoses, plastic accessories	1.14
082	Plates, sheets, film, foil and strip of plastic	2.01
098	Miscellaneous chemical products	11.16
641	Paper and paper board	11.32
661	Lime, cement and fabricated construction materials (other than glass and clay)	1.18
673	Flat-rolled iron, non-alloy steel products, not coated or painted	2.07
674	Flat-rolled iron, non-alloy steel, coated or painted	2.77
676	Iron and steel bars, rods and sections	2.20
679	Iron and steel tubes and pipes and their fittings	4.20
682	Copper	8.89
684	Aluminum	4.82
699	Manufactures of base metals	3.27
723	Civil engineering and contractors plant & equipment	10.02
741	Heating and cooling equipment and parts thereof	4.22
784	Parts and accessories for motor vehicles Nos. 722, 781, 782, 783	17.43
786	Trailers, other non-motorized vehicles, containers of special designs	1.98
821	Furniture and parts thereof; beddings	10.16
893	Plastic materials	1.43
971	Gold, non-monetary (other than raw gold & gold concentrates)	1.46

Source: The rates are based on actual exports and imports statistics for 2003; issued by Central Department of Statistics.

14.1.3 ISSUES AND CHALLENGES

Notwithstanding the remarkable progress made in international trade, with Saudi exports achieving greater diversification, some issues need to be addressed still, in order to achieve further progress. The most important of these issues are reviewed below.

14.1.3.1 Comparative Advantage of Energy-Intensive Manufactured Products

The internationally competitive position enjoyed by the Kingdom rests upon the abundance of natural resources, such as oil, as well as on petrochemical products, of which the Kingdom is a leading exporter, and products of energy-intensive industries. However, competition from countries that have similar natural resource endowments, within and outside the region, calls for promoting these industries, through subjecting domestic producers to standard performance evaluation; and creating a healthy competitive environment that motivates them to increase productivity, raise quality and reduce costs. In addition, endeavors need to be made to reduce direct and indirect protectionist barriers in foreign markets, which may be helped by accession to the World Trade Organization.

On the other hand, like the petrochemical industry, other energy-intensive industries must be developed to become links in the world value chain of some of heavy industries.

14.1.3.2 Regional Trade

Analysis of foreign trade shows that the Kingdom has a regional competitive advantage in many products and commodities. However, a key challenge is to move from these initial successes towards increasing export volumes and diversity, particularly that achieving export success at the regional level, may, at this stage of development, be the initial step towards succeeding in international markets.

While geographic location is a key determinant of regional trade, particularly for goods where transport costs constitute a major cost

element, prevailing economic conditions in neighboring countries do have an important impact. In addition, poor infrastructure, particularly cross-border facilities and means of transport, as well as complicated administrative and customs procedures, are a major constraint on growth of regional trade.

Undoubtedly, further integration among the GCC countries, and development of joint Arab action, will in the coming years contribute significantly to enhancing Saudi export performance. However, basic infrastructure in some neighboring countries remains an obstacle. Thus, to open markets further in both directions, the Kingdom should consider joint action to improve transportation facilities in neighboring countries and rationalize cross-border procedures.

14.1.3.3 Export-Oriented Industrial Zones

In many developing countries, development of special industrial zones, business incubators, technology parks and special export-oriented zones has become a basic objective of economic planning. The Kingdom was one of the first countries to establish integrated industrial complexes, such as in Jubail and Yanbu. Still, expansion of industrial zones specialized in specific technology and sectoral skills remains a worthy promising goal.

Export-oriented zones, particularly ones that are dependent on direct foreign investment, are a most important means for stimulating growth of international exports. By the end of 1999, 850 such zones were operating around the world, and by the end of 2001, their number in South Eastern Asian (ASIAN) countries reached 130. Therefore, the Kingdom should consider establishing such zones, taking into account closeness to neighboring markets, availability of infrastructure, and proximity to universities, R&D centers, industrial zones and technology parks.

14.1.3.4 Institutional Structure of Export Development

Export development requires a highly efficient institutional structure, with a clear delineation of the tasks and functions of the various agencies.

A plan for developing Saudi exports would first define the relative roles of the government and the Council of Saudi Trade and Industrial Chamber (CSTIC), by specifying both government initiatives and the objectives to

be achieved by the private sector; and, secondly, enhance cooperation between the (CSTIC) and exporters in order to achieve exports targets. In addition, establishing an independent authority for export development ought to be considered (Box 14.1.2).

Box 14.1.2: Functions of the Proposed Export Development Authority

- Devising regulations and bylaws relating to development of non-oil exports, and reviewing them as required.
- Formulating strategies and policies pertaining to development and growth of non-oil exports, and reviewing them in light of developments.
- Proposing implementation plans for export development and growth.
- Conducting research and studies on potential export opportunities.
- Conducting research and studies on targeted foreign markets, and promoting national products.
- Supporting exporters in obtaining export credits and finance from domestic and international financial institutions.
- Providing support to national SMEs and assisting them in accessing international markets.
- Providing support and technical services to exporters.
- Organizing export conferences, forums, and exhibitions abroad.
- Working with relevant international, regional and government agencies.
- Attracting qualified and specialized Saudi personnel in the field of development of exports.
- Supporting private sector training programs related development of exports.
- Encouraging simplification of procedures and administrative rules to stimulate national exports and increase their competitiveness, in cooperation and coordination with relevant agencies.
- Developing awareness on the role of e-commerce in export development and related services.
- Studying obstacles to exports and finding appropriate solutions.

14.1.3.5 Balance of Services and Transfers

The deficit in the balance of services and transfers, which is currently covered by the trade account surplus, where oil exports play a major role, constitutes a key challenge to the policies aimed at improving the balance of payment and attaining sustainable development. This deficit is caused by several factors, including low foreign investment returns, and continuing increases in insurance and shipping costs, costs of public and private-sector services, and transfers, by mainly expatriate labor.

The Eighth Development Plan adopts a number of policies to improve the services balance, including:

- Promoting private, indigenous and foreign, investment in transportation and shipping.
- Developing insurance and other financial services.
- Developing and promoting internal tourism.
- Indigenizing consultancy and engineering services in energy (oil, gas and electricity), water desalination and other sectors.
- Providing a suitable environment for increasing local consumption and investment expenditure of expatriate labor.

14.1.4 FUTURE VISION

By virtue of volume, components and national value added, foreign trade is a microcosm of the national economy, with all its major characteristics and constituents. Hence, the future vision for foreign trade corresponds, to a large extent, to the future vision for the Saudi economy as a whole. It is thus possible to identify the following envisaged major characteristics of foreign trade in the future:

- Achieving an improved balance in the non-oil current account, so that non-oil exports cover all non-oil imports.
- Endeavoring to increase exports of refined oil products and enhance their value added, for them to become an important constituent of all oil exports.
- Exploiting the competitive advantage in energy-intensive manufactured products, petrochemical products, and refined oil products to increase their share in exports and enhance their integration into the value chain of international heavy industry.
- Reducing the concentration coefficient of Saudi exports in global markets, through increasing diversification of exports that have a natural or acquired competitive advantage.
- Raising the level of Gulf and Arab economic integration.
- Developing economic relations with international economic groups in Asia, Europe, South and North America, and Africa.

- Reducing the deficit of the services and transfers balance, through indigenization of many technical and technological services and increasing the returns of transportation, insurance, shipping, and tourist services and attracting investments by expatriate labor.

14.1.5 DEVELOPMENT STRATEGY

The development strategy of the foreign trade sector will be implemented through the following objectives and policies.

14.1.5.1 Objectives

The main objectives for the foreign trade sector under the Eighth Plan are as follows:

- Improving balance of payments and enhancing foreign reserves.
- Achieving balance in the non-oil current account in the long run.
- Achieving the integration of Saudi industry into the international industrial system.
- Diversifying the geographic distribution of Saudi foreign trade and improving inter-trade with Gulf, Arab and Muslim countries.

14.1.5.2 Policies

Achieving the key objectives for the foreign trade sector under the Eighth Plan relies upon the following policies and procedures:

- Promoting competitiveness of Saudi exports and penetrating more international markets.
- Enhancing the technical, administrative and marketing consultancy services provided by Saudi Industrial Development Fund (SIDF).
- Conducting periodical standard evaluations of Saudi exports to assure quality standards.
- Establishing permanent exhibitions of Saudi exports in the main international markets.
- Creating a database of export opportunities in international markets.
- Granting incentives to export-oriented investments.
- Establishing industrial zones for export and re-export.

- Enhancing the role of the Saudi Exports Program of the Saudi Industrial Development Fund (SIDF)*.
- Combating dumping to ensure fair competition.
- Providing the necessary technical support to raise the efficiency and quality of domestic goods and services that compete with imports.
- Promoting investments in the services sectors (transport, shipping, insurance and tourism).

14.1.5.3 Targets

The specific targets for foreign trade under the Eighth Development Plan are:

- Increasing services and commodities exports at an average annual growth rate of 3.2%.
- Increasing non-oil exports at an average annual growth rate of about 8.5%.
- Decreasing the average annual growth rate of imports of goods and services to 6.6%.
- Achieving a surplus in the trade balance of about 23.5% of GDP.

14.2 DOMESTIC TRADE

14.2.1 INTRODUCTION

Domestic trade plays a vital role in the economy of the Kingdom, for it has a large share of private-sector businesses and provides a large number of jobs opportunities.

Over the past three decades, domestic trade has experienced remarkable growth that matches the growth and diversification of the national economy; an achievement that was made possible by the free-market approach adopted by the Kingdom and its unique geographical location, as well as by the wealth of commercial expertise of Saudi businessmen.

* An additional amount of SR15 billion from the surplus of state budgets of 2004 and 2005 has been earmarked to increase funding for the Saudi Exports Promotion Program.

This chapter reviews the current conditions and achievements of domestic trade under the Seventh Development Plan, as well as the basic issues and challenges that must be addressed under the Eighth Development Plan and the strategic dimensions of the domestic trade.

14.2.2 CURRENT CONDITIONS

Domestic trade plays an essential role in providing goods and services, including capital goods needed by development projects and programs and consumer goods to meet the increasing domestic demand due to population growth and rising income levels.

14.2.2.1 Indicators of Domestic Trade Development

Table 14.2.1 shows that during the Seventh Development Plan, registered commercial companies increased by about 2.1%, individually-owned registered companies by about 37.7%, registered commercial agencies by about 14.0%, registered trademarks by about 45.6%, licensed professional services offices by about 46.2%, hotels and rest houses by about 138.1%, general services offices by about 43.1%, and gold shops and workshops by about 19.5%, while certificates of origin issued for domestic products went up by about 124.4%.

Table 14.2.1
Some Indicators of Domestic Trade Development
under the Seventh Development Plan

Indicator	1999	2004	Growth (%)
Registered companies	190,762	194,740	2.1
Individually-owned registered companies	438,133	603,408	37.7
– Commercial agencies	7,981	9,006	14.0
– Trademarks	00,002	73,023	45.6
– Professional services offices	3,884	5,679	46.2
– Hotels and rest houses	420	1,012	138.1
– General services offices	21,000	30,078	43.1
– Gold shops and workshops	0,120	7,126	19.0
– Certificates of origin for domestic products	421,926	947,783	124.4

Source: Ministry of Commerce and Industry.

Table 14.2.2 shows the distribution of existing commercial registrations by economic sector under the Seventh Development Plan. The wholesale and retail trade sector, the construction and building sector, and the transport, storage and cold stores sector constitute the majority of existing commercial registration. The share of these sectors increased from 90.9% in 1999 to 97.1% in 2004, while the total number of registers increased by 26.7%, from 463,164 to 586,846. The construction sector (contractors) grew by 62.3 %, followed by the transport, storage and cold store sector (47.5 %), and the wholesale and retail trade sector (23.4 %).

Table 14.2.2
Existing Registered Commercial Companies
by Economic Sector
Seventh Development Plan

Sector	1999		2004		change (%)
	No.	(%)	No.	(%)	
Wholesale and retail trade	278,927	60.2	344,308	58.7	23.4
Building and construction (contracts)	108,603	23.5	176,220	30.0	62.3
Transportation, storage and cold stores	33,414	7.2	49,287	8.4	47.5
Other sectors	42,220	9.1	17,027	2.9	-59.6
Total	463,164	100	586,846	100	26.7

Source: Ministry of Commerce and Industry.

Over the first four years of the Seventh Development Plan, total domestic trade grew at an average annual rate of 4.5%, exceeding the growth rates of GDP (3.44%) and the non-oil domestic product (3.93%). The value added of domestic trade increased from about SR46 billion, or 7.6% of GDP in 1999 to about SR57 billion, or 8% of GDP in 2004. Investment in this sector increased under the Seventh Plan to around SR96 billion, i.e., 3.8% of total investments.

14.2.2.2 Growth of Companies

In the context of continued economic development, steady increase in population, and the strong correlation between the number of trade enterprises and population size, company registrations experienced several

developments. The number of existing companies rose from 9,387, with a capital of SR162.7 billion, in 1999 to 12,416, with a capital of SR183.8 billion, in 2003. 85.2% of these companies had Saudi capital, 12.5% mixed capital, 1.2% Gulf capital, and 1.1% foreign capital.

Table 14.2.3 shows the distribution of these companies by type and total invested capital.

Table 14.2.3
Existing Companies by Type

Type of company	1999		2003	
	No.	Capital (SR Billion)	No.	Capital (SR Billion)
Limited partnership company	949	3.14	1,068	3.38
Shareholding partnership company	2	*	3	*
Joint-venture company	2,295	3.46	2,681	3.62
Limited liability company	6,029	80.18	8,537	90.73
Joint-stock company	112	75.95	127	86.12
Total	9,387	162.73	12,416	183.85

* Less than one million.

Source: Ministry of Commerce and Industry.

14.2.2.3 Standards and Specifications

During the Seventh Development Plan, 655 Saudi standards were approved, raising the total number of approved standards to 2,287. In addition, 84 standards were modified and updated, raising the total number of modified and updated standards to 248. Moreover, 6,225 industrial licenses were investigated to confirm that there are approved standards for their products, raising the total number of investigated licenses to 18,623 by the end of the Seventh Development Plan.

Furthermore, the Saudi Arabian Standards Organization (SASO) is expected to finalize the Saudi building code during the first three years of the Eighth Development Plan, which will have a positive effect on building and construction standards and specifications.

During the Seventh Development Plan, export certificates were issued to 1,416 products, bringing the total to 3,228. In addition, 58 enterprises obtained the right to use quality mark, bringing the total to 175 by the end

of the Seventh Plan.

As part of its efforts to provide services, SASO delivered about 2,297 technical consultations to different agencies during the Seventh Development Plan, to bring the total to 29,425. Additionally, three more laboratories were approved in the private sector to conduct specified tests, bringing the number of such laboratories to 14 by the end of the Seventh Plan.

14.2.2.4 Institutional and Organizational Development

As part of restructuring the government, which was, *inter alia*, aimed at enhancing and rationalizing economic administration, Royal decree A/2 of 2003 abolished the Ministry of Industry and Electricity and put industry affairs under the Ministry of Commerce, whose name was changed to Ministry of Commerce and Industry. In addition, Council of Ministers Resolution 133 of 2003 transferred functions of the Permanent Committee of Electronic Commerce from the Ministry of Commerce and Industry to the Communication and Information Technology Commission.

To enhance the efficiency of trade, protect consumer interests and improve the investment environment, there was during the Seventh Development Plan remarkable development of trade regulations and bylaws. Thus, several trade regulations and bylaws were issued, reviewed and updated, including the trademarks regulation and its bylaw, the general competition regulation, the real estate shareholding regulation, the private laboratory regulation, the commercial mortgage regulation, the hotel consultations regulation, the vehicle recall bylaw, and the executive bylaw governing practicing security consultations. More trade regulations are expected to be modified and updated under the Eighth Development Plan, including: the trade fraud control regulation, the sales-by-installment regulation, the companies regulation, the dumping control regulation, the electronic transactions system, the Chambers of Commerce and Industry regulation, and the National Committee for Consumer Protection regulation.

In addition, to improve compliance procedures, SASO devised a bylaw for regulating the methodology of insuring compliance of Saudi products with approved ISO standards, and another for regulating selection of the agencies authorized to grant the ISO9000 quality certificates and the ISO14000 environment certificates to companies and enterprises.

14.2.2.5 Development of Employment

Employment in the domestic trade sector increased at an average annual growth rate of 1.8%, from 1.1 million workers in 1999 to 1.2 million workers in 2003; thus constituting then 14.4% of total employment (Table 14.2.4).

During the same period, the ratio of Saudi manpower in the domestic trade sector to total manpower rose from 17.8% to 19.7%, i.e., at an average annual rate of 4.3%, compared to 1.3% for expatriate labor. This is a positive development, since the trade sector provides promising jobs opportunities to Saudis nationals. Moreover, the modest growth in the total manpower of 1.8%, compared to a growth rate of 4.5% in value added for trade sector, indicates improvement in the productivity of domestic trade activities.

Table 14.2.4
Employment in the Trade Sector
Seventh Development Plan

Type of Employment	1999		2003		Average annual growth rate (1999–2003) (%)
	No.	(%)	No.	(%)	
Saudi	197,478	17.8	233,906	19.7	4.3
Foreign	909,129	82.2	956,255	80.3	1.3
Total	1106,607	100	1190,161	100	1.8

Source: Ministry of Economy and Planning.

14.2.3 ISSUES AND CHALLENGES

The remarkable progress made by the domestic trade sector notwithstanding, the following are some of the remaining challenges that need to be addressed.

14.2.3.1 Development of SMEs

Constraints, such as poor financial, managerial and marketing capabilities, that face most SMEs lower their economic efficiency, and impair their competitiveness, which, in turn, limits their ability to play an effective role in social and economic development. Many of these constraints can be

removed by providing adequate finance, intensifying training for employees, and increasing awareness by owners of the importance of enhancing their administrative and planning capabilities; in addition to establishing a body responsible for prompting these enterprises.

14.2.3.2 Combating Dumping

Dumping low-cost, subsidized foreign goods onto the domestic market impairs competitiveness of national products. It is, therefore, essential to expedite enforcement of the system of dumping control, and protective, preventive, and reparational measures issued by the Supreme Council of the GCC countries in its 24th session on 21–22/12/2003 to be effective from the 1/1/2004. Moreover, the dumping control units of the Ministry of Commerce and Industry needs support to enable it to deal with all relevant issues.

14.2.3.3 Business Ownership Concealment

The phenomenon of concealing the true ownership of business grows with the expansion of trade and economic activities and with the spatial development of rural and urban areas. This may require revising the existing concealment control system and enforcing it throughout the entire country

14.2.3.4 Issuance of Uncovered Cheques

Disrespect of the function of cheques, as a substitute of cash in commercial and civil dealings impedes the flow of commercial activities and slows down the pace of trade.

Appropriate measures, including spreading awareness of the function of cheques, need to be taken. In addition, there may be a case for reviewing commercial paper regulations to develop them and raise the penalties for violation.

14.2.3.5 Commercial Fraud Control

Given the limited capacity of monitoring agencies and the tremendous expansion of commercial activities, efforts to limit commercial fraud appear to be inadequate. This calls for expediting issuing the trade fraud control regulations that were recently reviewed and modified, as well as creating a national agency for consumer protection.

14.2.3.6 Development of a Trade Information System

Information is vital for investors. Therefore, the commercial and industrial information system should be developed and updated. Link the information center of the Ministry of Commerce and Industry with the Chambers of Commerce and Industry should facilitate provision of timely information on available investment opportunities.

14.2.3.7 Saudization of Manpower

The efforts made to employ Saudi nationals in the private sector and encourage them to join it have not had the hoped for success. The trade sector can absorb much national labor, for the needed skills are not high and training could be provided on the job. Hence, obstacles to Saudi citizens joining this sector should be removed, and employment mechanisms developed; all the while benefiting from relevant international experience.

14.2.3.8 Application of Standards and Quality Control

The Kingdom has developed a large number of product standards, utilizing international expertise and domestic capabilities. This has contributed effectively to developing the goods and materials circulating in the domestic market, whether imported or domestic, and ensuring their safety and quality. However, there is evidence that some available commodities and products do not comply with approved specifications and other quality control standards, and there are goods and products for which there are no standard specifications. Furthermore, some approved standards need revision.

Hence, the following initiatives are suggested: enhancing participation and cooperation with academic and scientific centers inside and outside of the Kingdom; strengthening the monitoring agencies to ensure full application of approved specifications and quality control standards; developing the capabilities of the system for monitoring drugs, foodstuffs and other goods that affect community health; enhancing the role of the private sector in examining and inspecting goods in accordance with the private laboratories regulations; and ensuring at in various entry points that imports comply with Saudi standards.

14.2.4 DEVELOPMENT STRATEGY

The strategy for developing the domestic trade sector aims at the following.

14.2.4.1 Objectives

The key objectives for domestic trade under the Eighth Development Plan are as follows:

- To develop domestic trade according to the needs of the national economy and the community.
- To provide the needs of domestic markets for goods and services according to Saudi and international specifications and ensure their availability at reasonable prices.
- To protect consumers from fraud, monopoly and health hazards.
- To eliminate business ownership concealment.
- To replace foreign labor with national labor.

14.2.4.2 Policies

The above objectives will be implemented by adopting the following policies and measures:

- Enhancing confidence in dealing with commercial paperwork.
- Enhancing cooperation between the Ministry of Commerce and Industry and the Council of Chambers of Commerce and Industry.
- Monitoring the goods in the domestic market to verify quality and authority and compliance with approved specifications.
- Deploying on a regular basis monitoring teams in all markets in all regions to ensure that goods and services comply with Saudi standards and specifications.
- Enhancing monitoring and inspection processes at all land, sea and air entry points to ensure that imports comply with Saudi Standards and Specifications.
- Developing and updating Saudi specifications and standards on a regular basis to raise standards of national products to international

levels.

- Organizing consumer awareness programs and informing the public of the techniques for and methods of ascertaining the quality of products in the markets.

14.2.4.3 Targets

The major targets for domestic trade under the Eighth Development Plan are:

- Expanding domestic trade at an average annual rate of 5.2%, to constitute 8.3% of GDP by the end of the plan.
- Expanding some of the main services provided by the Ministry of Commerce and Industry at the following average annual rates: registration of companies by 16%, i.e., by 1674 companies per annum; Individually-owned enterprises by 17%, i.e., by 62,384 per annum; registration of trade agencies by 25%, i.e., by 359 per annum; registration of trade marks by 12%, i.e., by 8,396 trade mark per annum; licenses of professional services offices by 17%, i.e., by 394 per annum; licenses of hotels by 5%, i.e., by 110 hotels per annum; testing and analyzing samples of locally produced and imported goods at quality control laboratories by 17%, i.e., by 505,998 samples per annum; and issuance of certificates of origin by 14%, i.e., by 246,867 certificate per annum.
- Issuing 18 licenses for privately-owned laboratories, organizing 47 local trade shows, participating in 26 international trade shows, and organizing 12 marketing festivals.

14.2.5 FINANCIAL REQUIREMENTS

Financial allocations required by the trade sector (Ministry of Commerce and Industry – trade sector, SASO) under the Eighth Development Plan are estimated at approximately SR 2019.2 million, including for financing management, operation and maintenance; national manpower development; improving support services; specifications and quality control laboratories; and promoting international trade relationships.

CHAPTER FIFTEEN

FINANCIAL SERVICES

15. FINANCIAL SERVICES

15.1 INTRODUCTION

The Kingdom of Saudi Arabia enjoys an advance banking system in terms of both quality of service and efficiency of regulation. Moreover, having overtaken the Kuala Lumpur Stock Exchange in 2003, the Saudi stock market is one of the largest in terms of market capital in the Arab and Islamic worlds. However, notwithstanding these and other impressive achievement during the previous development plans, particularly the Seventh Development Plan, the financial services sector will continue to face challenges arising from internal and external developments.

The major challenge internally lies in the growing need for increasing the sources of finance for the private sector to enable it to contribute to economic growth and to the creation of more job opportunities for Saudi nationals. This will entail the consolidating and developing bank finance, as well as funding of the private sector by the domestic capital market. The new Capital Market Law is expected to address this challenge by providing an efficient regulatory framework for capital market operations.

Externally, the most prominent challenges that require strengthening the financial services sector to render it more competitive regionally and internationally are the accession of the Kingdom to the WTO; compliance with the New Basel Capital Accord (Basel II), currently being developed by the Bank of International Settlement (BIS); and Gulf integration, including achieving currency union by 2010. In addition, there is the challenge of absorbing the Saudi private capital repatriated in 2002 and 2003, in the wake of the remarkable performance of the Saudi stock market, in comparison to many other financial markets. The Capital Market Law is expected to facilitate such absorption.

This chapter deals with the main features of the financial services sector, reviews the key issues and challenges that may face it under the Eighth Development Plan, and highlight the features of development strategy and the future vision for it.

15.2 CURRENT CONDITIONS

15.2.1 Main Features of the Banking Sector

The sector comprises 10 national and joint-venture (foreign-domestic) banks, and two branches of Gulf Banks. In addition, Albilad Bank, a Saudi joint-stock company, has been established and branches for six foreign banks that were granted licenses are expected to start operating by the beginning of the Eighth Development Plan. The number of bank branches increased rapidly to a peak of 1,229 in 1998, then declined to 1,196 in 1999, to increase again to 1,208 in 2003. That the number in 2003 was lower than in 1998 is attributable mainly to proliferation of Automated Teller Machines (ATMs), which doubled in number over the period 1999–2003 to reach 3,676, and rapid growth of point-of-sale transactions; thereby reducing pressure on bank branch networks.

Bank branches are widespread. Nevertheless, the ratio of number of branches to population size, which is to 54.5 branches per million inhabitants, is still low compared to 244.9 in the UK, 272.9 in the USA and 303.4 in Japan. As in most developing countries, the reason is the prevailing low banking awareness, with cash, rather than credit, still widely used for personal and commercial payments.

Most people use bank cards to obtain cash, but not to make direct payments. ATM cards are more popular than credit cards, with the former used to withdraw cash directly from a current account. Often, people hold large amounts of cash, using ATMs less than 10 times (per person) per year, compared to 36.6 times in the UK and 52 times in the USA, and the average withdrawal is \$166.5, compared to \$84 in the UK and \$68 in the USA.

There is thus a need for enhancing banking awareness for the banking system to play a more prominent developmental role as a channel for mobilizing and utilizing available financial resources of society. Table 15.1 shows the performance indicators of the banking sector.

Table 15.1
Performance Indicators of the Banking Sector

	1999 (SR billion)	2003 (SR billion)	Increase (%)
Total Bank Assets	415.2	545.2	31.3
Total Bank Deposits	246.1	356.3	44.8
Bank Loans	166.3	247.0	48.5
– Public Sector	14.3	25.9	81.1
– Private Sector	152.0	221.1	45.5
Investment in Securities	112.5	158.1	40.5
– Government	102.3	150.7	47.3
– Private	10.2	7.4	-27.5
Total Capital	42.3	47.0	11.1
Bank Profits (SR billion)	6.3	12.1	92.1
Rate of Return on Capital	14.9%	25.7%	—
Rate of Return on Assets	1.5%	2.2%	—

Source: Saudi Arabian Monetary Agency, Quarterly Statistical Bulletins.

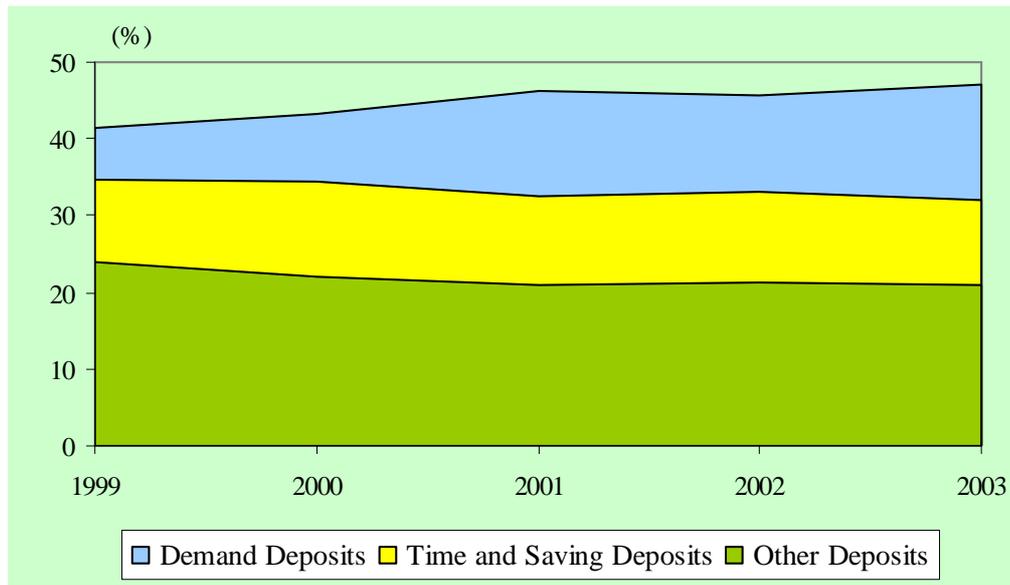
A. Bank Deposits

Bank deposits increased substantially under the Seventh Development Plan, from SR246.1 billion in 1999 to SR356.3 billion by the end of 2003. Although the ratio of bank deposits to GDP remained relatively stable during the past decade, it increased from 40.8% in 1999 to about 44.3% by the end of 2003, due to the significant increase in banking resources resulting from transferring the salaries of workers of the public sector and some workers of the private sector directly into bank accounts.

The ratio of demand deposits to time and saving deposits rose from 119% in 1999 to 126% in 2000 and to 148% by the end of 2003. Thus, the percentage share of demand deposits increased from 41.3% of total deposits in 1999 to about 47% in 2003, while the shares of other types of deposits decreased. These trends are shown in Figure 15.1.

The low level of inflation, which averaged less than 1% during the Seventh Plan period, and stability of the foreign exchange rate contributed to lowering the cost of funding. Nevertheless, banks are reluctant to provide medium and long-term loans, due to concerns about the mismatch between the maturity terms of assets and liabilities. To encourage banks to support more business ventures, it is necessary to raise the proportion of time deposits, perhaps through development of new saving instruments conformant with Islamic teachings and values, as well as by creating a market for certificates of deposit (CDs) to enable depositors to obtain cash by selling their certificates rather than making cash withdrawals from banks.

Figure 15.1
Structure of Bank Deposits



B. Bank Credit

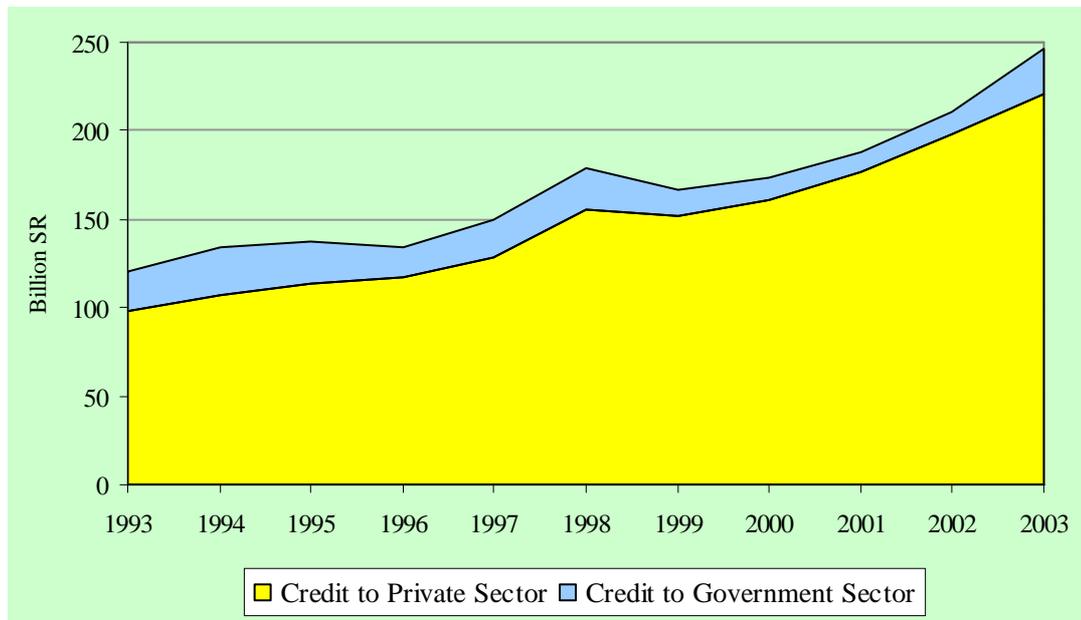
Bank credit increased significantly over the last decade, from SR120 billion in 1993 to about SR247 billion by the end of 2003, as shown in Figure 15.2. Such credit contributes, *inter alia*, to creation of job opportunities, either directly through business lending, or indirectly through personal lending, which stimulates consumer demand for goods and services.

In 2003, about 10.5% of total bank credit was granted to government, with the rest granted to several private-sector activities. With almost SR52 billion, the trade sector received a significant share, amounting to 20%, of total credit provided to the private sector; most of which was used to finance inventories of imported goods. The construction sector received about SR22 billion and the manufacturing sector more than SR26 billion. Consumer loans amounted to more than SR63 billion, of which more than SR27 billion were used to finance vehicle purchases. Loans for real estate finance amounted to about SR5.2 billion.

Although financing the purchase of consumer goods is profitable for banks, there is an increasing rate of default, mostly on credit card advances and personal loans. This indicates the need for enhancing awareness of the

importance of proper management of personal finance. Banks themselves should also make sure that their clients are not taking on excessive financial commitments and that lending risks are properly appraised.

Figure 15.2
Development of Bank Credit



By the end of 2003, short-term loans constituted more than 59% of total bank credit, compared to 25.6% only for long-term loans (more than three years). However, the relative share of short-term credit has been in decline over recent years, for in 1996, it amounted to about 80% of total credit, compared to less than 9% for long-term credit. One factor encouraging longer lending terms has been the rise of consumer credit. Over half of the personal loans extend for periods of three years or more. This is partly because finance of vehicle purchase usually extends over such a period, while, in comparison, loans granted to businesses for financing inventories are typically for one year or less.

It is envisaged that under the Eighth Development Plan, the legal framework governing property mortgages would be reconsidered. The largest part of housing and real estate development is currently financed on a cash basis. Hence, a significant portion of capital is locked up in real estate. Since purchasing property through mortgages and re-mortgages would free more capital for investment, it is hoped that a mortgage system that conforms to the Shariah law would be developed. Much can be learnt from international experience with Islamic mortgages, including Murabaha

and Ijara. This may also enhance the role of the Real Estate Development Fund (REDF), through gradually converting it from an institution engaged only in lending to one that also offers mortgage guarantees.

Small-scale, and to some extent medium-scale, enterprises, face difficulties in obtaining finance due to many reasons, including failure to keep adequate accounts, lack of separation between family and business finances, and lack of knowledge on how to prepare business plans. To address this situation, the commercial banks are expected to establish units to offer practical guidance to SMEs, possibly in cooperation with the Saudi Industrial Development Fund (SIDF) in the case of industrial firms.

15.2.2 Size and Competitiveness of Banks

Table 15.2 ranks banks by size of capital, indicating a need for supporting their capital base to enable them to develop and compete globally. The smallest banks find it increasingly difficult to obtain adequate return on investment in the domestic banking services network, which should lead to considering bank mergers to increase size, and opening possibilities for development and provision of more services. Bank mergers would also make the banking sector more able to meet the financial requirements of large projects (for example in petrochemicals and gas utilization) from own resources or through concluding joint-finance agreements. All of this would widen the scope of banking activities, enhance the role of banks in utilizing national savings and provide more profitable funding opportunities with lower risks.

Table 15.2
Ranks of the Banks by Size of Capital, 2003 (SR billion)

Banks	Capital	Assets	Loans	Deposits	Net Income
National Commercial Bank	10.33	117.43	49.75	90.45	3.01
Saudi American Bank	8.88	79.04	34.91	61.77	1.43
Riyadh Bank	8.55	71.51	27.95	45.88	1.59
Alrajhi Banking Corporation	7.25	64.68	n. a.	47.20	2.04
Saudi French Bank	5.05	53.50	26.72	42.63	1.19
Saudi British Bank	4.75	46.06	26.12	36.09	1.26
Arab National Bank	3.98	49.20	20.17	33.72	0.77
Saudi Hollandi Bank	2.55	27.96	13.96	21.58	0.60
Saudi Investment Bank	2.63	21.71	10.33	14.40	0.46
Al-Jazira Bank	0.88	8.99	4.66	7.54	0.09

n.a = not available.

Source: *The Bankers; Saudi Banks web sites.*

It is worth noting that Saudi banks have a comparative advantage in Islamic banking, which could, if deemed necessary, contribute to enhancing their competitive advantage in Arab and Islamic countries and eventually internationally.

15.2.3 Specialized Credit Institutions

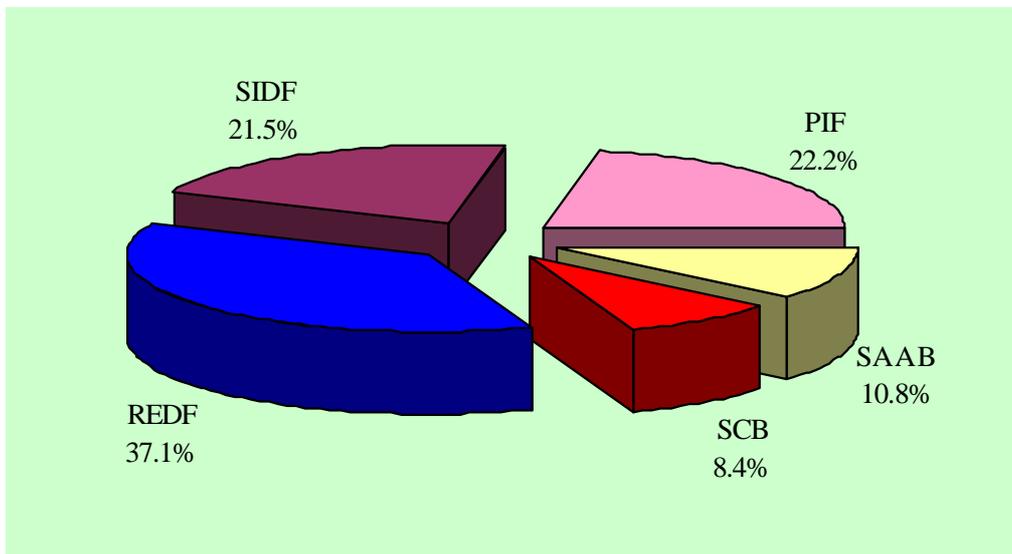
The government has established five specialized credit institutions (SCIs) to meet the needs of the private sector firms and public enterprises for long-term loans on favorable terms in such vital fields as industry, agriculture and housing, where loans are not usually provided in sufficient amounts by the commercial banks. Fully financed by the State and supported continually by the annual State budget, these institutions have contributed to the expansion of agricultural, industrial and craft activities, in addition to financing private housing in the various regions. In 2003 the total capital of these institutions amounted to SR201.65 billion*, and the total value of the loans they granted since they were established until then exceeded SR312.6 billion.

Total net loans granted by SCIs increased from SR148.9 billion in 1999 to about SR153.4 billion in 2003, a modest growth rate of 3.0%, reflecting keenness to keep the size of loans within the limits of repayments (self-finance policy); thus avoiding any burdening the State budget further.

In 2003, the loans provided by the SCIs amounted to about SR6.1 billion, while repayments amounted to about SR4.9 billion. Figure 15.3 shows the distribution of these loans; REDF came first with a share of 37.1% of total loans, followed by SIDF, the Public Investment Fund (PIF), the Saudi Arabian Agricultural Bank (SAAB), and the Saudi Credit Bank (SCB) at 21.5%, 22.2%, 10.8% and 8.4% respectively. Under the Eighth Development Plan the capital base of REDF and SCB will be increased by SR9 billion and SR2 billion, respectively.

* The capital of SIDF, REDF and the Saudi Credit Bank was recently increased by SR. 13 billion, and SR. 18 billion and SR. 5 billion respectively.

Figure 15.3
Distribution of Loans Granted by the Specialized
Credit Institutions, 2003



15.2.4 The Saudi Stock Market

Under the Seventh Development Plan the Saudi Stock Market grew steadily, with the general index of stock prices rising from 2028.5 points in 1999 to 4437.6 points in 2003 and then to 6593.7 points in the third quarter of 2004. This substantial rise is attributable to many factors including increased corporate profits, enhanced confidence in the domestic market, decreasing rates of return on deposits, increasing numbers of investors resulting from enhanced awareness of securities investment, and partial repatriation of Saudi funds invested abroad. Table 15.3 shows the major indicators of the Saudi Stock Market development under the Seventh Development Plan. The number of transactions increased at an average annual rate of 71.2% during the 1999–2003 period and the number of traded shares increased from 528 million to 5566 million, while their value increased from SR56.6 billion to SR596.5 billion.

The Saudi Capital Market Act was issued by Council of Ministers Resolution 91 of 2003 and the Security Exchange Commission was established by Royal Decree A/114 of 1/7/2004. As a result, transactions in Saudi shares are expected to grow steadily under the Eighth Development Plan. In addition, Privatization of public sector organizations and selling of the government shares in joint ventures will greatly increase the size of the

market. Moreover, listing more companies in the Stock Exchange will accelerate growth of the opportunities available to investors.

Table 15.3
Saudi Stock Market Indicators

Year	General Index	Number of Transactions	Number of Traded Shares (million)	Value of Traded Shares (SR billion)
1999	2028.5	438,226	528	56.6
2000	2258.3	498,135	555	65.3
2001	2430.1	605,035	691	83.6
2002	2518.1	1,033,669	1,736	133.8
2003	4437.6	3,763,403	5,566	596.5
2004*	6593.7	4,421,724	2,960	512.1

* For the third quarter of 2004.

Source: Saudi Arabian Monetary Agency, *Quarterly Statistical Bulletins*.

15.2.5 Government Securities

Under the Seventh Development Plan the market in government securities developed markedly in terms of type, denomination, maturity and rates of return. Investment in such securities by the banks who are the main dealers, increased from about SR102.3 billion in 1999 to about SR150.7 billion in 2003; an increase of 47.3% (see Table 15.4.) Enabling SAMA to use modern techniques for management of bank liquidity [Repurchase Agreements (Repos) and Reverse Repurchase Agreements (Reverse Repos)]; thereby expanding the range of indirect techniques used in domestic liquidity management. The average value of the Repos and Reverse Repos agreements amounted to about SR1.9 billion and SR2.7 billion respectively in 2003.

Table 15.4
Bank Investments in Government Securities
(1999-2003)

	(SR billion)		
	1999	2003	Change %
Government Bonds	100.0	150.50	50.5
Treasury Bills	2.3	0.17	-92.6
Total	102.3	150.67	47.3

Source: Saudi Arabian Monetary Agency, *Statistical Bulletins*.

15.2.6 Investment Funds

The Kingdom enjoyed the most-active investment funds in the Islamic world on the number the number of investment funds increased from 134 funds in 1999 to 170 by the end of 2003, while the number of subscribers to them increased from around 79,000 to about 172,000 investors and their total assets increased from SR34.7 billion to SR53.9 billion; an increase of 55.3% (Table 15.5). In 2003 domestic shares accounted for 38.8% of the total shares component of these funds while domestic bonds accounted for 5% of the total bonds component. However, the investment funds industry and its management are currently confined to the banking sector, while enhancing competition requires opening the way to participation by non-banking groups. The Capital Market Act provides an adequate framework for this by entrusting the Security Exchange Commission mandate with licensing independent brokerage firms to offer investment fund and securities trading facilities.

Table 15.5
Indicators of Investment Funds Development
(1999–2003)

	1999	2003
Number of Funds in Operation	134	170
Number of Subscribers	79,322	172,197
Total Assets (SR, billion)	34.7	53.9

Source: Saudi Arabian Monetary Agency, Quarterly Statistical Bulletins.

15.2.7 The Insurance Market

The New Insurance Act, issued by Royal Decree M/32 of 31/7/2003, provides a regulatory and organizational framework for the domestic insurance market, enhances SAMA's supervisory role in this field, and identifies administrative criteria and requirements for ensuring quality of insurance services and protecting customers and investors.

By 2003, the number of specialized insurance companies, brokers, agents, consulting bureaus and insurance auditors reached 104 companies (55 in Riyadh, 31 in Jeddah and 18 in Dammam). The insurance industry covers health, traffic accidents, flight, fire, engineering, commodity and miscellaneous accidents.

A survey of the insurance market, conducted by SAMA's Institute of Banking Studies in 2002 found that total insurance subscriptions amounted to about SR3.0 billion; an increase of 16% over 2001. With a share of 27.5% of total subscriptions, health insurance accounted for the majority of subscriptions, followed by vehicle insurance (21.3%) and fire and property insurance (16.6%). The Cooperative Insurance Companies Control Act, issued by the above mentioned Royal Decree, is expected to boost competition and lead to further development of insurance services during the period of the Eighth Development Plan.

15.3 DEVELOPMENT STRATEGY

Success of the financial services development strategy depends on the degree of efficiency and effectiveness of economic policies in general and monetary policies in particular. The objectives, policies and targets set for the development of the financial services sector by the Eighth Plan are summarized in the following:

15.3.1 Objectives

The main objectives:

- Contributing to improving performance of the national economy and increasing and diversifying sources of income.
- Encouraging and mobilizing national savings and providing finance to various economic activities.
- Maintaining stability of the banking system and enhancing its efficiency and capacity.
- Developing local capital markets and insurance services and raising their efficiency.

15.3.2 Policies

To attain the Objectives set for the development of the financial services sector, the Eighth Development Plan adopts the following:

- Encouraging merger of banks and expanding the establishment of specialized investment banks.
- Enhancing the regulatory framework for residential and commercial mortgages.

- Supporting the financing of SMEs.
- Establishing a market for corporate bonds, including bonds issued by government institutions.
- Opening the securities market to foreign investors.
- Encouraging transformation of family owned companies into cooperation companies listed in the stock market.
- Cooperating with the GCC countries to establish regional capital markets.
- Enhancing public awareness of proper financial planning and debt management.

15.3.3 Targets

The main targets for the development of financial services under the Eighth Development Plan are as follows:

- Achieving an average annual growth rate of about 6.1% in the financial services sector during the period of the Plan.
- Increasing contribution of the financial services sector to GDP to about 6.3% by 2009.
- Providing a total of SR 44.2 billion in loans by specialized credit institutions including SR 6.65 billion by the Saudi Agricultural Bank, SR 11.3 billion by SIDF, SR 22 billion by REDF, SR 3.5 billion by the Saudi Credit Bank, and SR 750 billion by other lending program.

CHAPTER SIXTEEN

FAMILY AND SOCIETY

16. FAMILY AND SOCIETY

16.1 INTRODUCTION

The family is the basic unit of society and one of its vital institutions; for it is responsible for maintaining social cohesion and strengthening the social fabric, through caring for its members and bringing up its young on a set of values and principles cherished by society. Society has entrusted the family with these functions to ensure stability and order, as well as guarantee sustainable social development. It is, therefore, necessary to create all favorable conditions for preserving cohesion of the family, raising its standard of living, and protecting its values.

Considering it the nucleus of society, the Kingdom of Saudi Arabia has focused attention on the family, with the Kingdom's Basic Law emphasizing "the keenness of the state on strengthening it; preserving its Arab and Islamic values; and caring for all its members by providing them with the appropriate environment for promoting their faculties and capacities". Moreover, the Basic Law entrusted the state with the responsibility for guaranteeing the rights of every citizen and family in emergency, illness, disability and old age, for supporting the social security system, and for encouraging organizations and individuals to contribute to charitable causes.

In the last few decades, pressures on the family, problems besetting it and challenges facing it, all of which imperiling its basic role of preserving the social fabric, have focused attention on family issues, nationally, regionally and internationally. Problems of poverty, unemployment, violence, drug addiction, illiteracy, crime, divorce, and family breakups, which have multiplied and become more acute around the world, have led most countries to place protection of the family and preservation of its cohesiveness high on the list of development priorities.

Causes of increased pressure on the family, worldwide, are varied. These include poor response to the needs of the more vulnerable groups of population, such as children, the elderly and the disabled; and urban expansion and migration, which have had a large impact on family structure, unity, values and modes of living. Moreover, the substantial cultural, social and behavioral effects of vast developments in dissemination of information have been challenging the cultural and social

fabric of Arab and Islamic societies. Youth unemployment has also intensified family tensions. Such pressures have exposed the family to fundamental changes in size; ability to extend material and moral support to members; relations among members, as well as with others; role in production and development, positions of members on political, social and cultural issues; and attitudes towards the customs and traditions that characterize our Arab and Islamic civilization identity.

Evidently, the traditional approach of addressing the family issues; prospect and challenges through only one sector (Social Welfare), or one government agency (Social Affairs), will fail to cover the full range of roles played by the family, nor provide the material and human support needed to enable it to rise to the current developmental challenges. Hence, the Eighth Development Plan focuses on integrative aspects.

The pressures facing the Saudi family should not be exaggerated. Nevertheless, there are pockets of poverty, unemployment and illiteracy that need to be treated, in addition to social problems, such as divorce that call for attention.

This chapter addresses the current conditions of the family and reviews the major issues and challenges facing it. It also highlights the objectives, policies and targets of the Eighth Development Plan relating to family and society.

16.2 CURRENT CONDITIONS

16.2.1 Family Conditions

In 2004, total population of the Kingdom was about 22.6 million, of whom 16.5 million, or 72.9%, were Saudi citizens. Available demographic data for the 1992–2004 period indicate rapid natural growth of the Saudi population; at an average rate of 2.5% annually. This, in turn, is reflected in the age structure by the dominance of young age groups, with the ratio of people in the below-15- years age groups to total population reaching about 40.4% and a 79% rate of dependency (percentage of population below 15 and above 64 years old to population in the age group 15–64 years old). Despite the fall in the rate of dependency from 100.4% in 1996, it is still high in comparison with many other countries, including Arab countries where the overall average is a little over 72%. It is worth noting

here that high dependency rates lead to higher expenditures on services in order to meet the increasing needs of dependents. Moreover, with higher enrollment in education by the 15–24 age group and poor participation of females in economic activity, economic dependency rates are in actual fact much higher than age dependency rates.

As a result of high population growth rates, average Saudi family size reached 7 persons in 1996; varying between 7.5 in rural areas and 6.8 in urban areas. Thus, the Saudi family is in need of economic support through provision of job opportunities, increasing income, and improving social care and services, particularly that the age structure of the family is characterized by the dominance of young age groups, such as children and youth in the critical age of growth and dependency.

The following sections will review the most prominent indicators and characteristics of the Saudi family, as well as the variables affecting it, which have all set the framework for the objectives, policies and programs of the Eighth Development Plan.

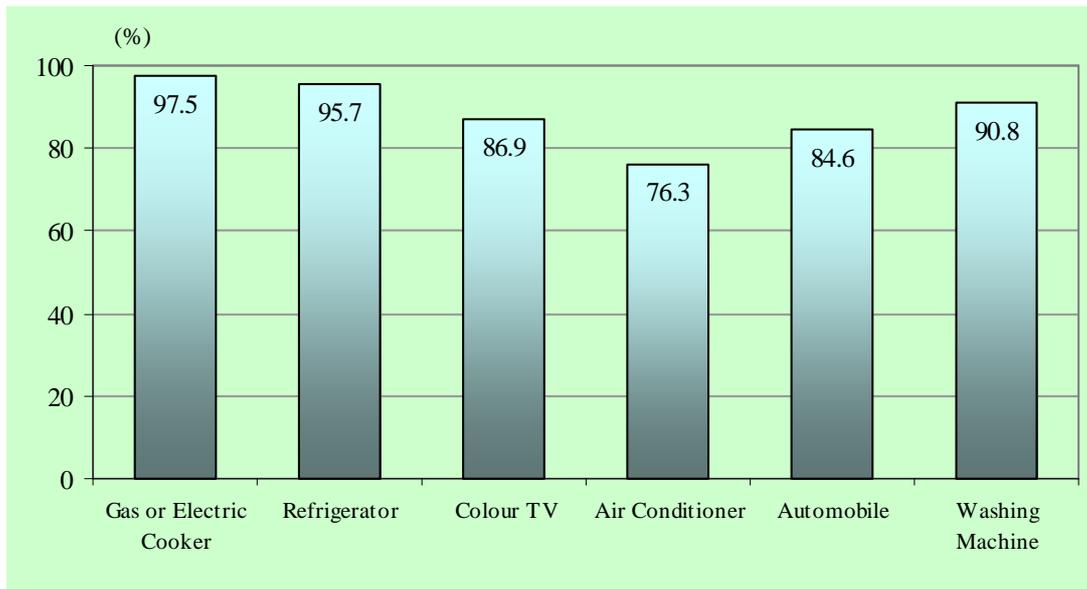
Housing

The Saudi family is provided with almost all the necessary requirements of modern accommodation. 97.5% of families use gas and electricity for cooking, 95.7% have their own refrigerators, 86.9% own color television sets, 76.3% have air conditioners, 84.6% have their own cars, and 90.8% use washing machines (Figure 16.1).

Findings of the 2000 Demographic Survey show that 32.7% of families live in apartments, 29.8% in conventional homes, 20.2% in villas, and the remaining in different types of housing units.

The ratio of average leasing cost of housing units to average family income increased from 26% under the Sixth Development Plan to 30% under the Seventh. Correspondingly, rate of ownership of housing units dropped during the same period from 65% to 44.5%, due to limited real-estate financing opportunities and inability of the Real Estate Development Fund loans to keep pace with increasing demand.

Figure 16.1
Selected Goods Owned by Saudi Families



Thus, the housing situation of the Saudi family is clearly positive in terms of both health and environmental requirements and material needs for decent living. However, housing has started to become a major concern for Saudi families, particularly in the low and middle income groups; requiring quick and radical solutions.

Education

With the decrease in the number of illiterate members of the family and the increase in enrollment rates in education in the last three decades, the educational profile of the Saudi family has undergone major changes, particularly with respect to females.

According to the 2000 Demographic Survey, 11.1% of males aged 10 years old and above were illiterate, 16.7% could read and write, 26.2% completed primary education, 20.3% completed intermediate education, 15.6% completed secondary education and 6.9% completed university education. Data on the age structure of educational achievement show evident generational differences. 65.7% of males aged 60 and over were uneducated, compared with 14.9% for the 40–44 age group and nearly approaches zero for the 10–14 age group, which goes to show ongoing dramatic change in the educational profile of household heads and younger generations.

Differences in rates apart, the trends are also positive for females. 28.9% of those aged 10 years old and above were illiterate, 23% could read and write, 21% completed primary education, 13% completed intermediate education, 11% completed secondary education and only 3% completed university education. 94.4% of females aged 60 and over were uneducated, compared with 55.6% for the 40–44 age group and only 3% for the 10–14 age group.

Hence, the educational gap between males and females is narrowing, which is also confirmed by the rates of enrollment in primary education for the 6–9 age group, where the gap has all but disappeared, particularly in urban areas. Thus, in the coming years the educational profile of both heads of the Saudi family will change from illiterate or semi educated to educated, with all the consequent positive effects on education. It is worth noting that the Council of Ministers Resolution stipulating mandatory education from 6–15 years of age, for both males and females, has had a positive impact on narrowing the educational gap.

The positive change in the educational profile of the Saudi family is consistent with the findings of the 1996 Family Health Survey, which showed that 93% of mothers prefer their daughters to receive university education, compared to 97% for sons. Interestingly, even though there are some differences between urban and rural areas, the rates are still relatively high in rural areas, which indicates that the Saudi family is firmly convinced of the importance of providing university education for sons and daughters alike, rather than being content with a minimum level of education.

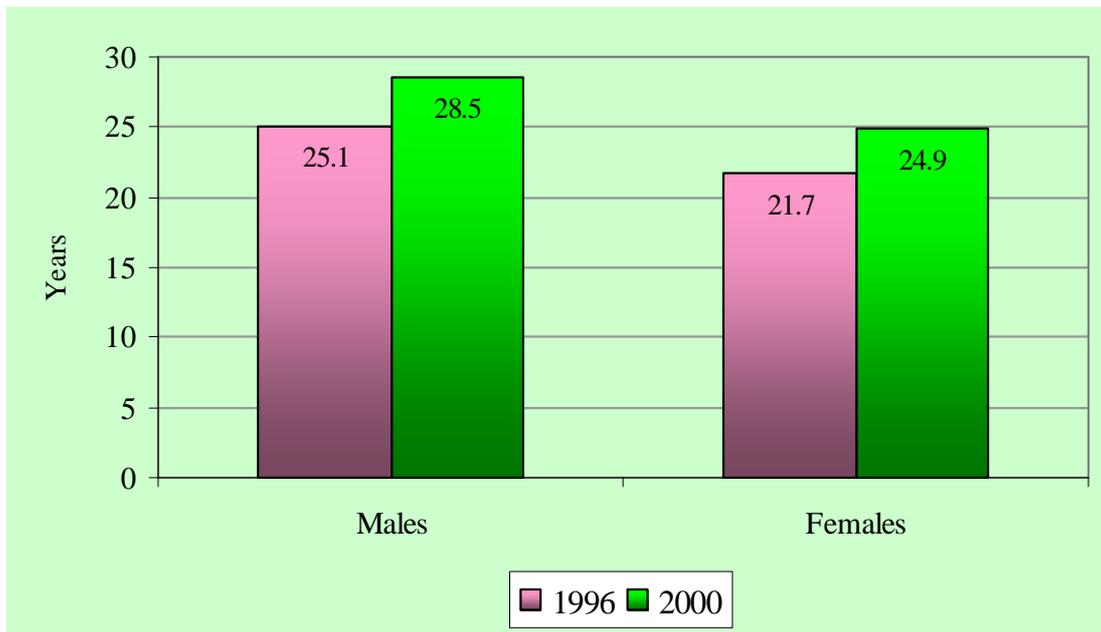
Findings of the same Survey show that, as a result of the improved educational profile of the family, 91% of married women prefer that their daughters take up jobs, and further 4% prefer the same but under certain conditions. In urban areas, 3.9% of mothers rejected the notion of work for their daughters, while in rural areas the corresponding rate was 7.3%. Thus the majority of families would like their sons and daughters to have education and work opportunities, equally to a large extent. Taking into consideration the large size of the Saudi family and the high ratio of members who are of school and work age, these findings confirm the pressing need for providing educational services and job opportunities to both genders.

Marriage

The Saudi Family Health Survey reveals a change in the average age at first marriage. Data show a decline in the rate of marriage at 18 years of age or less from 75% among females in the 35–49 age group to 55% among females in the 25–29 age group, to about 31% among females in the 20–24 age group.

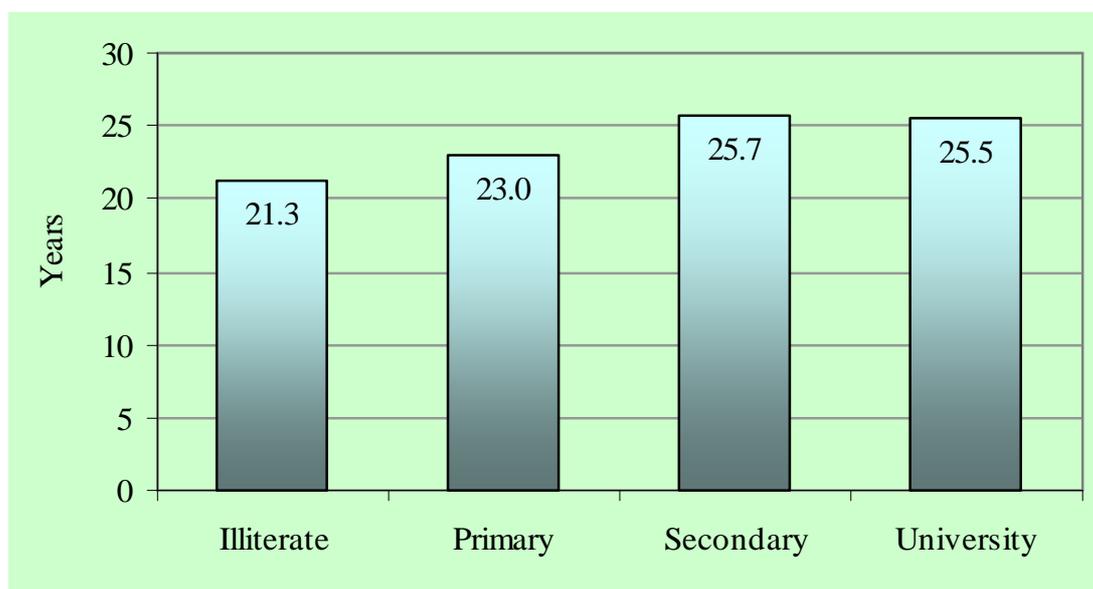
The above trends become clearer when the average age at marriage is calculated from the data of the 2000 Demographic Survey; 24.9 for females, compared to 28.5 for males, with no significant differences between rural and urban areas. Comparison with the findings of the 1997 Family Health Survey shows a substantial increase from 21.7 years for females and 25.1 years for males (Figure 16.2). These latter findings also show a correlation between educational attainment and average age at first marriage for females; 21.3 years for illiterates, 23 for primary school certificate holders, 25.7 for secondary school certificate holders, and 25.5 for university graduates (Figure 16.3).

Figure 16.2
Development of Average Age at Marriage



Source: Demographic Survey 2000.

Figure 16.3
Average Age at Marriage for Females
by Educational Level



Source: Saudi Health Survey 1996.

The change in attitude of successive generations towards marriage and family patterns may be measured by indicators such as the preferred, compared with the actual, family size. While 48% of mothers prefer that their daughters give birth to 6 or more children, 38% prefer 4 or 5. Among mothers in the 30–34 age group, 60.8% have had 5 or more live child births, compared to 84.9% for the 45–49 age group. Thus, the younger generation has a clear preference for smaller families.

Change has also occurred in patterns of marriage among relatives, particularly with the increase in the education of females. Findings of the Survey show that incidence of marriage among relatives, particularly first-degree kin, continues to be high. However, preference for this pattern of marriage decreases, the higher the level of education of the female. Thus, the rate of marriage to a relative among females who did not attend school at all is 58%, compared to 50% among females who completed primary school and 36% among university graduates.

Survey findings also show that incidence of polygamy is greater in rural than in urban areas. The rate of women under fifty whose husbands have other wives was 16% in urban areas, compared to 26% in rural areas. The

findings also suggest an inverse relation between incidence of polygamy and level of female education, with a rate of 28.3% among illiterate females, compared to 7.9% among university graduates.

However, the most significant change is probably the increasing rate of divorce. During the 1993–2001 period, the compound annual growth rate of divorce deeds was 4%, compared to 3.3% for marriage contracts. While there are neither data on the causes of divorce nor on the educational and economic background of divorce cases, it is possible to conclude that there is an increase in the rate of divorce, which calls for a systematic study of the phenomenon aimed at addressing it, along with its economic and social consequences.

Health

The changes that have affected family health situation may be evaluated by assessing development of general health and its impact on the family, as well as by appraising changes in attitudes of new generations towards health issues and the extent of their acceptance of modern health practices.

Average life expectancy is one of the best indicators of health development, since it can be regarded as an indicator of the overall success of national efforts to improve health in a country. In Saudi Arabia, average life expectancy increased from 53 years in the seventies of last decade to 71.9 year in 2003; 71 for males and 73.6 years for females, placing the Kingdom in a similar rank to that of many developed countries.

While general health indicators reflect evident achievements, family health indicators confirm that progress was made at both the national and family levels, for without the family utilizing available health services regularly, it would not have been possible to attain high national health standards. Of the total number of family members over 15 years old who were covered by the Survey and who had used different types of health services, 83.3% had consulted physicians, 2.8% had seen trained nurses, 7.8% had sought help from pharmacists and only 1.6% had consulted traditional curers. Moreover, 95% of children have taken all the required vaccinations, pregnant mothers in 90% of childbirths during the previous three years received health care, and 91% of childbirths took place in health institutions.

These indicators clearly show that a high degree of acceptance of modern health practices and positive interaction between the family and health institutions have been manifested in the health progress achieved in the past three decades.

16.2.2 Social Services

Extensive direct services are offered to the family by government and by NGOs. It may be worthwhile to refer here to two types of services. The first is general public social services offered to all people, such as education, health and housing (which are dealt with in detail in this Plan document), and the second is social welfare services offered exclusively to groups with special needs. Services of the latter type, which are offered by both the Ministry of Social Affairs and NGOs, may be divided into two categories: (a) direct services offered through institutions and centers, and (b) assistance in kind, financial assistance and stipends.

Services Offered by Ministry of Social Affairs

The Ministry provides the following services, through a number of social welfare and development institutions:

- Special services provided to the disabled and the paralytic through 29 rehabilitation centers, the beneficiaries of which totaled 8,062 persons in 2002.
- Four social nursery homes providing care for orphan children, twelve social education homes providing services to both males and females, and two model social education institutions. Beneficiaries from the orphanages totaled 1912 children in 2002.
- Ten homes for the care of elderly, which served 664 persons in 2002.
- Five social guidance homes providing care to juveniles, twelve juveniles social observation homes, and three juveniles institutions for girls. Beneficiaries of services offered by these institutions totaled 13,684 persons in 2002.
- Local community development services provided by 7 social service centers in major cities, 18 development centers, and 95 development committees in villages. Beneficiaries of these centers and committees totaled 121,690 persons in 2002.

In addition to the services provided to groups with special needs through institutions, the Ministry also provides non-institutional care services such as the foster family program, the in-family assistance program for paralytic children, and the disabled assistance program. Beneficiaries of these programs numbered 90,314 individuals in 2002.

The total number of beneficiaries of the institutional and the non-institutional social welfare services provided by the Ministry in 2002 was 236,326 persons distributed as follows: 51% benefited from social development centers and committees; 36% from the financial assistance program, which offers in-family help to the disabled; 6% from juveniles care and observation institutions; and the remaining 7% from services provided by special care homes offering care for orphans, the elderly and the disabled.

Services Provided by NGOs

NGOs, which in 2001, numbered 226, of which 204 were male NGOs and the remaining female NGOs, undertake a wide range of activities, including:

- Education, training and rehabilitation programs, which benefited 55,411 children.
- Child care programs, which benefited 97,264 children.
- Health care programs, which benefited 984,117 individuals.
- Care programs for the disabled and the elderly, which benefited 17,211 individuals.
- Charity housing and housing improvement programs, which benefited 11,151 individuals.

Thus, the total number of individuals who benefited from NGOs programs was 1,165,154 in 2001, which is approximately five times the number of beneficiaries from the social welfare services provided by the Ministry of Social Affairs. It is also worth noting that during the period 1982–2001, the total expenditure of NGOs on activities, programs and assistances was SR8.6 billion; while government subsidies to NGOs did not, on average, exceed 11.7% of their total expenditure.

16.3 ISSUES AND CHALLENGES

This section reviews the key issues and challenges related to the family that call for attention in the Eighth Development Plan. Several of the issues raised intersect with sectoral treatments given in other chapters, covering, for example education, health, and job creation. However, the focus here is on aspects to do with the family. For example, in relation to education, the focus will be on issues like impact of educational curricula on the family, vitalizing parent boards, improving quality of education, and illiteracy. Similarly, in relation to health services, issues such as maternal and child health care are raised.

16.3.1 Multiplicity of Partners and Coordination

The foremost issue with regard to the family is the multiplicity of the agencies responsible for providing the family with support and services. In view of the existence of several family and age groups with varying needs, it is not feasible to entrust one government body with the responsibility for providing all the services needed. On the contrary, the roles played by specialized agencies working in education, health, labor, and social affairs are vital. Indeed, these agencies are partners in providing family support. Hence, coordination of their efforts is of paramount importance, not only for averting duplication and guarding against wasting human and financial resources, but also for identifying gaps in the support being provided and proposing policies and programs to close such gaps.

In addition to coordination among government institutions, coordination is also necessary with and among NGOs and the private sector. Financial contributions of the NGOs that provide programs and activities aimed at promoting family development are close to one billion Saudi Riyal a year. In addition, through its annual payments to the Zakat and Income Department, the private sector provides for the greater part of the assistance offered by the Social Security Agency to needy groups. Moreover, private sector contributions enable NGOs to perform their developmental tasks.

Given the significant wide participation of the private sector and NGOs, it is necessary to devise an effective mechanism to coordinate the efforts of the three partners: the state, the private sector and civil society. The Plan,

therefore, proposes formation of a national commission for family affairs (Box 16.1).

Box 16.1: Objectives and Tasks of the Proposed National Commission for Family Affairs

Objectives:

- Invigorate the role of the family in society.
- Enable the family to enhance social ties.
- Provide support to all agencies concerned with family affairs.
- Coordinate among the agencies concerned with family affairs, within the framework of adopted policies.
- Promote family awareness and address adverse phenomena facing the family.
- Establish a database on family affairs and provide access to it to all relevant agencies to serve as a scientific base for policy and program formulation.

Tasks:

In order to achieve its objectives, the proposed Commission would undertake tasks such as:

- Formulate public policies for family care.
- Develop relevant indicators.
- Create coordination mechanisms among the three partners (the state, the civil society and the private sector) nationally and regionally.
- Conduct studies and research and organize symposia and conferences on various family issues.
- Prepare information and cultural programs designed to raise awareness, addressed to the family.
- Issue pamphlets, magazines and printed and audiovisual material on family affairs.
- Propose draft laws and regulations designed to enhance the role of the family in society.

16.3.2 Regulations

The family, by virtue of its various family members (children, women, youth, elderly members, etc.) have diverse and varied needs. In addition, the family is undergoing dramatic changes in form, structure, and relationships among members. Moreover, rapid demographic and economic and social changes, multiplicity of the roles played by women within the home and outside, urban expansion and other developments, have increased pressures on the family. All these factors necessitate reviewing the relevant regulations to examine whether they adequately identify family rights and obligations and delineate the respective roles of the various agencies.

Current regulations that govern how government agencies organize their family related work and programs have served their purpose. However, as everywhere, regulations seldom anticipate social change, which, again, necessitates frequent review to ensure that they keep pace.

Notwithstanding the important role played by the current regulations related to the elderly, e.g., those that govern social care homes or provide for economic protection such as pensions, social insurance and social security regulations, there is still a need for a comprehensive system for the care for the elderly. Such a system would guarantee their rights at all levels, as well as specify the obligations of various institutions towards them.

Similarly, there is a need for a comprehensive childcare system that guarantees children's rights, stipulates obligations of state and society towards them, and specifies the penalties that attach to violation of these rights and failure to meet these obligations.

Likewise, there is a need for a comprehensive system for juvenile care that provides them with care, rehabilitation and employment, and gives attention to protection from delinquency, as well as to remedial and punitive measures where needed.

Accelerating rates of participation of women in the labor market call for developing regulations to encourage participation of women in economic activity, while safeguarding their family roles as wives and mothers, benefiting from examples of international experience that have succeeded in doing so through appropriate incentives, measures and directives. As an initial step, regulations could be reviewed to provide better for maternity leave, temporary unpaid leave for taking care of children under five, early retirement, part time work, and cooperative nurseries at the workplace. In addition, low participation of women in investment needs to be addressed, through revising the regulations that prevent women from investing in many business sectors.

Regulations governing care for the disabled also need revision, to encourage their care in the family and local community and benefit from modern trends.

16.3.3 Development of Social Services

The Ministry of Social Affairs and the NGOs perform their functions very efficiently, particularly in meeting current demand for their services. However, existing indicators do not address adequacy and quality of services, nor degree of user satisfaction. Hence, under the Eighth Development Plan, evaluation studies of the social welfare services, including surveys of user perceptions, will be conducted to form a basis for reviewing existing policies, procedures and standards, with the aim of enhancing service efficiency and effectiveness.

In addition, the Eighth Development Plan will encourage NGOs to provide direct institutional social care services, except for services specific to juvenile delinquency, with government bodies undertaking supervision, monitoring and support; for which the Ministry of Social Affairs will develop effective mechanisms.

The essential role envisaged for NGOs requires not only financial support, but also management and technical support, to enable this remarkable experience of the Kingdom to become the “best-practice” benchmark in the region.

16.3.4 Poverty and Social Security

Poverty is not just low income, for it is multidimensional. It is hunger, lack of shelter, being ill but unable to see a physician, inability to go to school and learn to read and write, unemployment, fear of the future, living day to day, and a child dying due to an illness caused by polluted water.

In this wider context, the fight against poverty and its repercussions takes many forms and cannot be carried out by a single sector using a single approach. Yet, unemployment remains the primary underlying cause of poverty.

Studies being undertaken, within the framework of developing the poverty eradication strategy, should give a better idea of the extent of the problem. However, available evidence, particularly in view of the substantial development in education and public health, indicates that poverty is limited to certain specific pockets, which, of course, does not detract from

the importance of eradicating it, nor from giving it the high priority it deserves..

Unemployment stood at 9.7% in 2002 and was higher among females. The rate, at 10.8%, is highest for male secondary school graduates, compared to 27.9% for females with the same qualification. Female graduates of the educational system suffer unemployment most, followed by young males, and finally, but to a lesser degree, by the heads of families. Thus, in addition to the social pressures it creates, youth unemployment burdens family heads with additional responsibilities.

It is worth noting that extended family, which used to provide various forms of social support and solidarity, is no longer the predominant family mode. Therefore, it is necessary to establish effective social security arrangements, which, in turn, requires partnership between the state and the NGOs.

As discussed above, social care services are provided by the state and NGOs to those segments of society with special needs, who are generally of low income. Moreover, state agencies also provide income support to poor families, through pensions and financial assistance. The Ministry of Social Affairs provides social security pensions to the disabled, the orphans, women without supporters, families of prisoners, victims of personal disasters and other needy people. Over the years, the amounts paid have increased, with expenditure on pensions increasing during the 1993–2003 period from SR2514 million to SR2985 million, which is equivalent to a growth rate of around 1.7% per annum, while expenditure on financial assistance grew by about 4.5% per annum. However, the level of pensions requires continuous review in light of the needs of poor families, as should the present arrangement of paying pensions annually, rather than monthly.

16.4 DEVELOPMENT STRATEGY

The strategy of development of the role of the family in society and family care will be implemented through the following objectives and policies.

16.4.1 Objectives

Under the Eighth Development Plan, the principal objectives are:

- To strengthen family ties, preserve the Arab and Islamic values of the family, provide care to its members and provide an environment favorable to the promotion of their faculties and capabilities.
- To guarantee the right of all citizens in emergency, illness, disability and old age.
- To support the social security system and encourage individuals and institutions to participate in charitable activities.

16.4.2 Policies

Under the Eighth Development Plan, achieving the principal objectives relies on the following policies:

- Promoting coordination among all state, private-sector and civil-society actors in family care.
- Encouraging voluntary work and expanding participation of citizens.
- Providing for participation of the private sector in social care and rehabilitation.
- Changing social care to include all needy groups.
- Providing social care services in all regions.
- Establishing social observation and guidance homes in all regions.
- Establishing more comprehensive rehabilitation centers in regions that need them.
- Continuing to improve quality and efficiency of social services.
- Reconsidering the social security system to keep abreast of developments in society.
- Reviewing and developing the regulations governing social development, particularly those related to children, juveniles, orphans, the disabled, and the elderly.
- Developing coordination among various government and civil agencies to attain integration of services provided to beneficiaries.
- Preparing studies and surveys to evaluate effectiveness of the services offered by the social safety network.

16.4.3 Targets

The following targets are expected to be reached under the Eighth Development Plan:

- Establishing a national commission for family affairs, representing all agencies concerned, and determining its tasks and responsibilities.
- Preparing a social guidance information and media plan and commencing its implementation.
- Promoting participation of the private sector in social welfare and rehabilitation and determining participation rules and regulations.
- Establishing two care homes for the elderly.
- Establishing 9 juvenile care homes and institutions.
- Opening 4 comprehensive rehabilitation centers for the disabled.
- Organizing annual training courses for volunteers in social work, in collaboration with the agencies concerned.
- Establishing a comprehensive database for social welfare services and an information system linking social welfare agencies in all regions.
- Opening 10 social security offices in regions that need them.
- Reviewing and evaluating the social security system.
- Reviewing and developing social development regulations.
- Reviewing coordination mechanisms among all family care agencies, with a view to developing and upgrading their efficiency.
- Preparing annual surveys and comprehensive studies to evaluate the efficiency of the services offered by the social safety network.

CHAPTER SEVENTEEN

WOMEN AND DEVELOPMENT

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17. WOMEN AND DEVELOPMENT

17.1 INTRODUCTION

With the economic and social development of the Kingdom and regional and international transformations caused by globalization, new challenges were engendered, prominent among which is that of enhancing the role of women in development.

Successive development plans endeavoured to improve the status of women through expanding opportunities in education, health and other fields and making serious efforts to enable women to benefit from them. For example, the first of the three major themes of the Sixth Development Plan was “development of national human resources,” and its seventh strategic principle was aimed at “increasing participation of women in the labour force in conformity with Islamic Sharia’a (law).” Likewise, the Seventh Development Plan 2000–2004 emphasized development of national human resources as a priority and its ninth strategic principle called for “expanding fields of employment of women, without contradicting Islamic Sharia’a (law)”.

Successive development plans paid attention mainly to improving participation of women in the labour force, i.e., to the economic aspect of participation of women in societal activities. Although several achievements were made in developing the situation of women, attention by the development plans continued to centre mostly on economic aspects. Thus, the attention given by the Eighth Development Plan to further enhancing the status of women and ensuring their participation in the economic and social development constitutes a landmark development. The Plan has adopted a framework wider than mere participation in the labour force. The second strategic objective of the Plan called for “paying attention to women issues and promoting their capabilities by removing impediments to their participation in development activities, within the framework of Islamic values and teachings”. The various chapters of the Plan also included objectives and policies aimed at improving the status of women in various areas, such as education, health, social care and the labour force.

Government efforts were not, however, limited to delineating strategic objectives and policies, but also developed implementation mechanisms for expanding and enhancing the participation of women. Within the

framework of government policies intended to increase and diversify job opportunities for Saudi women, the Council of Ministers approved on 31/5/2004 a package of regulations and measures to enhance women's participation in economic activity. Undoubtedly, implementation of this package will bring about a qualitative shift in both the patterns and the scope of such participation. These regulations and measures are outlined in the following.

A. *Developing Plans and Mechanisms*

- The Ministry of Labour, in collaboration with the Ministry of Economy and Planning and the Ministry of Civil Service, shall set up, within one year of the date of issue of the ministerial directive, an integrated national plan for Saudi female labour force, specifying actual needs in various specializations.
- As part of its plans and programs, the Human Resources Development Fund shall pay special attention to training and employment of Saudi women.
- Ministries of Labour, Commerce and Industry, as well as the Council of the Saudi Chambers of Commerce and Industry, shall review the possibility of extending maternity leave to give an incentive and an additional advantage to women without negatively affecting demand for female labour.

B. *Developing Coordination Mechanisms*

- The Council of Saudi Chambers of Commerce and Industry shall form a committee of experienced professional women to coordinate with relevant agencies the effort to encourage the private sector to develop employment opportunities for Saudi women and provide the requisite training. The Council shall provide material and moral support to this committee, as shall government agencies, each in its own field.

C. *Developing Participation in Private Sector*

- Government agencies that issue licenses for economic activities, each in its own domain, shall issue the necessary licenses for women in conformity with Sharia'a.
- Competent agencies shall allot lands or zones within city bounds and prepare them for establishing industrial projects for women

to work in.

- In coordination with the Ministries of Civil Service and Social Affairs, the Ministry of Labour shall take the necessary steps to enable women to undertake distance working (telecommuting).

D. Developing Participation in Government Agencies

- All government agencies that provide services related to women shall, within one year from the date of issue of the ministerial directive, establish women's units and divisions, each in accordance with the needs and nature of its work.

Concurrently, the first national meeting for intellectual dialogue, attended by an elite group of men and women, was held on 15/6/2003 under the auspices of the Custodian of the Two Holy Mosques, King Abdullah Bin Abdulaziz. The King Abdulaziz Centre for National Dialogue subsequently held the second meeting for intellectual dialogue, which recommended enhancing the role of women in various fields and called for establishing a specialized national organization to address children, women and family issues. The third national meeting for intellectual dialogue, which was held on 12/6/2004 under the title of “Women’s Rights and Responsibilities in relation to Education” exclusively addressed issues related to women.

It is thus clear that the Kingdom is proceeding deliberately and firmly towards consolidating improvements in the status of Saudi women.

17.2 CURRENT CONDITIONS

17.2.1 Demographic Trends

Due to the high population growth rate, which averaged around 2.5% per annum during the 1992–2004 period, the Saudi Society is distinctly young, with the under 15-year olds constituting 40.4% of the total population, while the above 64-year olds constitute 3.5%. In comparison, the annual population growth rate in the Arab region is 2.1%, while that of developing countries is around 1.5%, as shown in Table 17.1.

The high population growth rate is due to several factors, such as high fertility rates and low infant mortality rates. Table 17.1 shows that the

fertility rate of Saudi women is 3.8 births, in comparison with 1.6 and 3.1 for developed and developing countries respectively. Similarly, due to the remarkable development of health services in the Kingdom, the infant mortality rate is 19.1 per one thousand births, which is far below rates in several Arab and Islamic countries (Table 17.1).

Table 17.1
Demographic Indicators

Country/Region	Average Annual Population Growth Rate (%)	Overall Fertility Rate	Infant Mortality Rate (Per 1000 Births)
Kingdom of Saudi Arabia (*)	2.5	3.8	19.1
Lebanon	1.7	3.2	27
Jordan	2.4	3.7	22
Egypt	2.0	3.3	38
Tunisia	1.1	2.0	22
Morocco	1.5	2.5	40
Algeria	1.5	2.5	54
Yemen	3.3	7.0	75
Turkey	1.4	2.5	39
Pakistan	2.4	4.8	85
Indonesia	1.6	2.6	46
Arab Countries	2.1	3.8	38
Advanced Countries	0.1	1.6	7
Developing Countries	1.5	3.1	62

* Central Department of Statistics, Preliminary Results of the General Population Census, (2004).

Source: Population Bureau, Washington, Data on World Population (2004).

The demographic indicators shown in Table 17.1 reflect the success of the developmental efforts in the field of health, where infant mortality rates decreased at a rate higher than that achieved by many countries and regions. In addition, the above demographic indications point to the substantial and necessary developmental tasks required in the field of health, particularly in relation to provision of maternity and child care services; and in the field of education, to cope with the increasing number of females joining the educational system. This is in addition to the requirements of the increasing numbers of female graduates from institutes and colleges who desire to enter the labour market for the first time.

17.2.2 Education

In a chapter on "Women and Human Development", the Human Development Report issued by the Ministry of Economy and Planning in 2003, gave detailed information on the development of the status of

women in relation to education, employment, and health.

Despite the relatively late start of girls' education, rates of enrolment of females at all educational levels have increased sharply. The average annual rate of increase of total female enrolment was 8% over the 1975–2002 period, compared to about 4.2% for boys. Thus the gender gap in enrolment was closed at the secondary and university levels in 2002 and at the primary level in 2003.

The education sector received extensive attention from government, which provided all the necessary inputs; premises, teachers and curricula. The human-resources sector received about 57.1% of total expenditure on development under the Seventh Development Plan.

As a result, by the end of period of the Seventh Development Plan, the number of both male and female students at the various levels of general education stood at around 4.6 million, i.e., around 30% of total population. These students were receiving education in more than 25 thousand schools and were educated by about 386,200 male and female teachers, with female students accounting for 48.6% of the total. Enrolment statistics in primary and secondary education show that the rate of female enrolment stood at 48% and 50.3% respectively, while female students out-numbered male students in higher education (diploma, university degrees and post university education), with the rate of female graduates reaching 56.5% of the total.

17.2.3 Health

The remarkable achievement of enabling women to benefit from educational opportunities was matched by the advances made in improving women's health. Public health witnessed immense improvements, with preventive health programs eradicating certain diseases and substantially reducing rates of incidence of others. Moreover, high-efficiency curative health services, utilizing advanced technologies, were provided through an integrated network of health centres and hospitals covering all regions.

As a result of growth of health services, life expectancy went up to 73.6 years for Saudi females and 71 years for Saudi males in 2002*. This achievement outmatches the results attained by countries of the Arab

* UNDP Statistical database, the Human Development Reports.

region and indeed matches levels attained by several developed countries. The increase in life expectancy for Saudi females can be considered a consolidated indicator of the overall achievement made in the health sector.

It is, however, important to note that improvements in the health of women were accomplished through two forms of health services. Development of the first form, which is provided readily and free of charge to all citizens of both sexes, can be measured by indicators such as numbers of hospital beds, health care centres, doctors and nursing staff. During the past four decades, the number of health institutions and health cadres increased at a greater rate than population growth rate. For example, the number of doctors increased from 1,172 in 1970 to 33,340 in 2002, and the number of nursing staff increased from 3,261 to 69,273 during the same period. The second form of health services is provided exclusively to women, such as immunization of pregnant mothers against tetanus, childbirths under supervision of health professionals, and professional healthcare for pregnant women.

17.2.4 Employment

The above indicators testify to the remarkable progress made during the past three decades in the educational and health status of Saudi women, strengthens their role as effective individuals in society. This progress was indeed effective in bringing about a qualitative leap in the educational and health status of Saudi women.

The immense enhancement of the health and educational status of women will certainly not only support and strengthen their role as effective individuals in society but also will enable them to enjoy their rights in education and health. And if education and health represent two basic pillars of social well-being, then unquestionably employment represents the third pillar.

However, participation of Saudi women in the labour market is still limited in both scope and diversity. Entry of women into the labour market was slow and belated during the early stages of development; their participation rate in the labour market did not exceed 5% until the end of the Fourth Development Plan in 1990. However, with the increasing impact of development efforts on the status of women, particularly in education,

participation of women in the labour market started to increase gradually, reaching 10.3% in 2003 when females accounted for 14% of the labour force. These rates indicate limited participation in comparison with many Arab and Islamic countries (Table 17.2).

Table 17.2
Females Participation Rates in Economic Activity
(15 years and above)
(2002)

Country/Region	Participation Rate (%)
Egypt	35.7
Lebanon	30.3
Syria	58.5
Tunisia	37.5
Morocco	41.8
Turkey	50.8
Pakistan	36.3
Indonesia	56.0
Arab Countries	33.0
Developing Countries	55.8
Latin American and the Caribbean	42.5
South Asia	43.7

Source: UNDP Statistical Database, Human Development Reports.

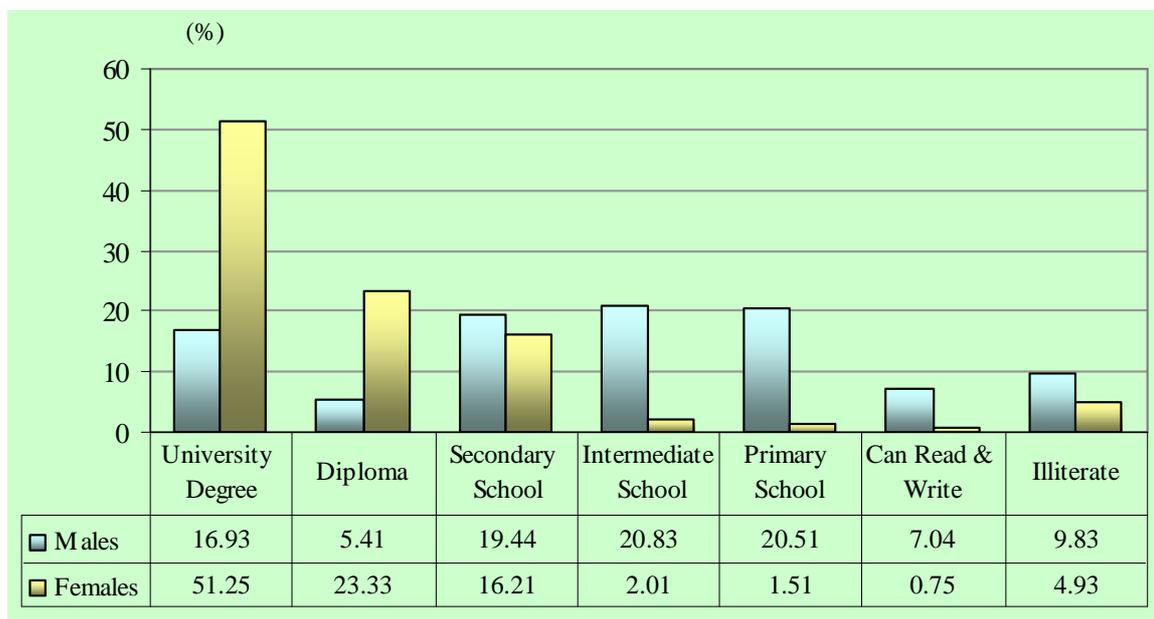
The above table also shows that the low female participation rate in economic activity in the Kingdom is part of a general phenomenon characteristic of the Arab region, where female participation is the lowest among geographical regions of the world; a fact that indicates that creation of job opportunities for females is still relatively limited in the Arab region.

However, demand for entry into the labour market by females is accelerating, which should lead to increased social pressures for satisfying this demand. Figure 17.1 shows that in contrast to employed males, the dominant characteristic of employed females is their educational profile, with the ratio of educated employed females being higher than the corresponding ratio for males. While this is positive, a detailed review is required to assess the implications and ascertain whether concentration in certain educational specialties is at the expense of diversification and

broader sectoral participation.

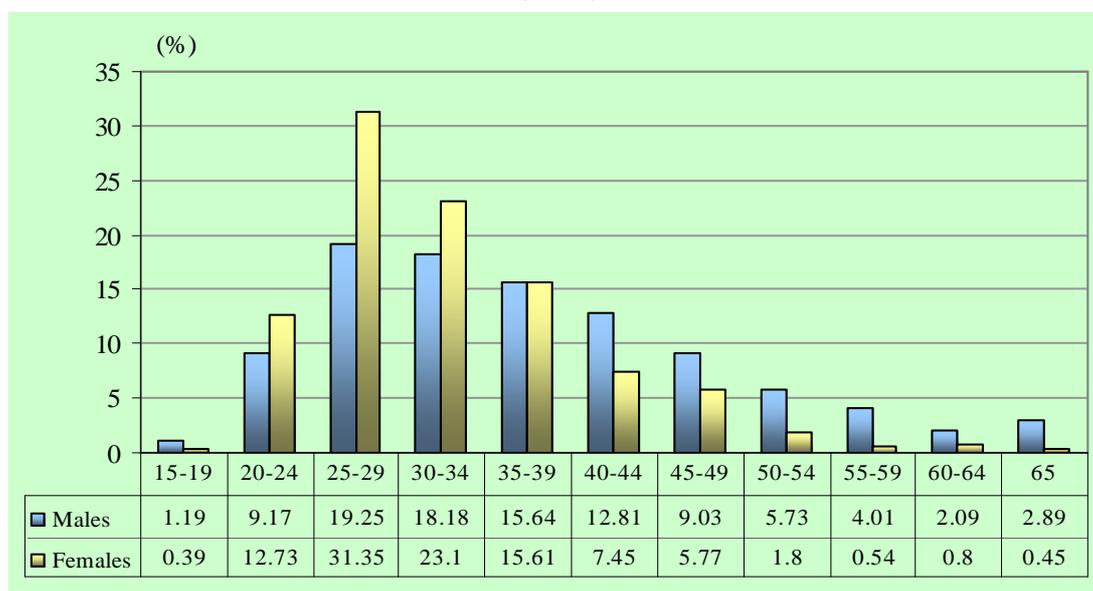
The dominant share of educated working females holding secondary and post secondary certificates is also indicative of two important issues. The first is that female entry into the labour market is relatively recent and is largely an outcome of the broad participation of females in education; the second is that education is the key to female employment, for it prepares women for entering the labour market.

Figure (17.1)
Comparative Distribution of Employed Saudis by
Level of Education and Gender
(2002)



Another characteristic of Saudi employed females is predominance of young age groups (between age groups 25–29 and 30–34 years old), which account for 54% of the total number of working females, as shown in Figure 17.2. This is indicative of the recent entry of women into the labour market, as well as of the need to provide a full range of training opportunities to women to enable them to compensate for limited experience by enhanced professional competence, leading to women filling positions commensurate with their potential and qualifications, as well as with their aspirations to participate fully in the process of development.

Figure 17.2
Employed Saudis by Age Group
(15 years old and above)
(2003)



Traditionally, marriage was viewed as a major impediment to entry of women into the labour market. Comparative data, however, confirms that extensive changes have occurred in this respect, and the present trend is to strike a balance between participation of women in the labour market and their role as housewives. Nevertheless, this issue still figures prominently in debates about the role of women in economic activity.

Most recent data on working Saudis (15 years old and older) by marital status show that 69% of employed females are married. While this rate is still less than the corresponding rate for employed males, which stands at 77%, the relatively large number of married employed women demonstrates clearly that it is possible to strike a balance between economic activity and family-related duties. It also highlights the need for official bodies to support participation of married women in economic activity by various measures, such as providing nurseries, giving maternity leave, allowing temporary absence from work, and other such measures as adopted by various states, irrespective of regimes and policies, in support of the family.

17.3 ISSUES AND CHALLENGES

indicators of the status of Saudi women show significant progress in

education and health, and higher participation in economic activity. The issue then is what tasks the Eighth Development Plan should envisage to consolidate achievements and promote further participation of Saudi women in the process of development.

Two very important points are in order here. The first is that Arab women issues are not distinct from those of society as a whole, for improving the status of women is contingent upon a developmental endeavour involving all members of society. The second important point is that closing the existing gap between males and females in the Arab World would not come about by imposing changes contrary to Arab religious and social values, but by natural outcomes of modern Arab social life practices and their internal and external interactions within a framework committed and adapted to these values.*

During the past three decades, health and education opportunities were made readily available to Saudi women, but economic opportunities were not as readily available. The question then is whether this is a result of administrative or regulatory constraints or due to specific characteristics of the participation of Saudi women in the educational system. In fact, the need is for an integrated approach that tasks into consideration, on the one hand, the pattern of academic specializations sought by female students suggesting the female labour force supply, and on the other hand, the economic trends outlining the demand patterns. The educational institutions should take this integrated approach into serious consideration.

Adopting such an integrated approach, this section will address two focal issues for the related promotion of participation of women in development; namely, (a) expanding the scope of academic specializations available to women, and (b) expanding women participation in economic activity.

17.3.1 Education and Employment - Integrated Relationship

There is a consensus in the development literature that education enhances the ability of women to participate in societal activities, improves their life quality and standard of living, and enables them to increase their productivity within and outside the labour market. Education also improves chances of securing paid work and gaining higher income;

* Council of Arab Ministers for Social Affairs, Arab Social Report, Arab League, Cairo 2001.

studies have shown that an additional year of education raises women's wages (in Pakistan, for example, by as high as 20%). Moreover, “for educated mothers, the number of children who die at an early age is significantly lower than that for uneducated mothers, and surviving children receive better healthcare and better education”.*

While there is no disagreement over these general principles, they are hardly adequate for explaining the poor relationship between education and employment of females, which continue to be viewed as two separate activities. For example, how is it possible to expand participation of women in the labour market with the concentration of females in a single academic specialization remaining unchecked? Further, are labour market trends taken into consideration when higher education academic specializations available to females are charted?

The key issues that have a bearing on “education and employment” will be addressed within the framework of an integrated perspective of the relationship between education and employment.

17.3.2 Females and Illiteracy

Despite substantial development of the educational profile of the population, especially females, available data show a rather high rate of illiteracy among females. The 2000 Demographic Survey showed that the rate of illiterate Saudi females (10-years old and above) was 28.9%, compared to 11.1% for males.

Evidently, persistence of illiteracy among women calls for quick action due to its negative impact on the developmental role of women in the family and economic activity.

Eradication of illiteracy among women requires policies and measures taken at two levels. First, illiteracy needs to be halted through increasing enrolment in primary education. Secondly, combating illiteracy among females who are past the schooling age can be undertaken by voluntary women societies, in collaboration with the Ministry of Social Affairs and the Ministry of Education, through courses targeted exclusively at this segment of the population.

* UNDP, "Human Development Report, 1995".

17.3.3 Education and Females - Arts Disciplines

Specialisation starts at secondary school, with choice then often determining future career, since specialising in arts and humanities precludes enrolment in scientific and applied disciplines at university and college, leaving students with no choice but to seek enrolment in education and humanities colleges, whose graduates have almost saturated the labour market.

During the past decade, numbers of female graduate of secondary schools exceeded numbers of male graduate, with 61% of females graduating from the arts section. Moreover, females incline towards the arts section, while males tend to pursue scientific courses, with graduates of the science section constituting 65% of all male graduates. In other words, study choices of secondary school males were more suitable to the trends of the labour market and the modern economy (where demand is for scientific and applied specializations).

17.3.4 Higher Education and Females – Diversification of Specializations

Female participation in higher education follows the same broad trends as in secondary education. In 2002, the total number of higher education female graduates (diplomas, graduate and post-graduate degrees) was 40,919, of whom 32,201 specialized in education and 3,162 in the humanities; i.e., both groups accounted for 86% of the total graduates.

However, the problem is not confined to females. Generally, higher education students (males and females) incline towards humanities (soft specializations), away from scientific and applied specializations, with males specializing in engineering, medicine and health sciences accounting for no more than 26.8% of total male graduates, and graduates of scientific and applied specializations accounting for no more than 25% of the total. Thus, there is mismatch between the needs of the labour market and the modern economy and specializations of higher education students, with the mismatch being more acute in the case of females.

There has been notable progress, particularly in quantitative terms, with females outnumbering males in secondary and university education. However, several difficulties need to be overcome. The Eighth

Development Plan aims at increasing the participation of women in economic activity, but female specialization trends in higher education do not help to accomplish this objective, leaving women confined to employment in government institutions, and in one sector (education) in particular. This calls for increased endeavours to widen the scope of female specializations in higher education to enable them to play a more effective and diversified role in the society and in economic activities. In turn, this requires encouraging females to opt for the scientific section in secondary education.

17.3.5 Expansion and Diversification of Women's Economic Participation

Participation of women in economic activities is marked by two characteristics: (a) participation in the labour force is limited, with women accounting for no more than 14% of the total labour force; (b) employment of women is largely restricted participation to education and health sectors, with hardly any presence in important economic activities, such as those associated with information and communications technology, commerce, and banking.

Furthermore, Saudi women opt for the public sector, where there is job security and the working environment is governed by legislations, and where employment secures higher social esteem. Employment in the public sector, however, is beginning to face difficulties (as in most countries), either due saturation, or due to economic restructuring strategies that have led to austerity measures. Such difficulties generally have severer impact on women, since they are confined to a very limited range of specializations and professions.

Within the above framework, a number of issues and challenges related to diversification and expansion of the participation of women in economic activity will be briefly addressed.

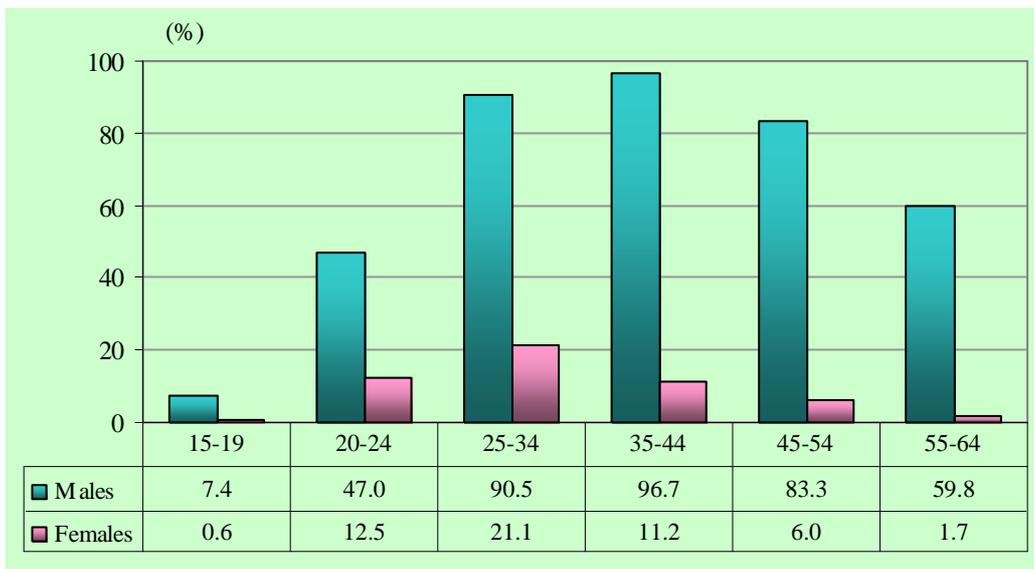
Future of Women's Participation in Economic Activities

Rates of economic activity by gender and age-group show substantial disparities between males and females for all age groups, with the disparity being highest for the 35–44 years age group (Figure 17.3). As shown in the Figure, rates of male economic activity are very high for the 25–54 age groups, while the corresponding female rates are low. There is, therefore, a

great deal of potential for increasing participation of women in economic activity, while the substantial increase in female education will ensure high supply.

In this regard, two aspects need to be given due attention: (a) measures will be required to ensure a balance between the role of women as workers and their role in the family; (b) diversified job opportunities need to be created to absorb the expected large supply.

Figure 17.3
Rates of Economic Activity by Gender and Age
(2002)



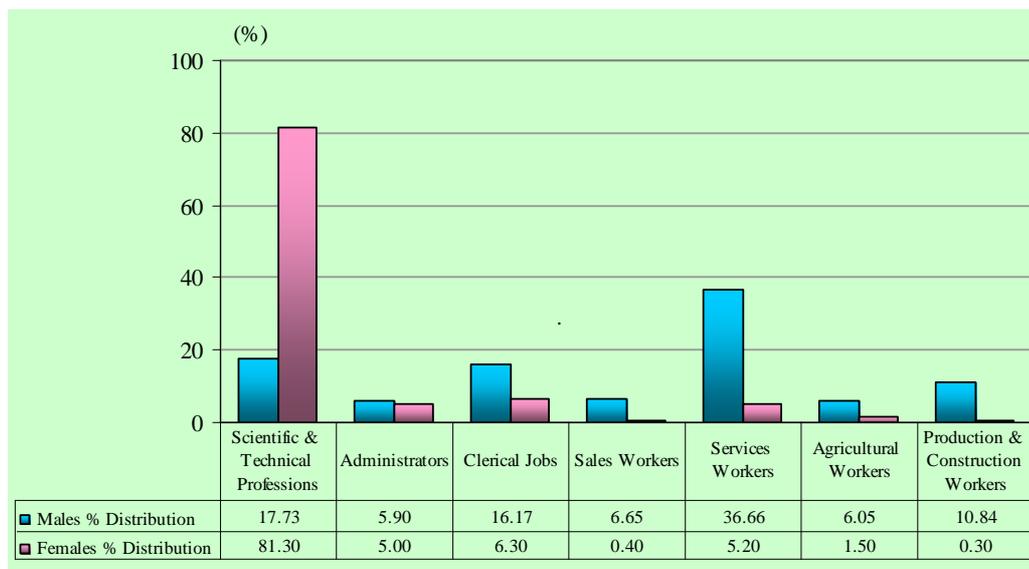
Females Sectoral and Occupational Concentration

The results of female higher-education specialization patterns and their concentration in education and humanities are evident in the sectoral and occupational distribution of the labour force. Saudi working females are highly concentrated in the education sector (teaching and administrative jobs), which employs 85.8% of the total number of all employed females. The health and social work sector and public administration take up 6.1% and 4.4% respectively. However, apart from degree of concentration, the situation is not different in the case of males, for male jobs are heavily concentrated in the services sectors, with public administration accounting for 46.82% of all jobs, followed by education at 14.2%.

Such a distribution is contrary to the usual pyramid of occupations, with a broad base of low-skill occupations and a narrow apex of high-skill

occupations requiring technical or university qualifications. The inverted pyramid is in effect a recipe for reliance on foreign labour at lower and middle levels. Concentration of working females in one occupational group and one sectoral activity calls for establishing some sort of hierarchic rationalism in their occupational and skills distribution, for the current situation is untenable (Figure 17.4).

Figure 17.4
Employed Saudis (15 years old and above)
By Major Occupational Groups (2002)



17.3.6 Female Unemployment

Female unemployment rates are relatively high. In 2002, employed females accounted 12.8% of employment, but females accounted 33.2% of total unemployment, with overall unemployment rates being 21.7% and 7.6% for females and males, respectively. There is thus a need for policies and appropriate mechanisms aimed at reducing female unemployment, based on a detailed study of unemployment patterns.

Available data confirms that a major cause of female unemployment is the mismatch between educational outputs and employment opportunities. In 2002, unemployed female university-degree holders constituted 50.6% of all unemployed females (job seekers), compared to 6.3% for males. Similarly, female sub-university diploma holders constituted 17.8% of all unemployed females, compared to 2.67% for males. The problem will be exacerbated by the continued rises in female enrolment for sub-university

diplomas and university degrees in specializations for which the job market is tight.

The problems in the case of female secondary education graduates (arts section) are no less acute. The number of female secondary school arts section graduates increased from 29,660 in 1994 to 70,418 in 2002, while the rate of admission of secondary school graduates to universities dropped from 42.4% in 1996 to 22.9% in 2002 and to 31.7% in 2003. Likewise the rate of admission of secondary school graduates to higher education institutions dropped from 90.4% to 61.6% and 80.3% respectively.^(*) Thus, greater numbers of female graduates of secondary schools who can not secure a place in higher education institutions will seek entry into the labour market. Secondary school curricula should, therefore, be reviewed to prepare graduates better for the labour market. Generally, it is accepted that science graduates are better prepared than arts graduates, which, once again, puts females at a disadvantage.

17.3.7 Female Employment Opportunities in Government

Government is the foremost employer of women, who make up 30% of all government employees (males and females of all nationalities). In 2003, the total number of females employed in government was 224,965, of whom 83.4% were in educational occupations, making the Ministry of Education the biggest employer of females, followed by the Ministry of Health, with 5.4% of all female jobs.

Such massive concentration in one or two sectors limits employment opportunities and may lead to unemployment should demand for the occupations concerned decline.

Inability of government to absorb the increasing number of female job applicants signals two issues of immense importance: (a) the pressures caused by unemployment on family life, due both to loss of extra income and the resulting frustration suffered by women; (b) the need to remedy concentration of females in academic specializations offering limited job opportunities.

(*) Data from Information and Library Centre, Public Directorate of Studies and Information, Ministry of Higher Education.

17.3.8 Women and Investment^()**

Dwindling job opportunities in the public sector due to saturation, various obstacles that restrict employment of Saudi manpower, women particularly, in the private sector, and the increasing number of female graduates, make investment one of the options for financing capable Saudi women, ensuring participation in the labour market, along with self-assertion and social status. Investment also makes it easier to enjoy both participation in development and relatively better fulfilment of domestic responsibilities.

Investment by women makes a real contribution to development of the economy and the GDP, with benefits possibly outweighing those resulting from any other form of participation of women in development. In addition to the money pumped into the economy, investment creates job opportunities, which in turn add to the GDP. Recent development plans have, therefore, provided greater opportunities for women to invest directly their substantial savings, which are estimated at about SR 15 billion.

There has been over the past few years increasing interest by women in investing in diverse economic activities. The number of commercially registered firms owned by women exceeds 22,500, accounting for about 4.7% of all businesses registered in Chambers of Commerce and Industry. These cover various activities, including some that were once exclusive to men such as contracting and construction, in addition to industrial and agricultural activities. Data released recently by the Ministry of Commerce and Industry show that in 2004, 1,565 commercial enterprises owned by women were registered throughout the Kingdom, covering various commercial activities.

Small and medium enterprises are favoured as investment channels, by Saudi businesses women. Table 17.3 below shows that the top three commercial activities are: (1) wholesale and retail trade (2) trade in foodstuffs, and (3) trade in ready made clothes and textiles, which together make up 80% of recorded commercial registered firms and reflect the brisk commercial activity in the Kingdom's market.

(**) Women and Development, Background Paper, MOEP.

Table 17.3
Women-owned Commercially Registered Enterprises by Type of Activity
(1/6/2003 – 20/5/2004)

Activity	Number	(%)
Wholesale and Retail Trading	737	47.1
Trade in Food Stuffs	266	17.0
Readymade Clothes and Textiles	239	15.3
Import and Export	79	5.0
Building Materials, Sanitary and Electrical Items	96	6.1
Females Tailoring (Tailoring) Houses	63	4.0
Restaurants and Fast-food	34	2.2
Furniture	51	3.3
Total	1,565	100.0

Source: Ministry of Commerce and Industry.

17.4 DEVELOPMENT STRATEGY

This section addresses objectives and policies related to development of women's conditions and their participation in development, without repeating the sectoral objectives related to women in various chapters of the Plan.

The focus here is on education and employment due to their crucial impact on the progress of women.

Indeed, they are the “central links” necessary for tangibly promoting the participation of women in development, in line with the second strategic pillar of the Eighth Development Plan, which stipulates “paying due attention to women issues, promoting their capabilities and removing obstacles in the way of their participation in development activities, within the framework of Islamic values and teachings”.

17.4.1 Objectives

The main objectives of the Eighth Development Plan in relation to women are:

- Enactment of new regulations and/or amendment of existing ones in order to facilitate and encourage expansions of women's participation

in economic activities.

- Promoting participation of women in economic activity.
- Providing the facilities required to increase participation of women in the labour force and developing supporting services.
- Diversification of sectoral participation of women.
- Enhancing the status of women and their role in family and society.
- Developing and motivating enrolment of females in scientific, applied and vocational specializations in secondary and higher education.

17.4.2 Policies

Achieving the main objectives of the Eighth Development Plan in relation to women depends upon the following policies:

- Undertaking comprehensive studies of rules and regulations relating to participation of women in economic activity to identify amendments that may be needed and proposing new regulations.
- Enhancing participation of women in the above-mentioned studies.
- Launching media campaigns by government agencies and NGOs in order to increase social acceptance of women working.
- Increasing number of female employees in government institutions and ensuring their participation in accomplishing administrative and technical tasks.
- Adopting specific measures to reduce female unemployment, particularly long-term unemployment.
- Providing consultative services to women at work by government institutions and NGOs.
- Encouraging women to engage in private business by providing them with loans, facilitating savings and credit procedures, and reducing investment and production risks.
- Opening special outlets for lending to women to encourage them to invest in small and medium enterprises.
- Extending financial support to financial institutions serving women's small and medium enterprises.
- Providing support services, such as encouraging nurseries to enable

married women to benefit from available job opportunities and continue working.

- Developing supporting mechanisms to motivate women to expand the scope of their sectoral participation in the labour market, particularly in modern-economy areas.
- Supporting the developmental role of women in society and incorporating it in the educational curricula.
- Developing media activities aimed at enhancing the developmental role of women.
- Expanding vocational education and training of females, especially in areas appropriate to them.
- Encouraging females (through educational guidance) to join the scientific section in secondary education.
- Adopting vocational education as part of the general-education curricula for girls.
- Developing vocational higher education institutions for girls, such as intermediate technological colleges and higher vocational institutes, in line with the needs of the Saudi market.
- Opening more vocational training centres and secondary vocational institutes for girls and introducing new specializations in line with development requirements and needs of Saudi women.
- Encouraging acceptance of females in higher education specializations that respond to labour market needs and serve the objectives of development.
- Increasing education opportunities for females in science and mathematics, as well as engineering, information technology and administrative sciences.

CHAPTER EIGHTEEN

HOUSING

18. HOUSING

18.1 INTRODUCTION

This chapter reviews the current conditions of the housing sector and highlights the developments as well as achievements made under the Seventh Development Plan. It also discusses the key issues and challenges to be addressed under the Eighth Development Plan, examines the role of the private sector, and sheds light on the housing strategy and future vision. It also elaborates on the general objectives, policies and targets for the housing sector under the Eighth Plan.

18.2 CURRENT CONDITIONS

18.2.1 Developments

Not a single agency is exclusively responsible for comprehensive supervision and coordination of the housing sector. Several public and private agencies are engaged in housing sector activities, including construction of houses, approval of plans, issuance of permits and provision of infrastructure networks in residential quarters; in addition to the production and trade of building materials and household furniture.

The Ministry of Public Works and Housing undertook responsibility for implementation and maintenance of public and emergency housing under the previous Plans until it was abolished by Royal Decree 2/A of 30/4/2003, as part of administrative re-organization. Royal Decree 123 of 14/7/2003 transferred the task of developing housing strategy and plans to the Ministry of Economy and Planning, and social housing affairs to the Ministry of Social Affairs, while the Real Estates Development Fund (REDF) continued to provide housing loans. The government also provides direct and indirect services to the sector, including urban planning, provision of infrastructure, land distribution and other services to residential areas. Royal Decree 7/B/48941 of 9/11/2004, entrusts the Ministry of Economy and Planning with the tasks of pursuing implementation of the national housing strategy; creating a housing database for all segments of the society, taking into consideration their housing needs; reviewing government and private housing projects and loans; and conducting studies, research and surveys.

During the Seventh Development Plan 2000–2004, the number of housing units that were completed or were under construction was about 300,000, of which about 240,000 units were financed and implemented by the private sector, while REDF financed the remaining 60,000. Furthermore, the Ministry of Municipal and Rural Affairs (MOMRA) issued about 150,000 building permits for construction of private and investment housing units.

The private sector financed 75% of the total number of existing housing units, which numbered about 3.99 million, while REDF financed 610,000, in addition to 24,500 provided by the government under the urgent public housing program. The government also granted 1.5 million land plots to citizens, and government agencies provided 250 thousand housing units to their staff.

During the period of the Seventh Development Plan, the National Committee of the Saudi Building Code was formed by Council of Ministers Resolution 7/B/3230 of 11/6/2000 to undertake developing the Code. Council of Ministers Resolution 174 of 3/9/2001 approved the general plan of the Committee. Furthermore, Council of Ministers Resolution 279 of 20/12/2004 defined the general framework of the Saudi Building Code, including its administrative, legal, architectural, civil, health, mechanical, electrical and other rules. The Committee comprises representatives from the ministries concerned, King Abdul Aziz City for Science and Technology (KACST), the Saudi Arabian Standards Organization (SASO), specialists from universities, and the private sector. The first draft of the code is expected to be issued at the beginning of the Eighth Development Plan.

18.2.2 Efficiency of the Housing Sector

The ratio of the average house rental cost to the average household income increased from 26% under the Sixth Development Plan to 30% under the Seventh. During the same period, house ownership declined from 65% to 55%, due to shortage of real estate financing opportunities and insufficient loans provided by REDF to meet growing demand for loans.

By the end of the Seventh Plan, the cumulative unmet demand for houses was estimated at about 270,000. The percentage of unoccupied houses ranges between 12% and 15% of total houses, which is relatively high,

compared to the normal rates of 3% to 5%. This indicates that the housing units in supply are beyond the purchasing power of large segments of the population; one of the key issues that the Eighth Development Plan will address.

18.3 ISSUES AND CHALLENGES

18.3.1 Housing Units for Low-Income Groups

Certain groups of citizens cannot afford to own houses because of the high costs of land plots and construction costs. These difficulties are compounded by continuous rises in the price of residential land, decline in the area of residential land available within the cities, and the low supply of affordable houses; at a time when the number housing units provided by some government agencies continues to decline and insufficient finance to keep pace with the demand for REDF loans.

Against the above background, it has become imperative to provide residential land with appropriate basic services and facilities at reasonable prices, particularly in major urban areas; along with giving priority for loans provided by REDF to low-income citizens. It would also be possible to benefit from international experience in helping the needy by the state directly constructing adequate housing, subsidizing house rental, and encouraging charitable societies and institutions to construct low-cost housing units. Of equal importance, in addition, is to help ensure adequate provision of finance by the banking sector, by addressing issues of real estate mortgaging.

Outstanding examples of charitable social housing institutions in the Kingdom include Prince Abdullah Bin Abdul Aziz Foundation for Social Housing, Prince Sultan Bin Abdul Aziz Charitable Organization, and King Faisal Charitable Foundation.

18.3.2 Role of Real Estate Development Fund (REDF)

The Real Estates Development Fund (REDF) is the sole agency that offers real- estate soft loans. However, the resources of the Fund have not met the increasing demand for loans in recent years, and the gap between the number of applications submitted and loans given is widening. By the end of the Seventh Plan, loan applications on the waiting list were estimated to

number about 400,000, which prolongs the waiting period. This is due to the difficulties REDF faces in collecting outstanding loans and the insufficiency of alternative or complementary means of housing finance in general and housing for low- income groups in particular. Thus intensive efforts need to be made under the Eighth Development Plan to overcome such these constraints and shorten the waiting time. To this end, Royal Directions issued in 2004 increased the capital of the Fund by SR9 billion from the budget surplus, and Royal Decree 7/B/48941 of 9/11/2004 approved a number of additional measures to improve collection. Additionally, there is need to remove obstacles impeding provision of long-term housing finance under easy terms by commercial banks and private companies, and to institute measures designed to ensure the rights of contracting parties. Moreover, the Plan calls for expanding cooperative housing programs and saving- for-housing schemes; issuing supporting regulations, such as those for mortgaging, sale by installment, lease-own arrangements; and addressing the problem of vacant lands, particularly large ones.

18.3.3 Consistency Between Urban Planning and Housing Requirements

The main cities have a high population density, leading to increased demand for housing, which, in turn, results in higher house price levels that exceed the financial ability of many social groups. Shortage of houses and their high prices are caused by scarcity of developed land in big cities, in addition to lack of affordable small land plots. Moreover, limitations on the urban boundaries of cities, along with continuous growth of urban population, have resulted in a shortage of residential land supply within the defined boundaries, at a time of increasing demand. Addressing this issue calls for providing additional residential land within the urban boundary of large cities, along with developing adjacent areas; reviewing land use to allocate more space for residential purposes; encouraging vertical urban expansion (high rise building), and rationalizing the space allocated for commercial purposes.

18.3.4 Housing Construction Costs

Steady increases in housing construction costs is a major challenge to the provision of adequate affordable housing. Thus, it is necessary to select adequate construction methods and building materials that suit the local

environment, in order to reduce construction and maintenance costs. This entails speeding up completion and application of the Saudi Building Code, which is being prepared by a national committee. This code is expected to take into account the environmental and social conditions of the various regions and contribute to rationalization of use of resources. It is also necessary to consider greater use of prefabricated housing methods, adoption of specifications and standards conducive to the use of available building materials, raising awareness of the advantages of such materials, and requiring engineering consultancy firms to develop architectural and civil designs and plans that are consistent with the local environment.

18.3.5 Providing an Integrated Database for the Housing Sector

Multiplicity of the agencies responsible for the housing sector and absence of a specific body entrusted with the task of coordinating and integrating their efforts has resulted in the lack of an integrated database for the sector. This is a major challenge to the preparation of a comprehensive national housing strategy. It is hoped, however, that the General Census of Population and Housing that was carried out in 2004, along with the housing strategy currently under preparation by the Ministry of Economy and Planning, which is expected to be completed during the period of the Eighth Development Plan, will provide a basis for such a comprehensive database.

18.4 FORECASTS OF DEMAND FOR HOUSING

Demographic and economic and social factors are the most important determinants of demand for housing, both in terms of quantity and quality. Economic growth rates and demographic features determine the trend of expected growth of housing and associated infrastructure, while economic and social conditions determine the type, standard and size of housing units. On the basis of preliminary outcomes of the General Census of Population and Housing 2004 and data available from the social security administration and charitable societies, the total demand for housing under the period of the Eighth Development Plan is estimated to be about one million housing units or about 200,000 units per annum. Table 18.1 shows the distribution of this expected demand by administrative regions and type (new and replacement) and the cumulative unsatisfied demand by the end of the Seventh Plan. The latter may be taken to indicate the demand for

housing of low-income groups, which is estimated at around 270,000 units (Table 18.2).

Demand for housing, as shown in Tables 18.1 and 18.2 and Figures 18.1, 18.2 and 18.3, requires developing, under the Eighth Development Plan, sufficient residential land plots in all administrative regions, with a total area of about 280 million square meters, at an annual average of 5,600 hectares.

Table 18.1
Demand for Housing by
Administrative Region and Type of Demand
Eighth Development Plan (2005–2009)

Region	New Demand		Replacement Demand		Total	
	(No.) (000)	(%)	(No.) (000)	(%)	(No.) (000)	(%)
Riyadh	160	25.5	20	19.5	180	24.7
Makkah	170	27.0	25	24.4	195	26.7
Al Madinah	34	5.4	5	4.9	39	5.3
Qassim	20	3.2	5	4.9	25	3.4
East Region	118	18.8	20	19.5	138	18.9
Assir	30	4.8	5	4.9	35	4.8
Tabuk	13.5	2.2	4	3.9	17.5	2.4
Hail	15	2.4	3	2.9	18	2.5
Northern Borders	7	1.1	1.5	1.5	8.5	1.2
Jizan	30	4.8	5	4.9	35	4.8
Najran	7	1.1	2	1.9	9	1.2
Baha	11	1.8	5	4.9	16	2.2
Jouf	12	1.9	2	1.9	14	1.9
Total	627.5	100	102.5	100	730	100

Source: Analysis of demand, Eighth Development Plan, Ministry of Economy and Planning.

Table 18.2
Unsatisfied Cumulative Demand for Housing
by Administrative Region (2004)

Region	Unsatisfied Demand for Housing (000)	(%)
Riyadh	40	14.8
Makkah	44	16.3
Al Madinah	20	7.4
Qassim	12	4.4
East Region	27	10.0
Assir	32	11.9
Tabuk	12	4.4
Hail	19	7.0
Northern Borders	8	3.0
Jizan	30	11.1
Najran	8	3.0
Baha	8	3.0
Jouf	10	3.7
Total	270	100

Source: Ministry of Economy and Planning.

Figure 18.1
Total Demand for Housing
By Administrative Region
Eighth Development Plan

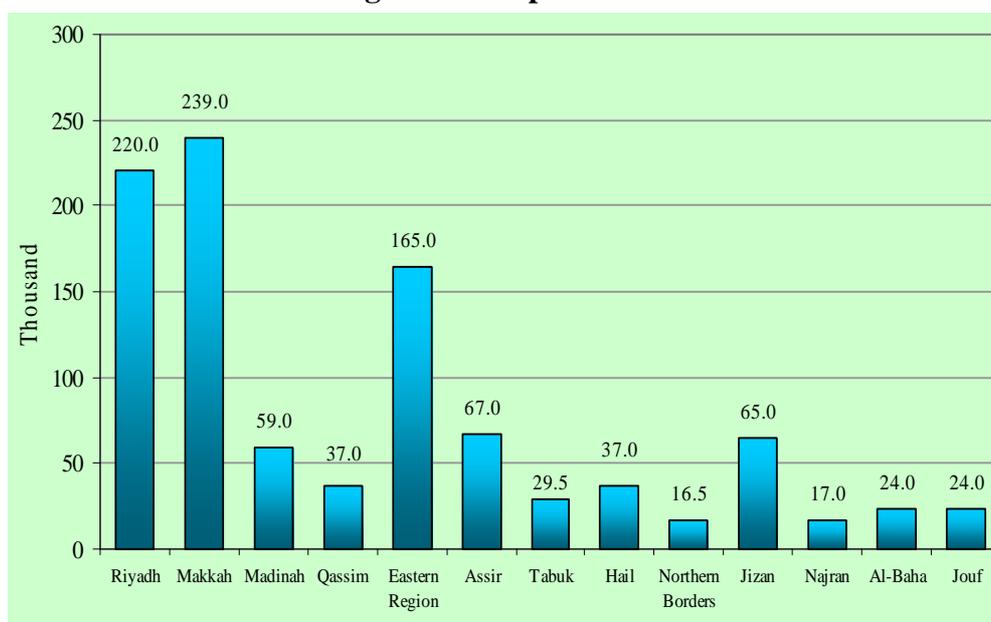


Figure 18.2
Gap between Supply and Demand for REDF Loans
(1975–2002)

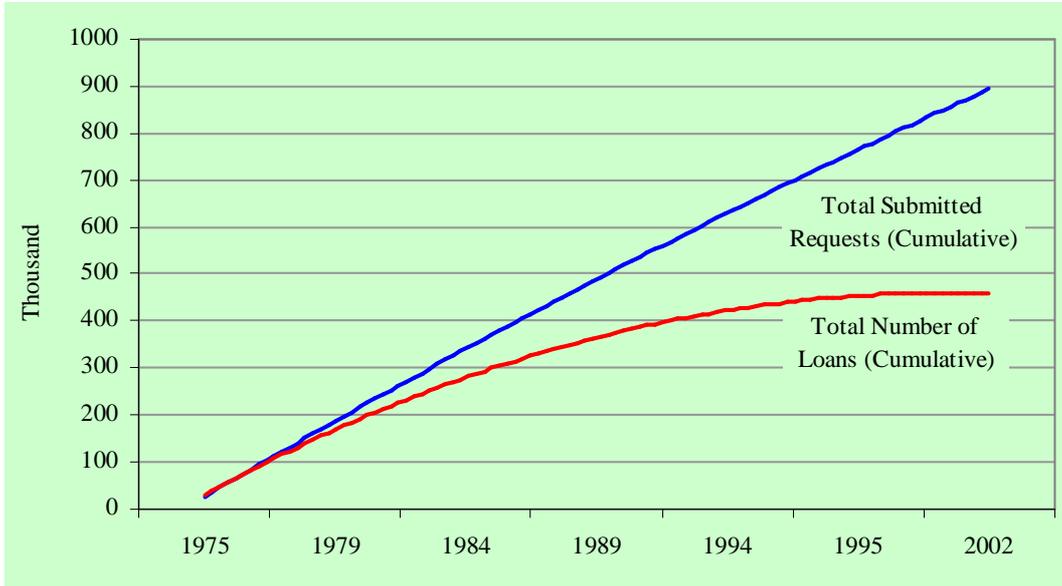
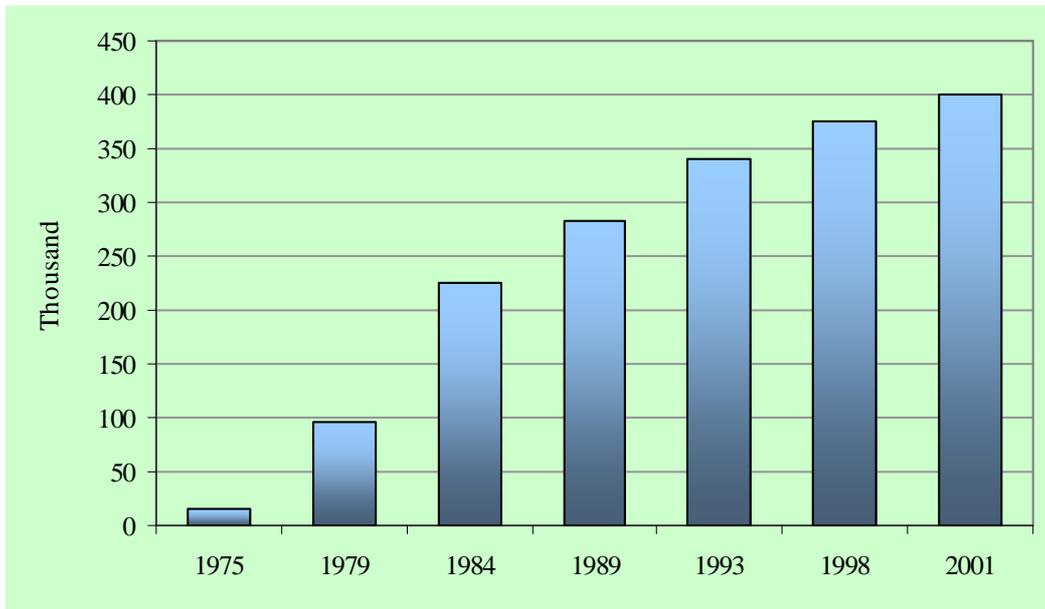


Figure 18.3
Outstanding REDF Loan Requests
(1975-2001)



18.5 FUTURE VISION

The national housing strategy will define the main characteristics of the future vision for the housing sector. Effectiveness of the strategy will, however, depend on the extent of its implementation in the coming years. The strategy is expected to define clearly the housing needs of all social categories; the required mechanisms for supporting the needy groups; and the policies for enhancing the role of the private sector in providing housing, for diversifying finance channels, and for developing the role of local and regional administrations in all aspects and stages of housing activity.

The strategy aims at increasing the rate of house ownership by Saudi families from about 55% in 2004 to about 80% by 2020, along with reducing the pressure on residential lands in major cities by adopting appropriate urban planning policies and methodologies.

18.6 DEVELOPMENT STRATEGY

18.6.1 Objectives

The following are the major objectives of the housing sector under the Eight Development Plan:

- Providing housing for every family.
- Increasing house ownership by Saudi citizens.

18.6.2 Policies

Achieving the main objectives of the housing sector under the Eighth Development Plan relies on the following policies:

- Providing housing for low- and limited-income groups.
- Diversifying sources of governmental and non-governmental finance and support, and promoting the role of the private sector in the development of the housing sector.
- Reducing construction and maintenance costs of housing units.
- Ensuring coverage by housing programs of all regions, with special emphasis on small and medium-size towns, particularly those near major cities.

- Improving management of residential land plots, regulating supply of such lands and providing general infrastructure and services, together with tightening the rules for granting land plots.
- Enhancing the role of the private sector through participation of banks and real-estate funding institutions, along with issuing laws and regulations governing these activities.
- Reviewing building codes and regulations to help reduce costs and increase supply of land plots and housing units.
- Expanding charitable housing projects and providing them with support.

18.6.3 Targets

The following targets of the housing sector are expected to be met under the Eight Development Plan:

- Construction of about one million housing units to meet the expected demand for housing during the period.
- Provision, by REDF, of about 75,000 loans with a value of SR 22,500 million for construction of about 90,000 housing units in the various regions.
- Construction, by the Ministry of Social Affairs and charitable institutions and associations, of about 35,000 social housing units in the various regions.
- Construction by the private sector of about 875,000 housing units of the total demand for housing in the various regions, 225,000 of which with support from government.
- Provision of about 280 million square meters of residential land plots in urban areas to meet demand for housing during the period.
- Preparation of the housing strategy.
- Completing and issuing the Saudi Building Code and commencing its application.
- Preparation of relevant housing studies, research and surveys.
- Establishment of an integrated housing database for all segments of society.

CHAPTER NINETEEN

SCIENCE AND TECHNOLOGY

19. SCIENCE AND TECHNOLOGY

19.1 INTRODUCTION

In a modern society, degree of progress and advancement can be measured by the efficiency with which scientific knowledge is generated and utilized. Moreover, scientific and technological advancement is the instrument of modern development and civilization. In view of the role of science and technology in acquiring and enhancing national competitive advantage, their significance has increased with the acceleration of economic, cultural and scientific globalization.

In recognition of the important role of science and technology in supporting comprehensive sustainable development, the Kingdom is endeavoring to promote the national scientific and technological base to levels that would enable it to achieve the strategic objectives of socioeconomic development; the most important of which are economic diversification, enhancement of growth, and human development.

This chapter addresses the current conditions of the science and technology system, and reviews the main developments under the Seventh Development Plan. It also reviews the issues and challenges and identifies the general objectives, policies, mechanisms, and targets set in the Eighth Development Plan.

19.2 CURRENT CONDITIONS

This section reviews the current status of the science, technology and innovation system. It also reviews the performance of its major components under the Seventh Development Plan.

19.2.1 General and Higher Education

Education is one of the most important elements of the science and technology system. Secondary school graduates of science courses are the source of scientific and technological manpower entering higher education science and technology colleges.

During the period of the Seventh Development Plan, the number of secondary school science graduates increased substantially from 72,305 in 1999 to 114,892 in 2003, with their ratio to the overall number of secondary school graduates increasing from 43.9% to 51.4%.

In addition, remarkable progress in introducing information technology into the curricula and teaching methods of all stages of general education was achieved, by providing over 23,000 computers to government schools, as a first step of a national initiative aimed at linking all schools to the internet.

Statistics issued by the Ministry of Higher Education show that the number of scientific colleges increased from 105 in 2000 to 108 in 2003. In the same period, the number of students enrolled in science BSc. courses increased from 39,995 to 63,779, i.e., at an average annual growth rate of 12.4%. This trend was accompanied by increased inclination towards scientific specializations by graduate students, at an average annual growth rate of 11.2%. Meanwhile, the number of scholarship students studying abroad in scientific specializations increased to 6,038 in 2003 from about 2,422 in 1999.

19.2.2 Research and Development (R&D)

The universities, the King Abdul Aziz City for Science and Technology (KACST), and certain public and private agencies are the most important research and development (R&D) agencies, to which a total of 175 R&D centers are affiliated. The ratio share of R&D workers is estimated to be 23 per 100,000 of the population, which is modest, compared to the 500 per 100,000 typical of advanced countries.

A survey of research for the period 1999–2003 indicated that 2,699 research projects were undertaken, distributed by specialty as follows: 38.6% in medicine, 23.2% in engineering, 20.5% in agriculture, and 17.7% in basic sciences. 53.4% of these projects were applied research, 10.3% development and 36.3% basic research. The survey also showed that no significant change took place in areas or types of research over the study period.

Expenditure on R&D is estimated to be about 0.3% of the GDP, which is modest compared to advanced and fast growing countries. The National

Policy for Science and Technology aims at increasing this rate to 2% by 2025.

The following summarizes the activities of the research centers.

a) Universities

The activities of the 57 university research centers focused mainly on: agricultural sciences, including water and environmental research; engineering sciences; health sciences; and humanities. During the first four years of the Seventh Plan, 1,631 research projects were conducted, of which 372 were in agricultural sciences, 353 in engineering sciences, 562 in medical and health sciences, and 344 in basic sciences.

b) Government Centers

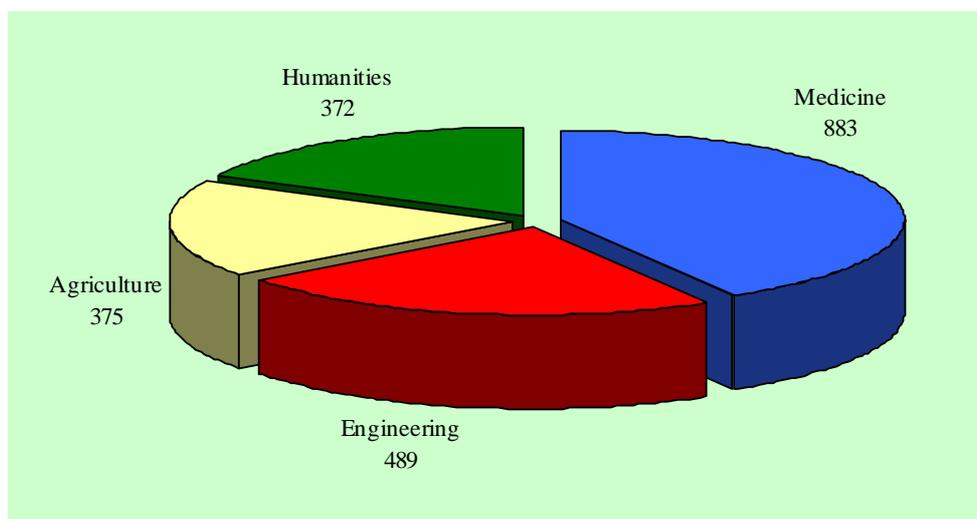
By the end of the Seventh Plan, there were, under various Ministries and government institutions, 46 government research centers working in medicine, engineering, agriculture, water desalination, environment, and the humanities. The number of research projects conducted during the period of the Seventh Development Plan was 2,119 (Table 19.1 and Figure 19.1).

Table 19.1
R&D Activities in Government Centers
(by Scientific Field)

Field	2000	2001	2002	2003	Total
Medicine	238	235	238	172	883
Engineering	115	88	105	181	489
Agriculture	107	129	80	59	375
Humanities	94	102	107	69	372
Total	554	554	530	481	2,119

Source: Comprehensive National Plan for Science and Technology.

Figure 19.1
R&D Activities in Government Centers
(by Scientific Field)
2000–2003



c) *Saudi Companies*

In recent years, Saudi companies have shown considerable interest in R&D, reflected in the increasing number of R&D centers, particularly of leading companies, such as Saudi ARAMCO, the Saudi Basic Industries Company (SABIC), and Maa'din. Expenditure on R&D activities of these three companies during the period of the Seventh Plan ranged between 0.4% and 1.7% of total investment.

SABIC has conducted several scientific research works aimed at improving operational performance and developing production technologies. The number of workers in the research centers of the company exceeded 500. It has more than 200 patents in various countries, and has started to develop and produce some of its innovations and inventions.

ARAMCO, has established a R&D center staffed by more than 400 employees. Its efforts have resulted in 17 registered patents, in addition to more than 90 patent applications. The company is endeavoring to develop some of these inventions with a view to exploit them commercially.

It is expected that implementation of the National Science and Technology Plan under the Eighth Development Plan will contribute to the development of the existing major industries such as metal products,

machinery and equipment, chemical and plastic industries, building materials, and agrofood industries. It will also contribute to increasing the number of R&D centers and units of the private sector, along with enhancing cooperation between these centers and the science and technology system.

d) KACST Activities

The seven R&D centers of KACST, in addition to the two centers for scientific equipment, mathematics and physics, are the largest R&D effort in the country.

During the period of the Seventh Development Plan, KACST continued its activities in several fields, in addition to implementing set of scientific and technological programs and offering support services. The following are examples of the most important achievements:

- Acquiring an industrial database, comprising more than 55,000 industrial technologies, classified into 56 technological categories.
- Providing support to about 429 research studies in applied science and humanities at a cost of SR116.71 million.
- Implementing a number of projects; the most important of which are the solar energy storage project, 12 solar radiation monitoring stations and 5 wind speed monitoring stations.
- Completing studies on the following: the vegetation cover; operation of the air quality monitoring network; air pollution modeling; efficiency of membranes and their applications in wastewater treatment; and utilization of bio-technology in petroleum, petrochemicals and agriculture.
- Preparing the draft of the national regulation for protection against radiation, along with the national guidelines on dealing with radioactive substances and the national plan for radiation emergency.
- Launching six satellites and installing equipment of the combustion by laser research laboratories.
- As part of its work in protection of intellectual property rights, investigating 1,149 applications and granting 36 patents.
- Completing work on establishing a reception and processing station

for high resolution satellite pictures, and establishing of the national center for manufacturing integrated electronic circuits.

19.2.3 Support Services for Science and Technology

Science and technology support services are among the most important components of the national science, technology and innovation system. These services include:

- Providing scientific and technological information services through libraries, databases and internet sites. Such services provided at an advanced level in the major libraries, such as the King Abdul Aziz Library, the King Faisal Library, the King Fahd National Library, the General Administration of Information, the Internet Unit at KACST, and others.
- Preparing standards and specifications for various fields and endeavoring to apply them. This effort is being undertaken by the Saudi Arabian Standards Organization (SASO) and by the laboratories and the quality assurance department at the Ministry of Commerce and Industry.
- Supporting and organizing scientific and technological activities by the 45 scientific societies in the universities.

It is expected that commencing implementation of the National Policy on Science and Technology under the Eighth Development Plan will have a positive impact on the interaction between these supporting services and various other components of the science and technology system, leading to further improvement of the its performance.

19.2.4 Creativity and Innovation Encouraging Institutions

In the past few years, a number of institutions concerned with promotion of creativity and innovation were established. The most important of these are: the King Abdul Aziz and his Companions Foundation for the Gifted; the Riyadh Science Foundation, which established the Prince Salman Science Oasis for increasing scientific awareness; the Department of the Gifted, under the Ministry of Education; and the Awareness and Publishing Department under KACST. Moreover, interest in encouraging scientific excellence and innovation is increasing.

Further encouragement of creativity and innovation is provided by a number of public and private prizes for scientific achievements; the most important of which are: the King Faisal International Prize, the Custodian of the Two Holy Mosques King Abdullah bin Abdul Aziz Prize for Scientific Research, the King Abdul Aziz and his Companions Prize for the Gifted, prizes offered by regional princes for scientific excellence and innovation, the Al-Marai Prize for Scientific Innovation, the Faqih Center Prize for Research, and the Abdullatif Jamil Prize for Technological Innovation, in addition to the prizes for scientific excellence offered by the universities.

19.2.5 Transfer and Indigenization of Technology

Transfer and indigenization of technology takes place through various channels. One such channel is purchasing, transferring and indigenizing technology by public and private sector institutions. In this respect, KACST has adopted two complementary approaches. The first is to organize meetings between the industrial sector and technology experts and provide assistance to perform studies on selection of appropriate technologies. The second approach is to implement national applied research programs in collaboration with foreign countries, such as with France in remote sensing, Taiwan in fish farming, Germany and the United States in renewable energy, and Japan in bio-technology.

For its part, ARAMCO is endeavoring to transfer and indigenize oil technology and has established two R&D centers for this purpose. In the petrochemicals industry, similar efforts are being made by SABIC, which has established a Riyadh-based research complex. It is expected that further remarkable progress will be achieved during the period of the Eighth Development Plan.

These efforts notwithstanding, the impact of technology transfer on the economy is still below expectations. Manufactured exports constituted only 10.7% of total exports in 2002, while the corresponding rates for Malaysia and South Korea are 76% and 92%, respectively.

19.2.6 Scientific and Technological Information

Published intellectual output increased substantially in recent years. According to statistics from the King Fahd National Library, the number of

published scientific and intellectual publications increased from 3,700 to 108,200 during the 1982–2000 period, with books on applied and pure sciences constituting only 19% of the total.

In 2003, there were 80 public libraries, 183 specialized libraries, and 59 academic and university libraries.

19.2.7 International Cooperation

International cooperation enhances scientific and technological development which is essential for comprehensive and sustainable development. The Kingdom has signed bilateral cooperation agreements with more than 45 countries in economic, scientific and technical fields, as well as for promotion and protection of investment, in addition to agreements with several regional and international organizations in various fields.

To invigorate joint industrial development programs, the Kingdom utilizes several means, such as the economic off-set program, research centers outside the Kingdom, and direct cooperation between Saudi universities and research centers and their foreign counterparts. The Kingdom is very keen on enhancing scientific and technological cooperation with the Gulf and Arab countries, as well as internationally.

19.2.8 Budget Allocations

The total budget allocations for development programs in the science and technology sector (KACST) during the period of the Seventh Development Plan were SR1674.9 million, which amounts to 116% of the total allocations proposed for this sector in the Plan.

19.3 ISSUES AND CHALLENGES

Notwithstanding the achievements made in science and technology, there are still issues and challenges that should be addressed in order to attain the hoped for goals. Foremost among these issues are:

19.3.1 Funding

Total expenditure on R&D activities in both the public and private sectors

is estimated at about 0.3% of GDP. This level of expenditure is not consistent with the priority given to developing the national science, technology and innovation system, nor with the important role it plays in economic and social development. Thus, it has become necessary to increase expenditure on R&D to over 2% of GDP by 2025, through increasing R&D allocations in universities and government R&D centers, supplying funding by the private sector, and providing the private sector with incentives to enhance its R&D activities.

19.3.2 Human Technological Capabilities

Shortage of specialized and qualified manpower in science and technology, one of the key issues of sustainable development, has been considered in the chapters dealing with education. However, it is important to emphasize the need for increasing the number of higher-studies graduates in the physical sciences, medicine and engineering, which, in turn, requires increasing postgraduate scholarships to study in these fields abroad.

19.3.3 Infrastructure

Despite establishing a broad base of institutes and national research centers in KACST, the universities and certain other government agencies, utilization of available capacity is well below the aspired level, due to poor coordination among the various components of the science and technology system, as well as to the poor linkages with the economy and society. In addition, the volume of R&D manpower is far below the desired level. Thus, it is necessary to enhance coordination and cooperation among the various components of the science and technology system, and exert efforts to attract distinguished manpower from inside and outside the Kingdom to work in the R&D centers. It is also important to offer the private sector incentives to undertake R&D, and to review the organizational and procedural frameworks relevant to transfer and indigenization of technology.

19.3.4 Identifying Priorities

The national policy for science and technology identifies the R&D Priority areas from a long-term perspective, and the long-term strategy for the Saudi economy, which is under preparation, will set the national goals of the science and technology sector. Nevertheless, identifying medium-term

priorities is vital for achieving the long-term goals and objectives. As each development phase prepares, in a planned manner, the way for achieving the long-term objectives of the following phase. It should be considered that the available capabilities and resources at each phase within their dynamic nature may have different impacts which would be reflected in the priorities under consideration.

Promotion of specific fields to international standards is a realistic strategy that has been resorted to by many countries. Hence, it is necessary to identify priority R&D areas to help guide directing support for public and private activities.

19.4 FUTURE VISION

The science and technology policy set by Council of Ministers Resolution 112 of 8/7/2002 is based on comprehensive vision that emphasizes the need for action in dealing with issues such as manpower training; provision of resources for R&D and technology transfer; indigenization and development of technology; promotion of supporting activities such as quality control, standardization and maintenance; development of scientific and technological administrative systems; and Gulf, Arab, Islamic and international cooperation in science and technology. These issues should be dealt with through complete coordination between them as well as by reactivating the mediatory institutions that ensure their interactions and effectiveness in light of the expected domestic and international developments surrounding the Kingdom during the next two decades.

The Eighth Development Plan envisages the implementation of an integrated set of programs, through cooperation and coordination among the relevant sectors and agencies. These programs may be classified into the following three categories:

1. Sectoral Programs

These are programs adopted by each public or private sector to develop its own science and technology capabilities, guided by the national policy.

2. National Programs

These are programs that seek to develop the functions of the science and technology system at the national level, including education and training; R&D; technology transfer; and indigenization;

development and optimal utilization of technology. These programs will be implemented primarily by KACST, the higher education institutions and the public and private science and technology agencies.

3. *National Initiatives*

These are aimed at indigenizing and building capacity in important and promising technologies such as oil, water desalination, petrochemicals, information and communications, electronics, genetic engineering and space sciences.

The future vision for science and technology rests upon implementing the national policy for science and technology. Expenditure on R&D is planned to amount to 2% of GDP by 2025, increasing by relatively low rates at the beginning but at higher rates as science and technology potential mounts and the science and technology system develops. The development plans shall estimate the required financial resources to be allocated for developing the science and technology system on the assumption that the targeted ratio to GDP will be achieved gradually by the end of 2025.

19.5 DEVELOPMENT STRATEGY

The development strategy aims at building a national science and technology base capable of innovation and creativity, adaptation of technology, development of information technologies and services to enhance efficiency of the Saudi economy, and building an information society and knowledge based economy.

19.5.1 Objectives

- Building an advanced national science and technology system that would contribute to attaining sustainable development and to enhancing competitiveness of the Saudi economy.
- Using the rapid global science and technology developments to raise the standards of living and improve quality of life.
- Raising scientific and technological awareness throughout society and promoting scientific culture and knowledge.
- Supporting and enhancing the national base for applied scientific research to meet requirements of development.

- Transferring and indigenizing technologies necessary to serve national development objectives, while conserving natural resources and protecting the environment.
- Supporting and encouraging innovation and creativity.

19.5.2 Policies

Achieving the main objectives of science and technology sector under the Eighth Plan is contingent upon implementing the following policies:

- Transferring and indigenizing advanced technologies.
- Encouraging R&D activities in private sector companies.
- Encouraging advanced technology projects.
- Enhancing R&D capabilities in the universities and other R&D centers.
- Intensifying scholarship programs for postgraduate studies in science and technology at reputable foreign universities.
- Promoting cooperation between R&D institutions and socioeconomic agencies.
- Encouraging private financial contributions to R&D activities.
- Establishing advanced technology parks and incubators.
- Encouraging FDI in advanced technologies.
- Making use of international cooperation agreements to enhance national R&D capabilities.
- Developing national scientific and technological manpower.

19.5.3 Targets

The following targets are set by the Eighth Development Plan:

- Developing of an incentive system for R&D activities.
- Increasing the number of scholarships abroad by not less than 20% annually during the period of the Plan.
- Assigning not less than 5% of research and education chairs at universities and government research centers to visiting professors

and scholars, and sending a similar number of Saudi scholars to reputable international research centers as visiting professors and researchers.

- Establishing two technology parks and two technology incubators.
- Reviewing licenses for technology utilization in projects contracts to improve their conditions.

19.6 FINANCIAL REQUIREMENTS

Financial requirements of the science and technology sector (KACST) under the Eighth Development Plan are envisaged to amount to SR1,967 million, for operational expenditure, supporting and promoting the national technology base, funding scientific research, implementing applied R&D, funding supporting activities, and improving the facilities and equipment at KACST.

CHAPTER TWENTY

**DEVELOPMENT OF
HUMAN RESOURCES**

20. DEVELOPMENT OF HUMAN RESOURCES

20.1 GENERAL EDUCATION

20.1.1 INTRODUCTION

Education is the corner stone of economic and social development and a key determinant of its sustainability. The ultimate objective of development is to achieve human welfare that is developed economically, socially and culturally which is contingent upon having educated, skillful and productive citizens, who uphold high moral and religious values and are proud of their civilization, while being open to and tolerant of other civilizations and cultures.

The Kingdom has, therefore, given high priority to the education sector and made concerted efforts to provide education for all throughout the country. This is evident in the increase of expenditure on education as a percentage of GDP from 3.5% in 1970 to 9.5% in 2002. As a result, in 2002 the rate of literacy reached 77.9% among adults (15 years and over) and 93.5% among the youth (15–24 years), with the ratio of literate females to literate males among the youth reaching at 96:100, and ratio of females to males in elementary and secondary school enrollment amounting to 92:100 and 93:100 respectively.

Notwithstanding the remarkable progress accomplished, a number of challenges still require continued attention in the coming years. Foremost among these are: achieving full enrollment in primary school and raising enrollment rates in intermediate and secondary schools; complete eradication of illiteracy; improving output quality of education system through enhancing efficiency; meeting the growing demand for education; and consolidating the role of the private sector in the development of education and the enhancement of private education.

This chapter reviews the current conditions of general education and the major developments that took place under the Seventh Development Plan. The key issues and challenges facing general education as well as projections of future demand for education are addressed. The strategy adopted by the Eighth Development Plan for general education, including objectives, policies and targets is also discussed.

20.1.2 CURRENT CONDITIONS

20.1.2.1 General Developments

In 2003, the number of government and private schools, apart from kindergartens, stood at 23.5 thousands covering all geographic regions and comprising 190.9 thousand 15 classrooms, with total enrollment reaching about 4.3 million students (Table 20.1.1).

Table 20.1.1
Development of the General Education Sector
1999 and 2003
Seventh Development Plan

	1999	2003	Average Annual Growth Rate 2000–2003	Planned Growth Rate under the 7 th Plan (%)
Number of Schools	21,252	23,460	2.0	2.7
Number of Classrooms	176,427	190,915	2.0	2.3
Number of New Entrants:				
– Elementary	379,083	407,312	1.8	2.3
– Intermediate	343,353	333,779	- 0.7	1.1
– Secondary	246,470	283,506	3.6	2.8
All Levels	968,906	1,024,597	1.4	
Number Enrolled:				
– Elementary	2,259,849	2,342,214	0.9	1.2
– Intermediate	1,035,363	1,092,011	1.3	0.3
– Secondary	704,566	855,052	0.0	4.3
All Levels	3,999,778	4,289,277	1.8	2.9
Number of Graduates:				
– Elementary	337,147	359,449	1.6	0.8
– Intermediate	257,144	311,043	4.9	2.6
– Secondary	164,629	223,703	8.0	6.2
All Levels	758,920	894,195	4.2	
Number of Teachers (Total)	329,256	363,704	2.0	4.4
Number of teachers (Saudis)	289,631	334,652	3.7	
% of Saudis	88.0	92.0	1.1	

Source: Ministry of Education.

The total number of new school entrants increased during the first four years of the Seventh Development Plan at an average annual rate of 1.4%; consisting of 1.8%, -0.7% and 3.6% for elementary, intermediate^(**) and

^(**) This is attributed to the impact of the decision to limit admission age of new entrants to elementary school issued in 1996, effective from academic year 1997. This resulted in the decline of the number of new entrants to elementary school, with the impact appearing six years later at intermediate school.

secondary schools respectively.

During the same period the total number of students enrolled increased at an average annual rate of 1.8%, consisting of 0.9% at elementary school, 1.3% at intermediate school and 5% at secondary school.

The number of elementary school graduates increased at an average annual growth rate of 1.6%, from 337.1 thousands in 1999 to 359.5 thousands in 2003, while the number of intermediate school graduates increased at an average annual growth rate of 4.9%, from 257.1 thousands to 311.0 thousands. Similarly the number of secondary school graduates increased at an average annual growth rate of 8%, from 164.6 thousands to 223.7 thousands, bringing the total number of graduates to about 894.2 thousands.

Table 20.1.2, which shows the trends in the total number of enrolled students, schools and student/teacher ratios per school during the first four years of the Seventh Development Plan, demonstrates that considerable progress has been achieved.

Table 20.1.2
General Education by Administrative Region*
1999 and 2003
Seventh Development Plan

Region	1999			2003		
	Number Enrolled (000)	No. of Schools	Student/Teacher Ratio	Number Enrolled (000)	No. of Schools	Student/Teacher Ratio
Riyadh	899.7	4,418	12	996.2	4,917	12
Makkah	944.1	4,109	12	1,013.9	4,543	12
Al Madinah	273.9	1,397	13	308.8	1,584	13
Al-Qassim	191.6	1,533	10	204.4	1,706	10
Eastern Region	617.8	2,243	14	655.2	2,470	13
Assir	333.9	2,591	11	345.6	2,847	10
Tabuk	124.0	585	15	136.1	665	14
Hail	99.8	847	10	106.6	925	10
Northern Borders	56.4	273	13	62.7	301	13
Jizan	220.1	1,495	12	204.8	1,585	11
Najran	83.2	464	13	88.2	508	12
Al-Baha	81.3	875	9	86.9	904	9
Al-Jouf	74.0	422	12	79.9	505	11
Total	3,999.8	21,252	12	4,289.3	23,460	12

* Data does not include kindergartens.

Source: Ministry of Education.

20.1.2.2 Private Education

The private sector plays an important, growing role in providing general education at all levels. Private schools catered for 7.5% of the total number of students in 2003, distributed as follows: 47.6%, 6.7%, 5.0% and 8.3% at kindergarten, elementary school, intermediate school and secondary school respectively (see Table 20.1.3).

Education policy envisages an enhanced role for private education at all levels in the coming years.

Table 20.1.3
General Education in the
Government and Private Sector
2003

Stage	Government Sector		Private Sector		Total		Government Sector (%)		Private Sector (%)	
	Number of Schools	Number of Students (000)	Number of Schools	Number of Students (000)	Number of Schools	Number of Students (000)	Schools	Students	Schools	Students
Kindergarten	721	49.4	523	44.9	1244	94.3	58.0	52.4	42.0	47.6
Elementary	12070	2184.2	810	158.0	12880	2342.2	93.7	93.3	6.3	6.7
Intermediate	6175	1037.9	560	54.1	6735	1092.0	91.7	95.0	8.3	5.0
Secondary	3432	783.8	413	71.2	3845	855.0	89.3	91.7	10.7	8.3
Total	22398	4055.3	2306	328.2	24704	4383.5	90.7	92.5	9.3	7.5

Source: Ministry of Education.

20.1.2.3 Special Education

As a result of emphasis on education of persons with special needs, the number of special education institutes and schools increased from 143 in 1999 to 576 in 2003, with the number of students increasing from 10,774 to 17,413.

20.1.2.4 Eradication of Illiteracy and Adult Education

Substantial improvement in illiteracy eradication and adult education has resulted in a decline of the number enrolled from 110.0 thousands in 1999 to 74.1 thousands in 2003, while the number of new entrants declined from

41,2 thousands to 26.7 thousands. During the same period, the number completing these programs increased at an average annual growth rate of 3%, from 18.8 thousands to 21.1 thousands, meeting the Seventh Development Plan target of 21.1 thousands graduates (see Table 20.1.4).

Table 20.1.4
Illiteracy Eradication and Adult Education
1999 and 2003
Seventh Development Plan

Year	No. of Schools	No. of Classrooms	New Entrants	Total Enrolled	Graduates
1999	3,267	9,847	41,227	110,044	18,760
2003	3,568*	8,644	26,713	74,073	21,149
Average Annual Growth Rate (2000–2003)	2.2	–3.2	–10.3	–9.4	3.0
Targeted rate during the 7 th Plan (%)	5.5	2.0	1.2	–5.6	3.3

(*) The increased number of schools due to establishing a large number of small-size schools in villages and hamlets.

Source: Ministry of Education.

20.1.2.5 Institutional and Organizational Development

Under the Seventh Development Plan, a number of measures and steps were taken to develop and upgrade general education institutions; foremost among which were:

- Putting the General Presidency for Girls Education under the Ministry of Education by Royal Decree A/2 of 14/3/2002.
- Entrusting the Ministry of Education with supervising general education undertaken by other agencies, such as the National Guard, Ministry of Defense, and Royal Commission for Jubail and Yanbu, by Royal Decree A/2 of 30/4/2003.
- Instituting kindergarten education as a separate stage, with separate buildings and classrooms, independent from other educational stages, by Royal Decree 7/B/5388 of 2002.
- Instituting mandatory education between 6 and 15 years of age by a Council of Ministers Resolution issued in 2004.
- Introducing English language classes from grade six (elementary stage) as a basic subject, along with improving English language teaching at intermediate and secondary schools, by Council of Ministers

Resolution 171 of 2003.

- Merging The Higher Committee on Education Policy and the Higher Education Council into one body, The Supreme Education Council, establishing a national center for evaluation and development of general and technical education under the supervision of the Supreme Education Council, and transferring the Agency for Girls Colleges and Agency for Teachers Colleges from the Ministry of Education to the Ministry of Higher Education; all by Council of Ministers Resolution 143 of 2004.

20.1.2.6 Manpower Training

Total manpower in the general education sector increased from 351.4 thousands in 1999 to 478.6 thousands in 2004, with 376.6 thousands (78.7%) occupying educational jobs. The share of Saudis in total manpower reached 95.7% by the end of the Seventh Development Plan.

Under the Seventh Development Plan 1,200 teachers and employees obtained scholarships for postgraduate studies within the Kingdom and abroad, 309 of these teachers completed their studies during the period of the plan, with 81% obtaining master degree and 19% obtaining PhDs. In addition 3,400 enrolled in Saudi universities to study for bachelor degrees; 44% of whom graduated during the period of the plan.

20.1.2.7 Budgetary Allocations

The actual allocations for the general education sector in the state budget for the Seventh Development Plan period amounted to about SR244.3 billion, an increase of 10.2% over the Plan target, With the allocations amounts distributed approximately equally between boys education (49.7%) and girls education (50.3%).

20.1.3 ISSUES AND CHALLENGES

Notwithstanding progress achieved in general education under the Seventh Development Plan, a number of issues and challenges still need to be addressed under the Eighth Plan; foremost among which are the following:

20.1.3.1 Enrollment Rates

Despite provision of free education for all throughout the country, enrollment

at all education levels and at the elementary school in particular, is still less than full. The challenge of achieving 100% enrollment in elementary school needs to be addressed effectively since enrollment at this level has a knock on effect on enrollment at subsequent levels. Multi-pronged approach to meeting this challenge would include the following:

- Comprehensive and total enforcement of mandatory elementary education.
- Provision of kindergartens schools in all regions, along with raising awareness of the importance of kindergarten education.
- Enhancement of parent participation in school activities and in monitoring teacher performance.
- Early identification of children with special needs and provision of adequate education and rehabilitation means for them.
- Identifying and addressing the economic and social conditions of certain categories of low-income groups that may prevent their children from enrollment at the various levels of education.
- Intensification of awareness programs, within and outside the education system, of the importance of educational achievement and completion of secondary education, at least.

20.1.3.2 Internal Efficiency

The general education system suffers from inadequate consistency between system inputs and outputs. Expenditure is estimated to be 9.5% of GDP, which is above the corresponding ratio for a number of developed and developing countries, like France, Germany, Indonesia and the Philippines. Likewise expenditure amounted to about 25% of government expenditure compared to an average of 12.3% in industrial countries and 18.4% in developing countries. Similarly, according to the UNESCO Statistical Report for 2000, the average student/teacher ratio of 12 in the Kingdom is lower than the ratios of many countries like Malaysia (19), Oman (27) North African Arab countries (24), East Asian countries (26), Latin American countries (25) and South West Asian countries (39)

However, despite outstanding input, system output suffers weaknesses such as relatively high dropout and repetition rates, in addition to the relatively low academic standards of graduates. Thus, efficiency of the educational process needs to be raised by addressing skills of teaching staff; effectiveness of teaching methods; structure and content of curricula, and efficacy of school management, and monitoring and evaluation systems.

This key issue can be addressed through the following:

- Proper preparation of teachers, development of their skills and adoption of continuous training.
- Employing highly skilled teachers on the basis of professional and technical criteria that ensure efficient performance.
- Instituting a professional licensing system for teachers, with regular renewal of licenses being based on standardized tests.
- Enhancing effectiveness of the system for monitoring and evaluation of both teaching and administrative staff members.
- Adopting modern education methods, benefiting from international experience.
- Introducing mathematics, science and languages achievement tests for graduates of all three levels of the general education system.
- Enhancing cooperation between schools and parents.

20.1.3.3 External Efficiency

The general education system suffers from inadequate consistency between its outputs and the needs of the economy and society. At the current stage of its development, the economy requires a variety of scientific skills and specializations in considerable numbers, which, in turn, demands developing student skills and talents in mathematics, sciences, languages and information technology. Such an effort should start at the early levels, with each stage preparing the ground for the succeeding ones.

Substantial progress has been made in recent years, reflected in a notable increase in the ratio of science graduates of secondary-school education to the total from 43.8% in 1994 to 51.4% in 2003, with the ratios in the latter year being 60.9% for males and 39.1% for females. However, notwithstanding this progress, these ratios are still lower than required, particularly for girls. Moreover, higher education graduates in science, mathematics and engineering accounted for only 18% of the total, which reflects a considerable structural mismatch between the output of secondary-school education and enrollment in higher education.

External efficiency of general education could be improved through the following measures:

- Enhancing integration and cooperation between the various stages, since the efficiency of the system depends on the strength of each individual stage.
- Continuous development of curricula to ensure optimal balance between the various basic subjects.
- Enhancing the internal efficiency of the general education system.
- Considering introducing English at grade four, in order to ensure full utilization of information and communication technology in the educational process and facilitate knowledge acquisition by pupils.

20.1.3.4 Private Education

Notwithstanding the considerable growth of education, including private education, the role of the private sector is still below what is aspired to. In 2003, the number of students enrolled in private education, including kindergartens, reached 328.2 thousands, or 7.5% of the total. In light of the challenges facing general education, including the need to enhance both internal and external efficiencies and provide the absorptive capacity necessary for educating increasing numbers of students, particularly at the kindergarten level, the private sector should assume a greater role, as is the case in many developed and developing countries.

It is, therefore, essential to provide an adequate environment and incentives to enable the private sector to play a growing role in providing general education, along with developing appropriate mechanisms for ensuring quality of both public and private education and enhancing the innovative capacities of both, through adopting international best practice and cooperation with international institutions and organizations.

20.1.3.5 School Buildings

Accelerated growth of student numbers resulted in growing demand for school buildings, which was met by leasing private buildings, to the extent that leased school buildings amounted to more than 60% of total school buildings in 2003. However, most leased school buildings do not meet the educational requirements and standards. To address this situation, Council of Ministers Resolution 178 of 1998 entrusted a special committee formed for the purpose of developing mechanisms to enable the private sector to contribute to the construction of adequate schools, but this did not prove sufficient to meet demand for new and replacement schools.

It is thus crucial to identify and remove the obstacles impeding private sector involvement in financing a comprehensive plan to be developed for replacing inadequate school buildings, whether leased or government owned.

20.1.4 DEMAND FOR GENERAL EDUCATION

Forecasts of growth in student numbers in elementary school assume that mandatory elementary education will be comprehensively enforced, while forecasts of numbers of entrants to intermediate and secondary school are based on success rates at the level below and the planned rates of passage from one level to the other.

Numbers of entrants to elementary, intermediate and secondary school are expected to grow at an average annual rate of 2.1%, 2.5% and 0.7% respectively, as shown in Figure 20.1.1. Tables 20.1.5, 20.1.6, and 20.1.7 show the expected number of students planned to be enrolled at kindergarten, entrants to elementary school by region and the expected number of secondary school graduates by specialization and region.

Figure 20.1.1
Projections of Entrants to General Education
Eighth Development Plan

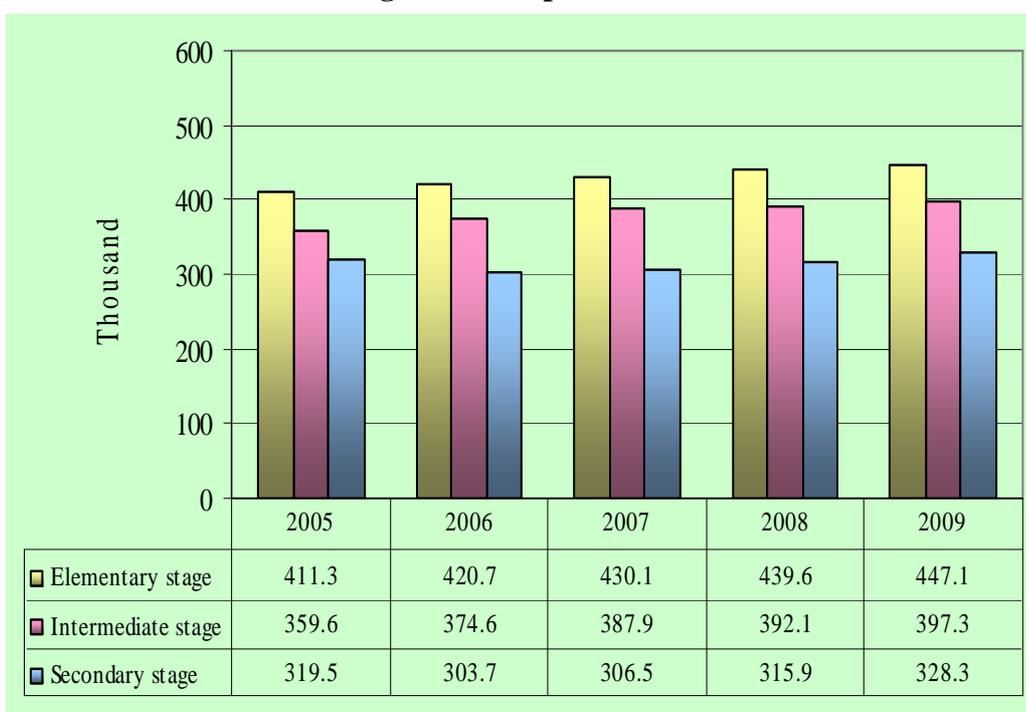


Table 20.1.5
Expected Number of children Enrolled
at Kindergarten by Administrative Region
2003, 2005 and 2009
Eighth Development Plan

Region	Actual 2003	2005	2009
Riyadh	29,426	36,821	55,584
Makkah	20,005	25,032	37,788
Al Madinah	5,492	6,872	10,374
Qassim	5,217	6,528	9,855
Eastern Region	22,914	28,672	43,283
Assir	2,943	3,683	5,559
Tabuk	1,676	2,097	3,166
Hail	770	964	1,454
Northern Borders	726	908	1,371
Jizan	1,973	2,469	3,727
Najran	908	1,136	1,715
Baha	958	1,199	1,810
Jouf	1,282	1,604	2,422
Total	94,290	117,985	178,108

Source: Ministry of Economy and Planning.

Table 20.1.6
Number of Entrants to Elementary School
by Administrative Region
2003, 2005 and 2009
Eighth Development Plan

Region	Actual 2003	2005	2009
Riyadh	97,190	٩٤٢٦٧	١٠٢٦١٦
Makkah	96,184	٩٤٢٣٩	١٠٢٥٤٣
Al Madinah	29,112	٣٠١٩٤	٣٢٧٧٤
Qassim	19,483	٢٠٩٤٨	٢٢٧٣١
Eastern Region	58,836	٦٠٢٦٠	٦٥٥٢٦
Assir	32,643	٣٣٤٨٤	٣٦٣٥١
Tabuk	14,273	١٣٥٨٧	١٤٧٩٣
Hail	9,990	١٠٤٨١	١١٣٨٤
Northern Borders	5,799	٦٣٦٨	٦٩١٢
Jizan	20,212	٢٢٦٠٧	٢٤٥٥٦
Najran	9,372	٩٦٥٨	١٠٤٨٩
Baha	6,317	٦٩٧٨	٧٥٦٥
Jouf	7,901	٨٢١٢	٨٩٠٦
Total	407,312	٤١١٢٨٣	٤٤٧١٤٦

Source: Ministry of Economy and Planning.

Table 20.1.7
Expected Number of Graduates of Secondary School
by Administrative Region and Specialization
2003, 2005 and 2009
Eighth Development Plan

Region	Actual 2003		2005		2009	
	Science	Arts	Science	Arts	Science	Arts
Riyadh	24,800	24,085	27,595	25,932	35,033	22,467
Makkah	27,653	25,377	35,567	29,051	42,807	26,419
Al Madinah	7,925	6,645	6,036	5,474	7,586	4,904
Qassim	6,360	7,164	6,441	7,498	7,965	6,753
Eastern Region	19,823	15,717	20,860	16,966	25,835	15,421
Assir	9,361	10,252	10,422	11,161	12,765	10,165
Tabuk	2,993	2,925	3,314	3,097	4,113	2,820
Hail	2,420	3,451	2,684	3,762	3,319	3,440
Northern Borders	1,292	1,916	1,430	2,084	1,774	1,902
Jizan	5,137	4,933	5,717	5,349	7,009	4,841
Najran	2,164	1,570	2,421	1,612	2,931	1,451
Baha	2,841	2,455	3,156	2,658	3,887	2,407
Jouf	2,123	2,321	2,352	2,513	2,915	2,289
Total	114,892	108,811	127,995	117,157	157,939	105,279

Source: Ministry of Economy and Planning.

20.1.5 FUTURE VISION

The future vision for the general education system is based on enhancing the role of educational planning as a necessary instrument for expanding the absorptive capacity of educational institutions to match the steady increase in demand for education, upgrading quality to meet challenges of global scientific and technological developments, and ensuring consistency between the output of the education system and the actual needs of the labor market; all within the framework of the future vision for economic and social development which aims, among other things, at having high-quality education at minimal cost in the shortest possible time. The following are the most significant goals of this vision:

- Maintaining Islamic principles and the genuine cultural and social values of the Saudi society through proper understanding of Islam, while efficiently and flexibly assimilating knowledge and information.

- Anticipating and meeting future requirements of the labor market, moving towards a knowledge-economy, and developing student creativity.
- Meeting the steady increase in demand for education for all citizens throughout the country, equipping students with useful skills, and deepening the spirit of citizenship.

The perspective of the future vision may be summarized as follows: educating students inculcated with Islamic values, who possess useful skills and knowledge and are capable of positively interacting with developments and dealing with advancing technologies efficiently and flexibly, who are capable of competing internationally in science and technology and able to effectively participate in the process of overall development, through an effective educational system capable of discovering skills and abilities and instilling positive work ethics in an educational environment conducive to learning.

The vision also stresses the need to move towards the knowledge economy through improving and updating academic curricula, teaching methods, and supporting technological tools, in order to form students who are able to keep pace with the accelerating scientific and technological developments.

The future vision also emphasizes the importance of developing research and self learning abilities of the student, as well as of acquiring thinking, analysis and communication skills. Moreover the vision also lays stress on developing systems of admission, evaluation and enrollment at the various educational stages, along with enhancing collaboration between parent and school in the education process, as well as cooperation between the public and private sectors in providing the requirements of the planned development of education.

Special consideration should be given to dealing efficiently with the cultural impacts of globalization, through making optimal use of scientific and technological developments, without compromising faith and values, while deepening loyalty to the nation, rejection of violence and extremism and adherence to the Islamic principles.

20.1.6 DEVELOPMENT STRATEGY

The development strategy of the general education sector is aimed at developing manpower and upgrading the skills base to meet the requirements

of the national economy, as well as at ensuring that education and training system meets the socioeconomic and cultural requirements of development, in addition to eradication of illiteracy.

20.1.6.1 Objectives

The following are the overall objectives of the general education sector under the Eighth Development Plan:

- To develop manpower, upgrade its efficiency and increase its participation to meet the requirements of the national economy.
- To develop the education and training system to meet the requirements of social, economic and cultural development.
- To eradicate illiteracy.

20.1.6.2 Policies

Achieving of the main objectives of the general education sector under the Eighth Development Plan relies on implementing the following policies:

- Raising enrollment rates (number of entrants) at the various stages of general education.
- Increasing the absorptive capacity of general education facilities to accommodate the targeted age groups.
- Coordinating with the Ministry of Social Affairs to intensify family awareness of maternity, childhood and early education.
- Coordinating with the Ministry of Health for early identification of children with special needs in order to meet their educational requirements.
- Replacing substandard school buildings.
- Enhancing the role of the private sector in the provision of adequate school buildings.
- Improving internal efficiency of the general education system.
- Reducing drop out and repetition rates.
- Enhancing parent participation and cooperation between parents and school management.
- Ensuring the regular training of teachers and administrative staff.

- Monitoring and evaluating performance of teachers and introducing a system of professional practice licensing.
- Introducing modern teaching methods and training of educational and management staff in using them.
- Improving external efficiency of the general education system.
- Continuous development of curricula and enhancement of mathematics and science subjects at all general education stages.
- Introducing information and communication technology subjects in all general education stages.
- Promoting out-of class activities, making them part of the curricula and subjecting them to regular evaluation.
- Introducing a system of national standard tests at all educational stages, as well as participating in international tests in science, mathematics and languages.
- Developing an integrated system of incentives to encourage private sector participation in general education.
- Considering encouragement of Foreign Direct Investment (FDI) in the general education sector.
- Utilizing and developing distance education and learning technology, in conformity with the social environment.
- Widening availability of adult education services in areas of need.

20.1.6.3 Targets

- Enrolling 20% of children in the 4–6 years age group at kindergarten.
- Achieving 100% enrollment at elementary school (mandatory elementary education).
- Achieving 95% enrollment at intermediate school.
- Providing government school buildings to absorb the expected growth in student numbers, and replacing rented school buildings at a rate of 400 buildings per year.
- Reducing dropout rates to attain a general rate of 1% for all stages.
- Reducing repetition rates to 5% at elementary school, 7% at intermediate

school and 8% at secondary school.

- Attaining a Saudization rate of 95% of teaching posts.
- Providing an Information Technology Center linked with the internet in all schools.
- Examining the possibility of teaching English starting from grade four.
- Establishing a national center for educational information.
- Adopting e-Government by the Ministry of Education.
- Participating in international tests in science, mathematics and languages.
- Introducing a system of national standard tests in the various stages of general education.
- Implementing a system of comprehensive evaluation of schools once every five years.
- Implementing an educational accreditation system for private schools.
- Attaining a participation rate of 15% by private education in general education by the end of the Eighth Plan period.
- Developing regulations for adult and continuing education.
- Preparing adult education radio and TV programs.
- Providing support services for adult education such as mobile schools and camps.

20.1.7 FINANCIAL REQUIREMENTS

The financial allocations of the general education sector (Ministry of Education) during the Eighth Development Plan amount to SR276.1 billion for financing development of the educational process, development of manpower in the sector, and supporting student services and extra-curricular activities; in addition to operation and maintenance of educational facilities, as well as programs for construction of schools and educational facilities.

20.2 HIGHER EDUCATION

20.2.1 INTRODUCTION

Higher education outputs have developed continuously in terms of both quality and quantity. The number of university degree holders (post secondary) per 100,000 Saudis increased from 117 in 1990 to 412 in 2003, and enrollment of 19–24 years old Saudis in higher education (tertiary level) increased from 10% to 21%. This development has included both males and females, with the ratio of females to total enrollment in higher education increasing from 47.5% to 66.0% during the same period.

Growth of higher education outputs has been accompanied by a parallel growth in invested resources, with expenditure on higher education amounting to 17.3% of total expenditure on education.

The higher education sector has contributed significantly to scientific progress through the research and development activity, currently underway at research centers and labs within and outside universities.

Notwithstanding these above achievements, higher education faces several challenges as a result of demographic, social and economic developments that have led to increasing demand for higher education, thereby exerting pressure on the absorptive capacity, as well as the internal and external efficiency system. Furthermore, the pivotal role of higher education in the development of the scientific and technical base, in enhancement of cultural and intellectual activity, and in the provision of leadership cadres in all areas of economic, social, cultural and political activity, represents a continuing and growing challenge.

This section reviews the current conditions of higher education and the major developments under the Seventh Development Plan, and addresses the key issues and challenges facing the sector, as well as the proposed solutions. Furthermore, the expected demand, future vision, development strategy, and objectives and policies for higher education under the Eighth Development Plan are discussed.

20.2.2 CURRENT CONDITIONS

The higher education sector comprises eleven government universities, three of which were established under the Seventh Development Plan;

namely, the universities of Taibba, Qassim and Taif. The universities encompass colleges and departments that offer diplomas, and bachelor, master and PhD degrees in various scientific and humanities specializations, as well as providing community service. Some colleges and departments also provide distance learning services.

The higher education sector also includes private colleges, community colleges affiliated to universities, and girls colleges, in addition to government agencies and institutions that provide specialist university level education. Council of Ministers Resolution 143 established the Supreme Education Council presided over by the Custodian of the Two Holy mosques, the Prime Minister, with the Minister of Higher Education assuming the position of vice-president, to replace the Higher Education Council and the Higher Committee on Education Policy. The same resolution also puts the 18 teachers colleges, and 102 girls colleges, that were affiliated to the Ministry of Education, under the Ministry of Higher Education.

A number of government and private agencies and institutions provide students and employees with scholarships to universities abroad. Furthermore, a number of self-financed students receive university education abroad.

20.2.2.1 Enrollment in Higher Education Institutions

The number of students enrolled in universities, girls colleges and private colleges at the bachelor level, increased at an average annual growth rate of 6.7% from 282,433 in 1999 to 366,344 in 2003, (Table 20.2.1) Female students constituted more than 69.5% of the total with 77.6% of them enrolled at girls colleges.

Table 20.2.1
Students Enrolled in Universities,
Girls Colleges and Private Colleges at Bachelor Degree Level
1999 and 2003
Seventh Development Plan

Educational Institution	1999	2003
King Saud University	47,067	46,479
King Abdulaziz University	29,320	34,298
King Fahd University of Petroleum and Minerals	7,157	7,436
King Faisal University	10,332	11,511
Imam University	26,116	27,613
King Khalid University	11,740	9,942
Islamic University	3,748	4,104
Um Al-Qura University	21,764	25,849
Girls Colleges	125,189	197,570
Private Colleges	00	1,542
Total	282,433	366,344

Source: Ministry of Higher Education Statistics.

20.2.2.2 Admission to Higher Education Institutions

The total number of entrants to government universities, girls colleges and private colleges reached 126,752 students in 2003 compared to 83,486 in 1999, representing an average annual increase of 11%, (Table 20.2.2). The higher education institutions absorbed about 57% of all secondary school graduates, and the rate was expected to increase to 59% in 2004, the last year of the Seventh Development Plan.

20.2.2.3 Graduates of Higher Education Institutions

The number of graduates increased in line with the notable increase in entrants to higher education institutions. The total number of graduates at the bachelor level exceeded 53,000 students in 2003, compared with 38,000 in 1999, representing an average annual growth rate of about 9% (Table 20.2.3).

The total number of graduates at the bachelor level during the first four years of the Seventh Development Plan stood at more than 199,000 students, of whom 66% were female. The distribution over the various specializations was 12.5% in scientific and technological fields (science, engineering, medicine and agriculture), 66.4% in administrative and social sciences, (business administration, economics, accounting, sociology and psychology), 11.8% in humanities (languages, history and arts) and 9.3% in Islamic and Sharia studies.

Table 20.2.2
New Entrants to Universities,
Girls Colleges and Private Colleges at Bachelor Degree Level
1999 and 2003
Seventh Development Plan

Educational Institutions	1999	2003
King Saud University	12,718	12,049
King Abdulaziz University	8,058	9,251
King Fahd University of Petroleum and Minerals	1,541	1,872
King Faisal University	2,909	2,884
Imam University	7,568	8,673
King Khalid University	3,317	3,458
Islamic University	1,135	1,170
Um Al-Qura University	4,854	8,824
Girls Colleges	41,386	78,033
Private Colleges	00	538
Total	83,486	126,752

Source: Ministry of Higher Education Statistics.

Table 20.2.3
Bachelor Level Graduates of Universities,
Girls Colleges and Private Colleges
1999 and 2003
Seventh Development Plan

Educational Institutions	1999	2003
King Saud University	6,455	7,723
King Abdulaziz University	4,722	5,178
King Fahd University of Petroleum and Minerals	892	991
King Faisal University	1,593	1,877
Imam University	2,591	3,930
King Khalid University	996	1,647
Islamic University	611	736
Um Al-Qura University	3,146	3,580
Girls Colleges	17,061	27,596
Private Colleges	00	29
Total	38,067	53,287

Source: Ministry of Higher Education Statistics.

20.2.2.4 Postgraduate Studies

The number of postgraduates (Higher Diploma, Master, and PhD) enrolled in the universities and girls colleges increased from 8,847 students in 1999 to 10,670 in 2003, i.e., 2.9% of the total number of students enrolled for bachelor degrees (Table 20.2.4), which is below the Seventh Plan's target

of about 10%. The number of entrants to postgraduate studies increased from 3,063 to 3,452 students over the same period, while the number of graduates with all three degrees increased from 1,223 to 1,729 (Table 20.2.4). The total number of PhD graduates during the first four years of the Seventh Plan reached 805 while master degree and higher diploma graduates reached 3,091 and 2,111 respectively.

Table 20.2.4
Postgraduate Studies
1999 and 2003
Seventh Development Plan

Degree	1999			2003			Average Annual Growth Rate (%)		
	Enrolled	Entrants	Graduates	Enrolled	Entrants	Graduates	Enrolled	Entrants	Graduates
Higher Diploma	1,580	1,267	412	1,127	618	381	-8,10	-16,43	-1.94
Master	5,774	1,618	674	7,542	2,311	1,073	6,91	9,32	12.33
PhD	1,493	178	137	2,001	523	275	7,60	30,92	19,03
Total	8,847	3,063	1,223	10,670	3,452	1,729	4,80	3,03	9,04

Source: Ministry of Higher Education Statistics and universities.

20.2.2.5 Scholarship for Studying Abroad

In 2003, the number of students on scholarships given by government agencies to study abroad and self-financing students reached 11,917 students, distributed as follows: 56.5% at the bachelor level, 15.2% at master degree level and 11% at the PhD level (Table 20.2.5).

Table 20.2.5
University Students Studying Abroad
2003

	Bachelor	Master	PhD	Other*	Total
Students studying on scholarships given by government agencies	2,293	955	1,168	1,806	6,222
Self-financing students studying abroad	4,436	854	147	258	5,695
Total	6,729	1809	1,315	2,064	11,917

* Fellowships + Diploma

Source: Ministry of Higher Education Statistics.

20.2.2.6 Absorptive Capacity

Under the Seventh Development Plan, three new universities were established in Qassim, Al Madinah and Taif. Furthermore, the Royal Decree 7/B/22042 of 2003 approved the Higher Education Council Resolution 29/1/1424 of 2003 requiring the Ministry of Higher Education to study establishing new universities in Jouf, Hail, Jizan, Baha, Tabuk, Najran and the Northern Borders, with existing colleges therein forming initial nuclei.

In order to improve consistency between outputs of higher education and requirements of the labor market needs, the new universities of Taiba, Qassim and Taif have been restructured. Moreover, among the new colleges 5 are medical, 3 pharmaceutical, 2 dental, one applied medical sciences, one nursing, 5 science, 4 computer, and 2 engineering.

One of the significant developments that took place under the Seventh Development Plan was private-sector participation in providing higher education services. Council of Ministers Resolution 212 of 2000 approved the private colleges bylaw. Furthermore, the Royal Decree 7/B/6024 of 2003 approved the universities bylaw. During the Seventh Development Plan period, two private universities were established; namely, the Prince Sultan Private University, and Al-Faisal Private University. The number of licensed private colleges reached about 70 in various cities, with an absorptive capacity of about 65,000 students, and academic studies have started in 10 of these colleges, with the enrollment reaching 2,115 students by the end of the first academic term for 2004.

Furthermore, to support and encourage the private sector to assume a leading role in higher education, Council of Ministers Resolution 87 of 2002 approved leasing of government lands at nominal prices and provision of soft loans for construction of private universities and colleges.

20.2.2.7 Teaching Staff

The total number of teaching staff members at the government higher education institutions increased, at an average annual growth rate of 3.93%, from 14,959 in 1999 to 17,456 in 2003. Nevertheless, student/teacher ratio increased from 19.7 to 22.5 in science colleges, but declined from 34 to 28 in other colleges.

20.2.2.8 Research and Development (R&D) Activity

R&D activity is one of the key functions of higher education, particularly at postgraduate levels, in addition to being a key factor in improving the internal and external efficiency of the higher education system, and a major contributor to socioeconomic development.

R&D activity at the higher education institutions grew substantially under the Seventh Development Plan, with the number of research projects carried out by members of university staff during 1999–2003 reaching about 1,650.

20.2.2.9 Academic Accreditation

In the context of improving the internal and external efficiency of higher education, the Seventh Development Plan period witnessed a growing trend towards self and external evaluation. Several institutions evaluated their programs and curricula against national and international criteria, and some sought accreditation of programs by international institutions and associations; particularly in engineering and medicine. This trend is expected to grow, particularly following Royal approval of establishing the National Authority for Academic Evaluation and Accreditation in 2003, which is entrusted with developing rules, criteria and conditions for academic accreditation, in addition to evaluating educational programs.

20.2.2.10 Budget Allocations

Total allocations for higher education (Ministry of Higher Education, universities and girls colleges) during the Seventh Development Plan period amounted to SR51,266 million, which exceeded the total allocation proposed by the Plan by 11.3%.

20.2.3 KEY ISSUES AND CHALLENGES

20.2.3.1 Absorptive Capacity

Demand for higher education is expected to increase in the foreseeable future as a result of demographic, economic, social, and institutional factors. The demographic factor relates to the relatively higher growth rates of younger segments of population who are expected to enroll and

graduate from the general education system over the coming years. The economic factor relates to the direct relationship between level of educational attainment and availability of job opportunities. In addition, the increasing importance of knowledge in economic activities (knowledge economy) points towards the need to increase the required minimum level of education to secondary school education or higher. The social factor is the desire to acquire more knowledge as a means of improving social standing. Finally, the institutional factor is the enforcement of mandatory primary school education, which is likely to increase demand for places at all levels of education.

It is thus essential to expand the absorptive capacity of the higher education system without impairing performance or worsening student/staff ratios. Furthermore, due emphasis will have to be placed on development of and support for private education, along with accelerated implementation of policies and programs aimed at ensuring balance in provision of universities and colleges among the various regions; in addition to enhancing scholarship programs to study at universities and colleges abroad in order to expand the absorptive capacity of higher education, consolidating technology transfer and indigenization, and strengthening scientific and cultural relations with the economically developed countries.

20.2.3.2 Internal Efficiency

Raising internal efficiency of higher education is a major challenge. Spending more years at university than required for graduation and the low ratio of graduates to entrants, overload the system, damaging its ability to meet growing demand. Undoubtedly, competence of teaching and administrative staff and quality of academic programs are major factors of the system internal efficiency. Moreover, over burdening the system would lead to deterioration of efficiency. It is necessary, therefore to ensure that expansion of absorptive capacity is not at the expense of efficiency and performance. It is also essential to maintain competence of teaching staff through development of their capabilities and knowledge, as well as through continuous monitoring and evaluation; in addition to instituting a system of national and international academic accreditation system.

Moreover, assessing the internal efficiency of the system requires monitoring performance of graduates post graduation by identifying

strengths and weaknesses. Such an exercise would help improve curricula and teaching methods. In addition, given the strong linkage between the quality of secondary school graduates and the internal efficiency of the higher education system, concerted efforts should be made to improve the efficiency of the entire pre-university general education system.

20.2.3.3 External Efficiency

Matching the output of the education system with the requirements of economic and social development, and in particular the needs of the labor market, is one of the most significant development issues. Development of the external efficiency of the higher education system is at the core of this issue. Enhancing the external efficiency of the general education system and the internal efficiency of the higher education system are prerequisites for improving external efficiency of the latter. In addition, it is important to have a flexible and responsive labor market to enable students to make appropriate choices. The general level of salaries and wages in various fields should reflect manpower supply variations, in order to provide appropriate incentives to student for choosing particular fields of specialization. Thus, it is necessary to rationalize labor market policies in such a way as to contribute towards improving the external efficiency of the higher education system. Furthermore, incentives and material support provided by higher education institutions to students should be directed towards areas of specialization that are vital for development.

20.2.3.4 Partnership between Higher Education and the Community

In a modern society, the university assumes a multi-dimensional, multi-activity role that is not limited to teaching and research, but extends to serving the socioeconomic environment. Thus the modern university is an academic center, a knowledge generator, and a technology incubator, as well as a center of cultural, social and sport activities. Hence, the university has to develop a framework of participation with society and the business sector through the promotion of research and development (R&D) programs that serve the local economy and community. Furthermore, the university should adopt a broad range of programs and new options like distance education, part-time study, evening school education, parallel education, organization of workshops, symposia, programs and training courses on matters of importance to society.

20.2.4 DEMAND FOR HIGHER EDUCATION

Based on the forecast of the number of secondary school graduates and the rate of their enrollment at higher education, the number of entrants to universities, girls colleges, and private universities and colleges is expected to increase to more than 164,000 by the end of the Eighth Plan (Table 20.2.6), Table 20.2.7 (and see Figure 20.2.1) shows the distribution of these entrants by region. The number of graduates from universities, girls colleges, and private universities and colleges is expected to reach over 130,000 by the last year of the Eighth Development Plan (Table 20.2.8), (see also Figure 20.2.2). Table 20.2.9 shows the distribution of these graduates by region.

Table 20.2.6
Entrants to Higher Education
2003, 2004 and 2009
Eighth Development Plan

Agency	Actual 2003	Estimated 2004	Expected 2009
Government Universities and Colleges	126,214	131,949	158,996
Private Universities and Colleges	538	2,500	5,025
Students on Scholarships Abroad	1,508	1,955	2,205
Total	128,260	136,404	166,226

Source: Ministry of Economy and Planning.

Table 20.2.7
Entrants to Higher Education by Administrative Region
2003, 2004 and 2009
Eighth Development Plan

Region	Actual 2003	Estimated 2004	Expected 2009
Riyadh	34,739	36,773	41,306
Makkah	31,496	34,652	39,075
Al Madinah	8,937	9,115	11,483
Qassim	9,072	9,417	11,847
Eastern Region	11,259	12,059	14,204
Assir	11,716	12,156	14,648
Tabuk	2,075	2,154	4,595
Hail	1,947	2,021	3,935
Northern Borders	1,365	1,417	3,207
Jizan	4,326	4,492	5,913
Najran	2,077	2,156	3,598
Baha	3,182	3,303	4,505
Jouf	4,561	4,734	5,705
Total	126,752	134,449	164,021

Source: Ministry of Economy and Planning.

Table 20.2.8
Graduates of Higher Education
2003, 2004 and 2009
Eighth Development Plan

Agency	Actual 2003	Estimated 2004	Expected 2009
Universities and Girls Colleges	53,258	58,531	127,950
Private Universities and Colleges	29	461	1,975
Scholarship Graduates	1,129	1,257	2,180
Total	54,416	60,249	132,105

Source: Ministry of Economy and Planning.

Table 20.2.9
Graduates of Higher Education by Administrative Region
2003, 2004 and 2009
Eighth Development Plan

Region	Actual 2003	Estimated 2004	Expected 2009
Riyadh	15,225	17,511	35,850
Makkah	13,266	15,128	32,794
Al Madinah	3,558	3,396	8,839
Qassim	4,144	3,872	9,131
Eastern Region	7,524	8,479	11,461
Assir	4,469	4,540	11,787
Tabuk	1,224	1,517	2,089
Hail	1,061	1,213	1,959
Northern Borders	0	0	1,374
Jizan	1,712	2,123	4,356
Najran	0	0	2,491
Baha	1,104	1,213	3,203
Jouf	0	0	4,591
Total	53,287	58,992	129,925

Source: Ministry of Economy and Planning.

Figure 20.2.1
Entrants to Higher Education in 2003
Compared to the Expected Entrants by the end of the
Eighth Development Plan, 2009

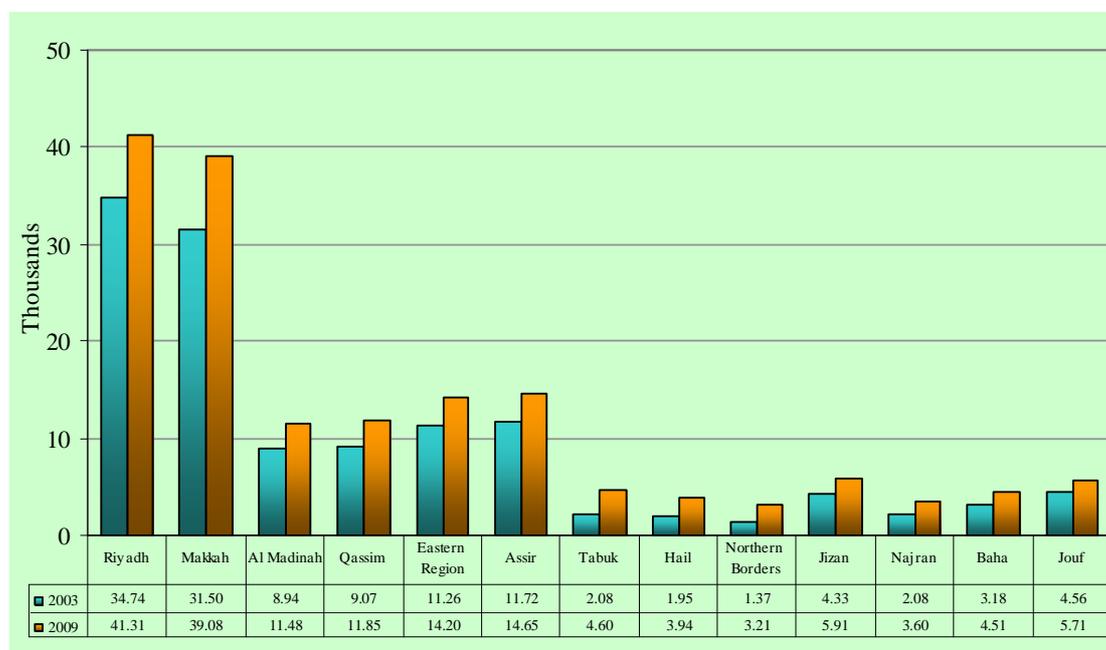
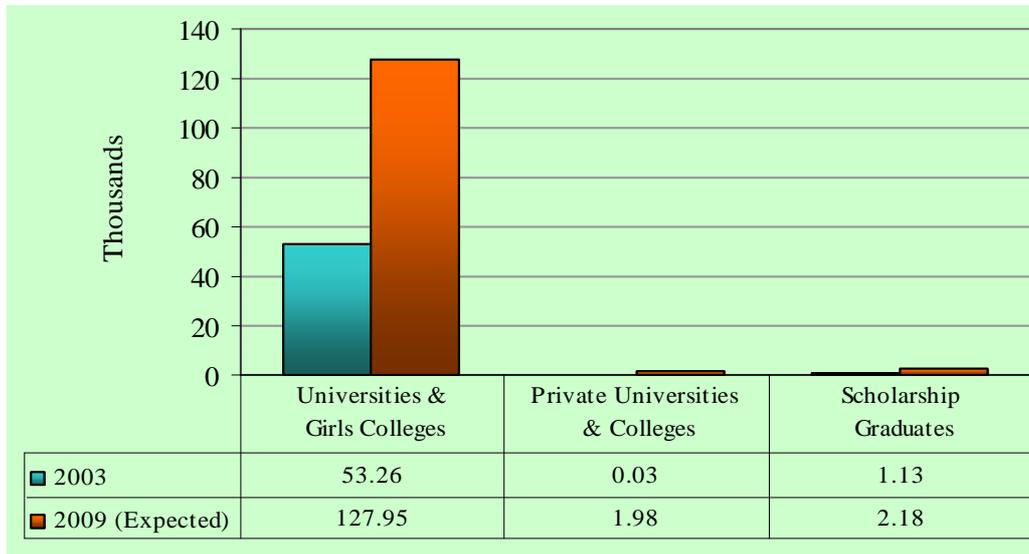


Figure 20.2.2
Graduates of Higher Education by Region
Eighth Development Plan
2003 and 2009



20.2.5 FUTURE VISION

The higher education system in the Kingdom will face two types of challenges during the Eighth Development Plan. One will arise from increased social demand for higher education; the other from increased labor market demand for high-quality professional cadres. The first challenge arises from the possibility that higher education may not be able to meet the demand resulting from the growing number of secondary stage graduates. This would require more effective involvement of the private sector in university education, as in many countries, where private higher education institutions amount to more than 50% of the total number of educational institutions. The second challenge relates to constraints on the ability of higher education to deliver due to imbalances in student distribution over academic specializations, domination of theoretical over applied specializations and declining internal and external efficiency. This requires adoption of policies and measures based on the labor market needs, optimal utilization of labor market information and data, emphasis on developing skills required in the labor market, encouragement of students to enroll in specializations needed by the economy, introduction of practical experience into theoretical subjects, development of multi-specialization programs, and new innovative forms of university education.

20.2.6 DEVELOPMENT STRATEGY

The development strategy for the higher education aims at achieving quantitative growth and qualitative improvements through the following objectives and policies.

20.2.6.1 Objectives

- Securing higher education opportunities for citizens who have the ability for and interest in university study.
- Expanding the education base in line with requirements of socioeconomic development.
- Attaining a higher degree of quality and effectiveness, along with raising scientific and administrative efficiency of the higher education system.
- Enhancing the role of higher education institutions in community service.
- Building and enhancing scientific research and technological development capacities.

20.2.6.1.1 Policies

- Increasing the absorptive capacity of higher education institutions in conformity with the requirements of the economic and social development, and the needs of the various regions.
- Developing systems, programs and curricula of higher education institutions in line with the labor market needs and requirements.
- Improving internal and external efficiency of the higher education system.
- Increasing participation of private sector in achieving the national objectives of higher education.
- Expanding community service programs provided by higher education institutions.
- Placing more emphasis on scientific and applied research in higher education.

- Expanding scholarship programs to reputable universities abroad.
- Developing cooperation and interaction between higher education institutions and the private sector.
- Applying academic accreditation to all higher education programs.

20.2.6.1.2 Targets

- Preparation of studies on establishment of universities in a number of the regions in accordance with Royal Decree 7/B/22042 of 2003 approving Higher Education Councils Resolution 1/29/1424 of 2003, and implementing the resulting recommendations.
- Establishing several colleges during the Eighth Plan period to be distributed among all regions.
- Regulating and monitoring progress of licensed private universities and colleges.
- Preparing and securing approval of the higher education strategy.
- Increasing the number of entrants to universities and girls colleges to about 164,000 students by the end of the Plan.
- Increasing the number of university and girls colleges graduates to about 130,000 by the end of the Plan.
- Sending 5,000 students on scholarships overseas for Master and PhD degrees during the plan period.
- Preparing and applying a reference model for universities to ensure consistency of programs with the economic and social development requirements and labor market needs.
- Increasing the rate of intake of postgraduate students to 6% of total students at the bachelor degree level by the end of the Plan.
- Establishing a unit in each university to submit annual reports on university activity to the university president and the Supreme Education Council.
- Achieving a teacher/student ratio of 1:22 in theoretical colleges, 1:17 in science colleges and 1:5 in medical, dental and pharmaceutical colleges.
- Establishing the National Authority for Academic Evaluation and Accreditation.
- Securing accreditation of all higher education programs by

- recognized international accreditation organizations.
- Encouraging visits by external visiting professors to higher education colleges.
 - Ensuring annual participation of no less than 15% of teaching staff in internal and external scientific conferences and symposia.
 - Enhancing coordination levels between general and higher education in all fields.
 - Considering the feasibility of foreign investment in the higher education sector.
 - Preparing awareness programs to encourage private sector contributions in support of higher education.
 - Increasing the share of expenditure on R&D to ensure achieving the set targets.
 - Reviewing the international bilateral and multilateral agreements and effectuating provisions related to higher education.
 - Organizing international conferences in the main fields of higher education.
 - Intensifying awareness meetings between the universities and the private sector.
 - Preparing a plan and a time schedule for introducing and expanding distance learning, part-time study, evening education, and parallel education in all universities.
 - Ensuring participation of companies and factories in providing on-the-job training for students.

20.2.7 FINANCIAL REQUIREMENTS

The financial requirements of the higher education sector (Ministry of Higher Education, Universities and Girls Colleges) during the Eighth Development Plan amount to SR 56126.9 million, allocated for financing the educational process, including administration, operation and maintenance, development of national manpower, student services and activities, community service, R&D programs, scholarships and cultural exchange programs.

20.3 TECHNICAL EDUCATION AND VOCATIONAL TRAINING

20.3.1 INTRODUCTION

The technical education and vocational training sector is important in responding to the labor market needs for qualified national workforce able to respond to the fast paced developments in the country with higher education, this sector constitute the base for all aspects of economic development. It also plays a significant role in providing some of the graduates of general education and with the skills and expertise necessary to fill labor-market vacancies in various professions and specialties, in addition to upgrading the skills and training of employees.

The sector has achieved remarkable progress in the past two decades, in terms of quantity of inputs and quality of outputs. However, as a part of the overall education and training system, it is facing, to a great extent, the same challenges that confront the general education system.

This section examines the current conditions of this sector and its development during the Seventh Development Plan. It also reviews the key issues and challenges that confront it, and reviews the objectives, policies and targets set for in the Eighth Development Plan.

20.3.2 CURRENT CONDITIONS

The technical education and vocational training sector comprises a number of government agencies and institutions, private and public companies, as well as cooperative training programs developed jointly between the public and private sectors. It includes 86 technical colleges, vocational secondary institutes and training centers.

These institutions either individually or jointly with other agencies provide technical education and vocational training services, the most important of which are outlined below.

20.3.2.1 General Organization for Technical Education and Vocational Training (GOTEVT)

GOTEVT is the principal government agency for technical education and vocational training, which provided in its technical colleges, vocational secondary institutes, and training centers. It also supervises education and

training programs provided by a number of government and private agencies, and works jointly with public and private sector agencies to provide cooperative education and training programs.

The following are the most important developments in the technical education and vocational training sector.

Technical Colleges

In 2004, there were 24 public technical colleges awarding two-year diplomas. In that year, the total number of students was 39,500 and graduates numbered 10,100. Entrants numbered 19,200, i.e., 16% of secondary-school graduates (Table 20.3.1).

Table 20.3.1
Technical Colleges
1999, 2003, and 2004
Seventh Development Plan

Description	1999	2003	2004	Average Annual Growth % (1999–2004)
Number of technical colleges	11	20	24	16.89
Student enrolled (000)	14.0	33.9	39.5	23.05
entrants (000)	8.6	16.5	19.2	17.42
Graduates (000)	1.7	7.3	10.1	42.82
Teaching staff	1,467	2,215	2,429	10.61
Teacher/student ratio	1:10	1:15	1:16	9.86
Ratio of entrants to total secondary school graduates (%)	9	15.2	16	12.2

Source: Ministry of Economy and Planning.

Vocational Secondary Institutes

In 2004, there were 34 vocational Secondary Institutes providing 3-year vocational education programs to intermediate schools graduates in agriculture, industry, trade and technical supervision. In that year, the total number of students was 23,700 and graduates numbered 5,900. Entrants numbered 7,500, i.e., 6.5% of intermediate-school graduates and secondary school graduates (Table 20.3.2).

Table 20.3.2
Vocational Secondary Institutes
1999, 2003, and 2004
Seventh Development Plan

Description	1999	2003	2004	Average Annual Growth (%) (1999–2004)
Number of Vocational Secondary Institutes	35	34	34	-0.58
Students Enrolled (000)	19.8	23.0	23.7	3.66
Entrants (000)	8.5	7.7	7.5	-2.47
Graduates (000)	4.2	5.4	5.9	7.03
Teaching staff	2,250	2,382	2,261	0.10
Teacher/student ratio	1:9	1:10	1:10	2.13
Ratio of entrants to total Intermediate school-graduates (%)	6.0	5.2	6.5	1.61

Source: General Organization for Technical Education & Vocational Training, and Ministry of Economy and Planning.

Vocational Training

In 2004, there were 34 vocational training centers, the number of enrolled trainees was 13,500, and 7,300 graduated. These centers accepted 27% of applicants in that year (Table 20.3.3).

Table 20.3.3
Vocational Training Centers
1999, 2003, and 2004
Seventh Development Plan

Description	1999	2003	2004	Average Annual Growth (%) (1999–2004)
Number of vocational training centers	30.0	32.0	34.0	2.53
Students enrolled (000)	10.1	13.9	13.5	5.97
Entrants (000)	6.0	9.0	8.3	6.71
Graduates (000)	3.9	6.8	7.3	13.36
Instructor/Trainee ratio	1:7	1:9	1:9	5.15

Source: General Organization for Technical Education & Vocational Training, and Ministry of Economy and Planning.

Training Programs for Prisoners

As part of continuous cooperation between GOTEVT and the Prisons Department of the Ministry of Interior, GOTEVT established in 2003 the department for vocational training in prisons, entrusted with improving the training environment and upgrading the enrollment capacity of training institutes in prisons, studying the needs of trainers, updating and upgrading training programs and awarding graduates a certificate similar to that awarded by GOTEVT institutes.

As a first phase, five training institutes were established and equipped during the Seventh Development Plan. Over 26 new institutes are expected to be completed during the coming years.

National Organization for Joint Training Program

The objective of this program which was launched in 2001 is to enhance the training partnership between government and private-sector companies and institutions. The program identifies the trades that are in greatest demand by the labor market, prepares training portfolios for these trades and implements training programs. GOTEVT is responsible for the basic theoretical part of the training program, while Chambers of Commerce and Industry undertake coordination of on-the-job training in private-sector companies. The Human Resource Development Fund (HRDF) finances the training activities and supervises the quality of training.

In 2004, the number of trainees was 4225. The objective of the program is to train around 56,000 trainees during the course of the Eighth Development Plan throughout the country.

Cooperative Training Program

This program was established in 1996 as part of the new training plans of technical colleges and technical secondary institutes. It dedicates one term for internship during which the trainee undertakes on-the-job training in a private or public company. Over 30,000 GOTEVT students and trainees benefit from this program annually.

Vocational Military Training Program

This program was launched by the Royal Consent 45721 of 2003 to be implemented by the Headquarters of the National Guards and Ministry of Defense and Aviation and the Ministry of Interior in cooperation with GOTEVT. Its objective is to train young people who are seeking employment and provide them with professional skills in various fields

required by the military sector and the labor market. The training period is one year with three-terms, the first term focused on basic military training while the other two provide technical and military training.

The program was launched in 2004. Existing capacity is 10,000 trainees a year, with the National Guard providing 30%, Ministry of Defense and Aviation 50% and the Ministry of Interior the remaining 20%.

Community Service Program

The training units of GOTEVT implement the community service program, which offers training and qualifying courses to various community groups in addition to providing summer training for students. 40,000 trainees benefited from this program during the Seventh Development Plan.

Community service activities include the occupational examination program. As part of applying a vocational certification standard to ensure the proficiency of occupational and technical workers, GOTEVT is working with the private sector to set up a national occupational certification system.

Role of the Private Sector

The private sector plays a fundamental role in providing technical education and vocational training services. The total number enrolled students and graduates of the relevant private sector institutions reached 70,800 and 54,500 respectively in 2004 (Table 20.3.4, and Figure 20.3.1).

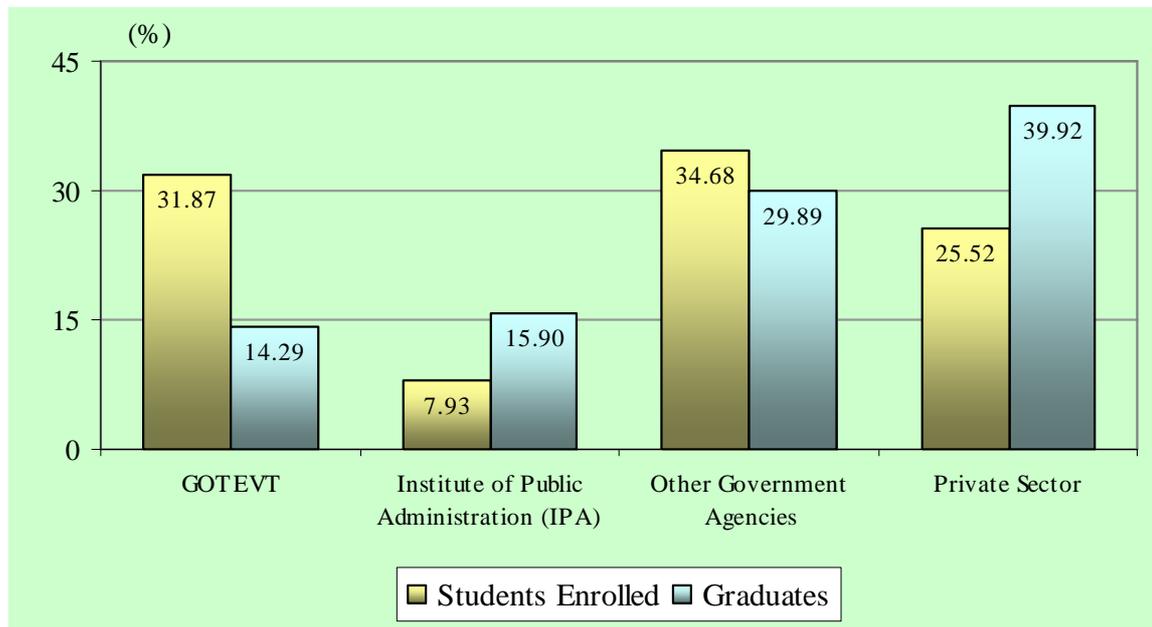
Table 20.3.4
Technical Education & Vocational Training
Students Enrolled & Graduates
2004

Training Agency /Sector	Students Enrolled (000)	Relative Share (%)	Graduates (000)	Relative Share (%)
GOTEVT	88.4	31.87	19.5	14.29
Institute of Public Administration (IPA)*	22.0	7.93	21.7	15.90
Other Government Agencies	96.2	34.68	40.8	29.89
Private Sector	70.8	25.52	54.5	39.92
Total	277.4	100	136.5	100

*Includes participants in symposia and technical meetings.

Source: General Organization for Technical Education & Vocational Training.

Figure 20.3.1
Technical Education and Vocational Training
Students Enrolled and Graduates
2004



20.3.2.2 Institute of Public Administration (IPA)

The objective of the IPA is to upgrade competency and proficiency levels among government employees, in order to ensure improved performance in support of the development process. IPA experienced steady growth throughout the course of the Seventh Development Plan, and now provides training in fifteen fields by more than 300 training programs, in addition to customized training programs that fit specific requirements of government agencies. Table 20.3.5 presents the development of different IPA activities during the Seventh Development Plan.

IPA periodically reviews its training programs and curricula to meet the requirements of government agencies and reflect developments in management theory and practice. It has also improved application processes and provided online application facility to simplify application admission and query procedures.

IPA offers two types of training activities: preparatory training (to qualify trainees for employment), and training of existing employees (to upgrade employee skills and level of proficiency). It also organizes symposia and workshops and provides management consulting services to government

agencies, in addition to conducting management research and studies. A total of 21,000 trainees were enrolled in IPA programs in 2004 (Table 20.3.5).

Table 20.3.5
IPA Activity
1999, 2003 and 2004
Seventh Development Plan

Description	1999	2003	2004	Average Annual Growth (%) 1999–2004
Preparatory Program Participants	2,998	1,797	1,852	-9.18
Active Employee Programs	16,174	15,269	17,467	1.55
Customized Program Participants	1,283	1,159	1,352	1.05
Symposia	3	6	6	14.87
Number of Consulting Services	34	76	79	5.15
Number of Implemented Scientific Works	5	9	29	2.13

Source: Institute of Public Administration.

20.3.2.3 Other Government Agencies

Other government agencies provide training to their employees in various fields. The principal examples are: Saudi National Guards Headquarters, Ministry of Defense and Aviation, Ministry of Interior, Royal Commission of Jubail and Yanbu, Saudi Posts Corporation, Ministry of Agriculture, Ministry of Water and Electricity, Ministry of Labor, Presidency of Civil Aviation, King Faisal Specialist Hospital and Research Center, King Khalid Eye Hospital, Ports Authority, Public Railways Corporation, Saudi Arabian Airlines, Saline Water Conversion Corporation, Saudi Arabian Basic Industries Company (SABIC), Saudi Aramco, Saudi Electricity Company (SCECO) and Saudi Arabian Monetary Agency (SAMA).

In 2004, 96,200 students and trainees were enrolled in the above training programs and, 40,800 graduated in that year (Table 20.3.5).

20.3.2.4 The Private Sector

Private sector establishments and companies provide various training and education programs. In 2004 some 70,800 students and trainees were enrolled in private- sector training programs and 54,500 graduated.

20.3.2.5 Budget Allocation

Budget allocations for training sector programs (GOTEVT, IPA) amounted to SR10,523 million during the Seventh Development Plan, which represents 117.7% of the proposed allocation in the Seventh Plan.

20.3.3 ISSUES AND CHALLENGES

Although the technical education and vocational training sector has made remarkable achievements during the past years, there are several challenges that will have to be addressed to achieve further progress.

20.3.3.1 Absorptive Capacity

The technical education and vocational training institutions lack sufficient capacity to respond adequately to the ever growing demand for skilled labor; in 2003 the absorptive ratio was estimated to be nearly 51% of total applications for enrollment in various training programs. GOTEVT Statistics indicate that in that year only 32% of applicants for enrollment in vocational secondary institutes and 27% of applicants for enrollment in vocational training centers were admitted.

Technical education and vocational training is the prime means to enable entrants to the workforce to acquire the skills needed by the labor market. Thus, it is essential to enroll all deserving applicants, through

- Providing the necessary resources.
- Enhancing the internal efficiency of the technical education and vocational training system to enable to use available resources.
- Enhancing the internal efficiency of the general education system in order to minimize failure and dropout and, therefore, rationalize demand for technical education and vocational training.
- Improving the external efficiency of the general education system, particularly at the primary and secondary levels, in order to enhance the chances of joining the labor market directly after graduation through on-the-job training and, therefore, eliminate the need for preparatory training or rehabilitation programs.
- Utilizing fully capacities of existing facilities; particularly those of the vocational secondary institutes as the ratio of teacher/student is lower than standard ratios.

- Motivating the private sector to play an effective role in providing technical education and vocational training and encouraging cooperative programs between the private and public sectors.

20.3.3.2 Internal Efficiency

Analytical studies indicate that failure and dropout ratios are still high in the technical education and vocational training system. The average number of educational years invested in each student in the vocational secondary institutes is 4.3 years for a three-year program, which leads to high costs, as well as to constraints that impede optimal utilization of resources. This requires on the one side improving competency of the technical education and vocational training on the other enhancing external efficiency of the general education system. Since effective preparation of students at all levels of general education, particularly in mathematics, science and languages would reduce failure and dropout rates. Moreover, competency of teaching and training staff, and efficiency of training methods, equipment and tools are major determinant of internal efficiency.

Thus, it is essential to take action to upgrade the internal efficiency of the system through implementing the following policies:

- Upgrading skills of the training and teaching staff, through continuous development and adoption of a licensing system that involves renewal of licenses at regular intervals according to set objective criteria.
- Providing modern tools and equipments required for training and educating and training teachers and instructors in their use.
- Ensuring that the training programs satisfy actual labor market needs.
- Continuing to improve the training environment, and focusing on self development of trainees.

20.3.4 DEMAND FOR TECHNICAL EDUCATION AND VOCATIONAL TRAINING

Demand for technical education and vocational training has been estimated on the bases of forecasts of: population growth, expected numbers of pupils enrolled in primary education, graduation rates from intermediate and secondary school, and the absorptive capacity of university education.

Under the Eighth Development Plan, GOTEVT is expected to establish

some 50 technical colleges and 108 training institutes spread over all regions, including provinces and administrative centers.

Table 20.3.6 presents demand forecasts for technical colleges, showing that the number of their students is expected to grow at an average annual rate of 14.45% during the Eighth Development Plan (2005–2009). They are also expected to take in 23% of secondary school graduates by the end of the Plan.

Table 20.3.7 presents demand forecasts for training institutions, showing that the number of entrants is expected to grow by an average annual rate of 14.72% during the Eighth Development Plan period, and that they would take in 14.4% of intermediate schools graduates by the end of the Plan.

Table 20.3.8 presents the expected number of students enrolled and graduates from the technical colleges and training institutes in various regions during the Eighth Development Plan.

Table 20.3.6
Demand Forecasts for Technical Colleges
2004 and 2009
Eighth Development Plan

Description	Actual 2004	Forecast 2009	Average Annual Growth Rate 1999–2004	Additions during the 8 th Development Plan
Number of Technical colleges	24.0	74.0	25.26	50.0
Students Enrolled (000)	38.7	76.0	14.45	37.3
Entrants (000)	19.2	31.2	10.20	12.0
Graduates (000)	9.0	25.8	23.45	94.4*
Teaching staff	2,429	3,800	9.36	1,371
Teacher/student ratio	1:16	1:20	4.56	4.0
Ratio of entrants to total secondary-school graduates (%)	16	23	7.53	7.0

* Represents the total number of graduates during the Plan Period.

Source: *General Organization for Technical Education & Vocational Training, Ministry of Economy and Planning.*

Table 20.3.7
Demand Forecasts for Training Institutions
Eighth Development Plan

Description	Actual 2004	Forecast 2009	Average Annual Growth Rate 1999–2004	Additions during the 8 th Development Plan (2005–2009)
Number of training institutions	71	179	20.31	108
Students Enrolled (000)	40.5	62.7	9.13	22.2
Entrants (000)	15.8	31.4	14.72	15.6
Graduates (000)	10.9	18.9	11.64	68.9
Teaching staff	3,787	4,730	4.55	943
Teacher/student ratio	1:10	1:29	23.73	19
Ratio of entrants to total intermediate school graduates (%)	6.5	14.4	17.24	7.9

*Source: General Organization for Technical Education & Vocational Training,
Ministry of Economy and Planning.*

Table 20.3.8
Demand Forecast for Technology and Training Institutions by Administrative
Region
Eighth Development Plan

Region	2004				2005–2009			
	Technical Colleges		Training Institutes		Technical Colleges		Training Institutes	
	Enrolled	Graduates	Enrolled	Graduates	Enrolled*	Graduates**	Enrolled*	Graduates**
Riyadh	9,007	2,048	11,395	3,069	12,300	16,736	11,400	14,514
Makkah	7,595	1,727	6,981	1,881	14,300	19,457	11,100	14,132
Al Madinah	2,553	580	2,606	702	4,100	5,579	3,200	4,074
Qasim	3,436	781	2,882	776	6,180	8,408	5,340	6,799
Eastern Region	5,099	1,159	7,483	2,016	11,330	15,416	8,540	10,873
Assir	3,491	794	3,628	977	10,300	14,014	6,760	8,606
Tabuk	813	185	1,497	403	2,060	2,803	2,130	2,712
Hail	1,302	296	773	208	1,030	1,401	1,780	2,266
Northern Borders	537	122	0	0	2,060	2,803	0	0
Jizan	1,137	259	1,123	303	5,137	6,990	6,760	8,606
Najran	1,241	282	1,177	317	1,030	1,401	1,780	2,266
Baha	1,558	354	575	155	4,120	5,606	2,490	3,170
Jouf	884	201	403	109	2,060	2,803	1,430	1,821
Total	38,653	8,788	40,523	10,916	76,007	103,417	62,710	79,839

* Enrolled in last year of Plan, 2009.

** Total graduates during the 8th DP.

*Source: General Organization for Technical Education & Vocational Training,
Ministry of Economy and Planning.*

Figure 20.3.2
Forecasts of Enrolled Students and Graduates
of Technical Colleges by Region
2009

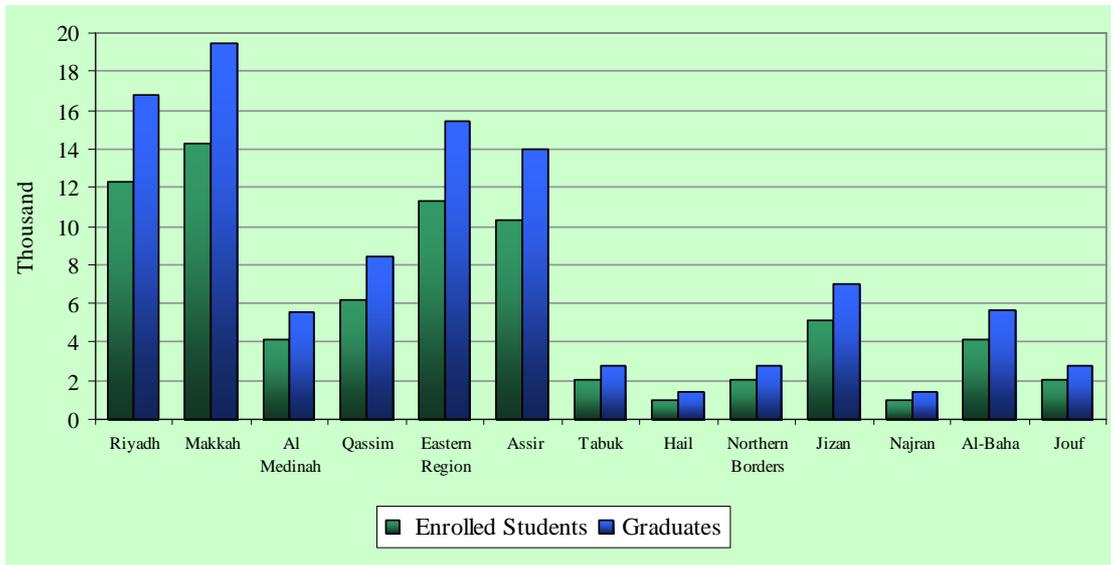
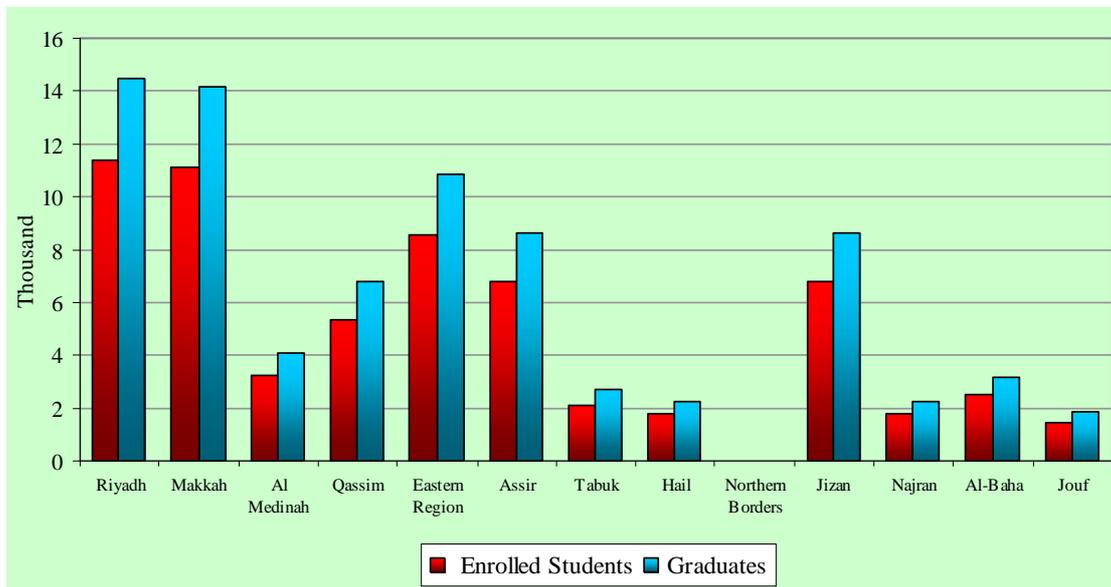


Figure 20.3.3
Forecast of enrolled Students and Graduates
of Training Institutes by Region
2009



20.3.5 FUTURE VISION

The future vision for the technical education and vocational training sector envisages putting in place an effective training system to prepare a highly qualified national workforce in various specialties and skills to meet the needs of the labor market and the demand generated by rapid technological developments. This would be achieved through the following:

- Intensifying investment in enhancing the role of the private sector in technical education and vocational training.
- Devising a flexible education and training system, by opening new channels of technical education as required by the development process.
- Enhancing local, regional and international cooperation in technical education and vocational training to keep abreast of changes and developments.
- Conducting a regular monitoring and evaluation of all training programs and emphasizing practical application in all programs at all levels.

20.3.6 DEVELOPMENT STRATEGY

The objective of the development strategy for technical education and vocational training under the Eighth Development Plan is to achieve qualitative improvement and quantitative growth through the implementation of the following specific objectives, policies and targets.

20.3.6.1 Objectives

- Developing and upgrading the competency and skills of Saudi manpower to satisfy the requirements of economic and social development.
- Ensuring increased participation of the Saudi manpower in the labor market and improving its productivity.
- Upgrading all elements of technical education and vocational training and emphasizing the quality of outputs.

- Increasing contribution of the private sector to financing and development of technical education and vocational training.

20.3.6.2 Policies

- Expanding the absorptive capacity of technical education and vocational training facilities and ensuring that they cover all regions of the country.
- Expanding education and joint training programs, as well as cooperative training and vocational military training.
- Improving the quality of technical education and vocational training outputs.
- Applying an internationally accepted academic accreditation system to technical colleges and vocational institutes.
- Continuing to develop technical education, and vocational training curricula to meet the changing requirements of the labor market.
- Adopting and applying national standards of occupational skills in the labor market.
- Ensuring that teaching staff are qualified and competent and continuously developing their skills.
- Encouraging the private sector to establish technical colleges, technical institutes and training centers.
- Benefiting from international agreements to develop technical education and vocational training.

20.3.6.3 Targets

Under the Eighth Development Plan the technical training sector (Technical Colleges and Training Institutes) is expected to achieve an annual growth of 25.3% in the number of technical colleges, and 20.3% in the number of training institutes. The following are also expected to be achieved:

- By the end of the Plan, the number of students enrolled in technical colleges and training Institutes would be 76,000 and 62,700 respectively.

- By the end of the Plan, the entrants to technical colleges and training institutes would be 31,200 and 31,400 respectively.
- By the last year of the Plan, the number of students graduating from technical colleges and training institutes would be 25,800 and 18,900 respectively.
- Under the Plan, a minimum of 56,000 trainees would be trained by national joint-training program.
- By the end of the Plan the number of cooperative training beneficiaries would increase from 10,000 to 25,000 a year.
- Under the Plan 10,000 trainees a year would be trained by the vocational military training program.
- Specialist committees would be formed to review curricula regularly to ensure conformity with labor market requirements.
- A system to evaluate performance of teaching staff and grant professional practice licenses would be set up.
- National professional skills standards would be instituted and applied.
- A feasibility study to assess the viability of opening the technical education and vocational training sector to foreign direct investment would be conducted.

Table 20.3.9 presents the specific targets of the technical education and vocational training by region.

Table 20.3.9
Expected Number of Technical Education and
Vocational Training Institutions by Administrative Region
2004 and 2009
Eighth Development Plan

Region	2004			Addition during the plan		2009	
	Technical Colleges	Secondary Institutes	Vocational Training Centers	Technical Colleges	Training Institutes	Technical Colleges	Training Institutes*
Riyadh	4	6	10	8	16	12	32
Makkah	5	6	4	9	21	14	31
Al Madinah	1	2	1	3	6	4	9
Qasim	3	5	4	3	6	6	15
Eastern Region	2	4	3	9	17	11	24
Assir	2	3	5	8	11	10	19
Tabuk	1	2	2	1	2	2	6
Hail	1	1	1	0	3	1	5
Northern Borders	1	0	3	1	0	2	3
Jizan	1	2	1	4	16	5	19
Najran	1	1	1	0	3	1	5
Baha	1	1	1	3	5	4	7
Jouf	1	1	1	1	2	2	4
Total	24	34	37	50	108	74	179

* Secondary Institutes and Vocational Training Centers.

Source: Ministry of Economy and Planning.

20.3.7 FINANCIAL REQUIREMENTS

Under the Eighth Development Plan, the financial requirements of the training sector (GOTEVT and IPA) are estimated at SR 13,409.34 million.

CHAPTER TWENTY ONE

HEALTH SERVICES

21. HEALTH SERVICES

21.1 INTRODUCTION

Health services have achieved remarkable progress in record time in all respects, including preventive and curative care, as well as maternal and child care. This is reflected in improvements in health indicators. Over the past two decades, mortality of children below 5 years of age declined from 85 to 22 deaths per 1000 live births, while infant mortality dropped from 65 to 18 deaths per 1000 live births, and life expectancy rose from 61 to 71.9 years in 2003. In fact, health development indicators are now well ahead of those of the middle-income group of nations, as well as of most Arab states.

Notwithstanding the remarkable achievements made, health services face several challenges that include the need to further raise efficiency of the services provided, secure funding for improvement of essential services, and ensure universal sustainable access. Overcoming these challenges will help the Kingdom keep pace with countries that have an advanced level of human development.

This chapter reviews the current conditions of healthcare services and facilities, along with key developments under the Seventh Development Plan. It also addresses key issues and challenges that need to be tackled, assesses expected demand for health services, presents the future vision for the health sector and reviews the policies and objectives set for it under the Eighth Development Plan.

21.2 CURRENT CONDITIONS

21.2.1 Progress of Health Indicators

Progress of health services, both quantitatively and qualitatively, under the Seventh Plan led to marked improvement of health development indicators. The proportion of pregnant mothers with access to healthcare increased from 86.8% in 1999 to 98% in 2003. Deliveries attended by healthcare professionals increased from 90% to 96%, while child immunization against communicable diseases, increased at a rate ranging between 1% and 5% (Table 21.1 and Figures 21.1, and 21.2).

Table 21.1
Development of Healthcare Indicators
Seventh Development Plan

Indicators	1999	2003	Index 2003 1999 = 100
<u>Maternity and Child Healthcare Indicators</u>			
• Pregnant women provided with healthcare by health professionals (%)	86.8	98	113
• Deliveries attended by health professionals (%)	90	96	107
• Child immunization against diphtheria, whooping cough and tetanus (%)	93.4	94.7	101
• Immunization of women against tetanus (%)	68	85	125
• Child immunization against poliomyelitis (%)	94.1	94.7	101
• Child immunization against TB (%)	92.6	97.3	105
• Child immunization against measles, rubella and mumps (%)	92.6	96.7	104
• Child immunization against hepatitis B (%)	93.3	97.3	104
<u>Incidence of communicable diseases targeted for immunization</u>			
• Incidence of child poliomyelitis per 100,000 population	0	0	00
• Incidence of TB per 100,000 population	16.71	15.1	90
• Incidence of measles per 100,000 population	14.03	1.45	10
• Incidence of rubella per 100,000 population	1.49	0.05	3
• Incidence of mumps per 100,000 population	11.41	4.55	40
<u>Other Indicators:</u>			
• Births below normal weight (%)	5.1	5.0	98
• Infant mortality per 1000 live births.	21.0	18.0	86
• Life expectancy (general).	71.4	71.9	101

Source: Ministry of Health.

Figure 21.1
Immunization Against Selected Diseases,
For Children Below One Year

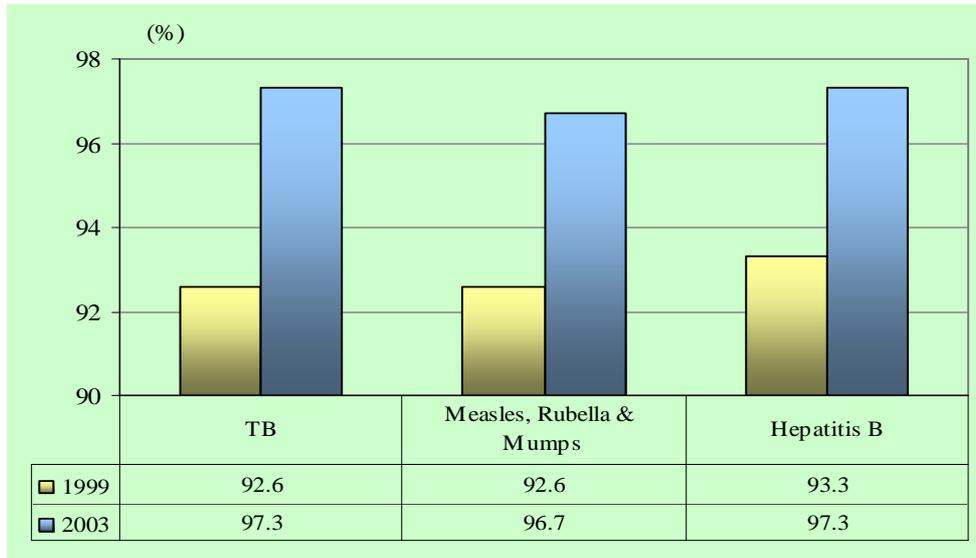
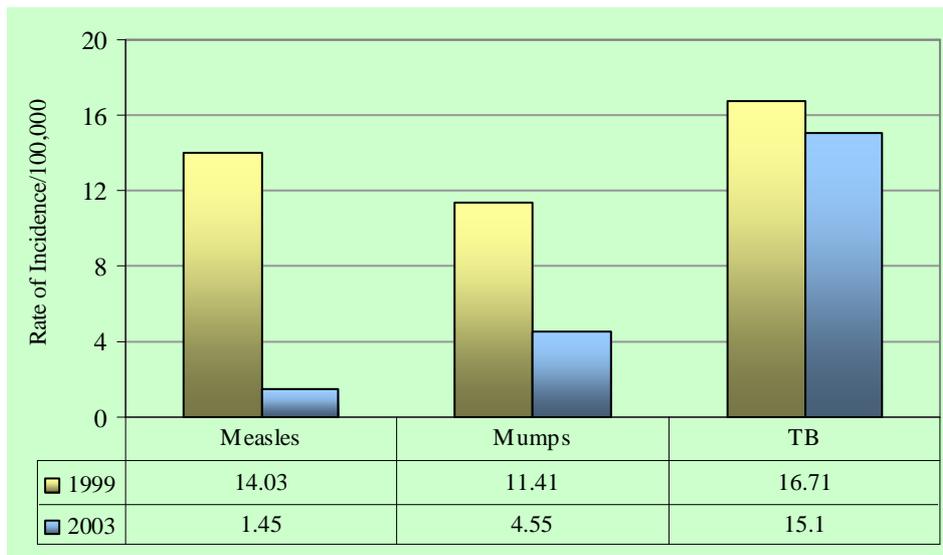


Figure 21.2
Some Communicable Diseases Incidence in the Kingdom
per 100,000 of Population



21.2.2 Progress of Health Services

In 2003, there were 338 hospitals with 48,761 beds, 33,340 physicians and 69,273 nursing staff. In addition, the Ministry of Health (MOH) provided primary healthcare to the population through 1804 primary healthcare centers (Table 21.2 and Figure 21.3). Health Services provided by MOH cover all urban and rural areas (Table 21.3).

Table 21.2
Health Services
Seventh Development Plan

Description	Number		Index for 2003 (1999 = 100)
	1999	2003	
Hospitals	314	338	108
Beds	45,729	48,761	107
Healthcare Centers *	1,756	1,804	103
Physicians	31,502	33,340	106
Nursing Staff	65,526	69,273	106

* Services provided by MOH.

Source: MOH.

Figure 21.3
Number of Hospital Beds and Health Manpower

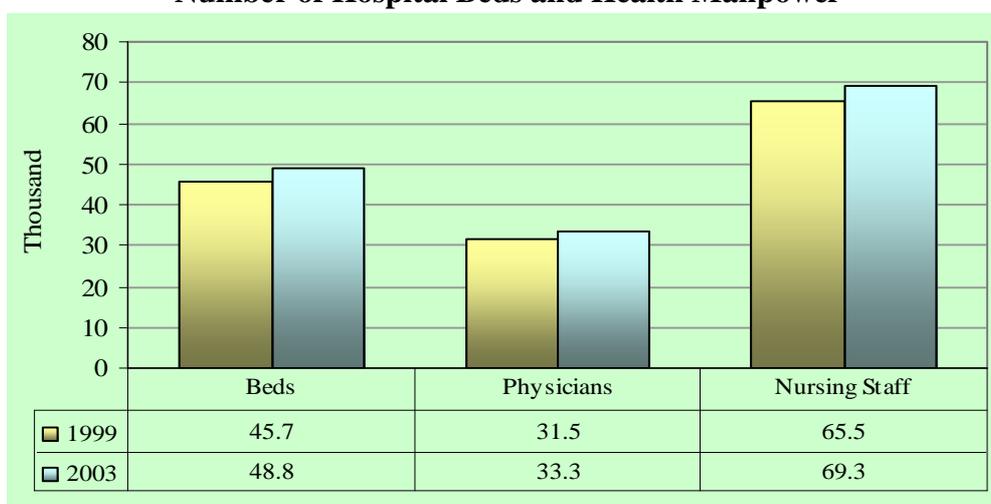


Table 21.3
Health Services Distribution by Administrative Region*
2003

Region	No. of Hospital Beds	No. of health Centers	No. of Physicians
Riyadh	5,457	324	3,039
Makkah	7,270	287	3,784
Al Madinah	2,102	123	1,080
Qassim	2,036	140	1,316
Eastern Region	3,334	193	2,205
Assir	2,430	243	1,392
Tabuk	805	45	478
Hail	594	85	500
Northern Borders	589	40	266
Jizan	1,338	135	762
Najran	638	61	404
Baha	1,039	81	485
Al-Jouf	890	47	409
Total	28,522	1,804	16,120

* Represents MOH-provided services.

Source: MOH.

21.2.3 Role of Private Sector

In 2003, the private sector provided 19% of total bed capacity (Table 21.4), and 30% of the total number of physicians (See Table 21.5).

In the same year, the private health sector consisted of 105 hospitals with a total of 9,337 beds, 1,059 dispensaries, 795 clinics, 59 medical laboratories, 12 physiotherapy centers, 3,228 pharmacies and 286 drug stores; and its manpower comprised 9,929 physicians, 13,848 nurses and 6,578 health technicians.

While the share of the private sector in health infrastructure remained unchanged, it made a relative improvement in the volume of the health services it provides, with its share in total patient visits to hospitals and health centers increasing from 16.9% in 1999 to 18.6% in 2001, and its share in the total number of in-patients increasing from 25.6% to 26.4%.

Table 21.4
Comparative Contributions of Health Sectors to
Hospital-Bed capacity

Description	No. of Beds		Contribution (%)	
	1999	2003	1999	2003
MOH	27,794	28,522	61	59
Other Government agencies	9,169	10,902	20	22
Private Sector	8,766	9,337	19	19
Total	45,729	48,761	100	100

Source: MOH.

Table 21.5
Comparative Contributions of Health Sectors to
Number of Physicians

Description	No. of Physicians		Contribution (%)	
	1999	2003	1999	2003
MOH	14,786	16,120	47	48
Other Government agencies	6,891	7,291	22	22
Private Sector	9,825	9,929	31	30
Total	31,502	33,340	100	100

Source: MOH.

21.2.4 Institutional and Organizational Development

MOH is the major government agency entrusted with providing preventive, curative, and rehabilitative healthcare for the population. In addition, King Faisal Specialist Hospital and Research Center admits cases that require advanced specialist treatment and conducts research in health. Through colleges of medicine, Saudi universities also contribute to the provision of specialist curative services, conduct medical education and training programs, and carry out health research, in collaboration with other research centers. The Saudi Red Crescent Society provides emergency medical services to the population, as well as to pilgrims and Umrah performers. The military and security agencies provide medical services to their staff and to segments of the general public, while school health units provide primary healthcare to students. Health facilities of the General Organization for Social Insurance and the General Presidency of Youth Welfare provide health services for certain categories of the population. The Royal Commission for Jubail and Yanbu provides health facilities for employees at the twin industrial cities. Furthermore, the private sector provides health services through health facilities around the country.

Under the Seventh Plan, significant steps were taken to develop the health system; key among which were the creation of the Health Insurance Council and the issuance of the relevant bylaws and regulations on 8/6/2002. Under these regulations, the Health Insurance Law will be applied in three phases over a period of three years. In the first phase, the law will apply to companies and establishments with a workforce of more than 500 persons. The next phase will include companies employing more than 100 workers, while the third phase will extend application of the law to all businesses and individuals covered by it. Because actual enforcement of the law has not started yet, action would be taken to speed up completion of all the requirements of the preliminary phase, so that enforcement can be initiated as soon as possible.

In a later development, Council of Ministers Resolution 76 of 3/6/2002 approved the structure of the new integrated health system aimed at ensuring provision of comprehensive and integrated healthcare to the entire population. Steps have been taken towards applying the system, such as the creation of the Health Services Council. However, prompt action should be initiated to expedite full operation in order to achieve the envisaged objectives (Box 21.1).

Box (21.1): The Health System

Council of Ministers Resolution 76 of 3/6/2002 approved the Health System, which aims at ensuring provision of integrated and comprehensive healthcare services to the population. The system comprises basic rules expounding the role of the state in providing health services; key among which are primary healthcare services that provide prevention against diseases; promotion of health awareness; safety of water supplies, food, medicines, medical supplies and sanitation; environmental protection against pollution; prevention and control of epidemics and infectious diseases; and safety of public places. In addition, the state provides maternity and childcare programs; immunization against communicable diseases; care for persons with special needs, such as the disabled and elderly; care for persons suffering from incurable diseases, and healthcare to students.

The health system has several important features; viz.,

- Provision of an integrated country-wide healthcare network.
- Increased decentralization, giving individual health-affairs directorates administrative and financial powers to enable them to discharge their duties effectively.
- Considering privatization of some MOH hospitals.
- A Health Services Council, to be chaired by the Minister of Health, with members representing the MOH and relevant health agencies. The Council is primarily mandated to:
 - A. Prepare a healthcare strategy to be approved by the Council of Ministers.
 - B. Establish adequate regulations for operation of hospitals run by MOH and other government agencies, in order for them to be run economically according to performance and quality standards.
 - C. Institute a policy of coordination and integration among healthcare agencies, particularly in areas of primary and secondary healthcare; emergency and evacuation services; referral of patients among various health agencies; provision and optimal use of medicines, medical supplies and equipment; education, training and employment of health manpower; conducting health research and studies; provision of healthcare to pilgrims; promotion of health awareness; development of environmental health; and exchange of professional expertise among various health agencies.

Later, the General Commission for Food and Medicines was created by Council of Ministers Resolution 1 of 10/3/2003. Reporting to the Prime Minister, the Commission is run by a Board of Directors chaired by HRH the Second Deputy Prime Minister, Minister of Defence and Aviation and Inspector General, and is invested with the policy formulation, executive and control functions necessary for ensuring safety and efficacy of foods, medicines, and biological and chemical formulations; freedom of electronic products from harmful effects on public health; and accurate calibration and safety of medical and diagnostic equipment. The Commission is also mandated to formulate clear policies for foods and pharmaceuticals; conduct applied research and studies in related fields; monitor regulations and procedures pertinent to licensing of food, pharmaceutical and medical equipment factories; and exchange of information and creation of a food and medicines database.

The Commission will operate on a commercial basis and will undertake its functions in two phases. In the first phase, which will last for 5 years from the date of the Resolution, the Commission will undertake the standardization, control and supervisory tasks necessary for proceeding to the second phase, in which it will embark on specific implementation tasks to achieve the objectives set in its mandate. Under the Eighth Plan, the Commission will initiate work to create a database, build a main research center, a central reference laboratory, branch laboratories, and an administration building for the Commission.

21.2.5 Health Sector Manpower

The manpower employed in MOH increased from 94,669 in 1999 to 104,540 workers in 2004, with the share of Saudi manpower increasing from 59.5% to 66.6%. In that period, the share of Saudi nationals in the total number of physicians rose from 19.5% to 21.8%, their share in the total number of nursing staff increased from 26.9% to 31.1%, and their share in the total number of ancillary medical workers went up from 56.3% to 61.4%; as compared to the targets set by the Seventh Plan of 25%, 45% and 65% respectively.

21.2.6 Budget Allocation

Under the Seventh Development Plan, actual financial expenditures of health sector development programs (MOH, Saudi Red Crescent Society, King Faisal Specialist Hospital and Research Center) totaled some SR80.1

billion, amounting to 98.4% of the Seventh Development Plan target.

21.3 ISSUES AND CHALLENGES

Notwithstanding the continued progress of health services, developments raise several issues and challenges that should be dealt with under the Eighth Development Plan. Key among these are the following.

21.3.1 Demand for Health Services

Demand for health services is increasing steadily, driven by several demographic and economic and social factors; key among which are the relatively high population growth rate, growing awareness by the community of the importance of healthcare, particularly preventive healthcare; changes of disease patterns, with increasing incidence of non-communicable diseases, such as cardiac diseases, diabetes, cancer and geriatric illnesses; and the high rate of traffic-accident injuries. Moreover, these diseases and injuries require high-cost treatments, and there is, in addition, the need for continuous acquisition of advanced medical equipment.

Emphasis should therefore be placed on meeting the increasing demand for health services, through increased provision of services, improving the efficiency with which existing facilities are utilized, and transferring some government hospitals to the private sector. In addition, the role of the private sector should be strengthened, particularly in view of the targeted universal application of the health insurance law, the enforcement of which should be expedited. The state would then focus on ensuring availability of highly efficient health services in all parts of the country to all segments of society, along with regulating services and monitoring their performance and quality.

21.3.2 Efficiency of Healthcare Services

Government health facilities are currently run through a centralized financial and administrative system that fails to provide the indicators necessary for measuring performance. While it is important to centralize planning and coordination tasks at the national level, efficient implementation of health services requires giving wider powers and responsibilities to regional and major units, such as hospitals. Thus, as much power and responsibility as possible should be given to local units,

with hospitals and healthcare centers becoming independent cost centers, governed by an accounting and evaluation system based on well-defined investment, operational and quality standards. In this way, productivity can be improved and efficiency and quality of service can be further developed.

In addition, further development of service efficiency, requires monitoring performance of medical and nursing staff and establishing clear definitions of the tasks and responsibilities of medical service providers.

21.3.3 Health Services Coverage

Notwithstanding the development and expansion of healthcare services, disparities among regions and between urban and rural areas pose a challenge to universal healthcare coverage. Standard service indicators, measured in terms of input/population ratios, may not be sufficient to identify demand for health services, particularly in rural areas with low population densities. As a result, consideration should also be given to population diffusion and geographic dimensions to ensure that services are available within a reasonable geographical distance.

Furthermore, attempts should be made to ensure that all basic health services, notably maternity and childcare, promotion of health awareness, protective healthcare services, etc. are available in health centers located in rural areas. Since such areas are not attractive to the private sector compared to urban centers, they should be given priority in programs of the government health services sector.

21.3.4. Saudization of Health Sector Manpower

Saudization of manpower is an important national issue for the health and all other economic and social sectors. However, the relatively low numbers of Saudi medical and nursing staff has special significance, since efficient delivery of health services requires familiarity with the language, social and cultural values and traditions of the country to ensure effective communication between health workers and service recipients. Therefore, efforts should be made to increase numbers of Saudi medical and nursing staff, through setting up of medical education facilities; increasing the absorptive capacity of colleges of medicine, nursing and health sciences; increasing scholarships; maximizing private sector contribution to medical education; application of modern distance education technologies, particularly in training and continuing education.

21.3.5 Health Services Database

Effective health service planning, coordination and monitoring require a comprehensive integrated database of all relevant variables, as well as efficiency and performance indicators covering central and regional agencies. In addition, a country-wide health information system linking all health sector agencies and units should be developed. Such a system would provide up-to-date comprehensive data and contribute to e-Government through automation of various procedures and processes.

21.4 HEALTH SERVICES DEMAND ESTIMATES

Demand for MOH-provided health services under the Eighth Development Plan has been estimated on the basis of general service standards approved by the MOH, and the specific needs of each region, taking into account geographical distance, population dispersion and health conditions, as well as the present state of services. Table 21.6 lists the estimated needs for hospital beds and health centers by region.

Table 21.6
Estimates of Bed and Primary-Healthcare-Center Needs
by Administrative Region
Eighth Development Plan*

Region	Actual in 2003		Additional needs targeted under the Plan			
	Beds	Health Centers	Beds		Health Centers	
			Opening	Construction	Opening	Construction **
Riyadh	٥,٤٥٧	٣٢٤	١,٦٠٠	١,٢٠٠	٣٢	٢٠٣
Makkah	٧,٢٧٠	٢٨٧	٦٥٠	١,٣٠٠	٦٢	١٨٦
Al Madinah	٢,١٠٢	١٢٣	٢٠٠	١,٠٥٠	١٨	٨٥
Qassim	٢,٠٣٦	١٤٠	٥٠	٣٥٠	١٢	١٠٤
Eastern Region	٣,٣٣٤	١٩٣	٧٥٠	١,٥٠٠	٤٤	١٤١
Assir	٢,٤٣٠	٢٤٣	٤٥٠	٩٠٠	٣٤	١٧١
Tabuk	٨٠٥	٤٥	٣٥٠	٣٠٠	١٨	٣٤
Hail	٥٩٤	٨٥	٥٠٠	٢٠٠	١٢	٦٦
Northern Borders	٥٨٩	٤٠	٤٠٠	٧٠٠	١٠	٢٨
Jizan	١,٣٣٨	١٣٥	٤٠٠	٦٠٠	١٨	٩٥
Najran	٦٣٨	٦١	٢٥٠	٣٥٠	١٠	٤٤
Baha	١,٠٣٩	٨١	١٠٠	٤٥٠	١٠	٥٨
Jouf	٨٩٠	٤٧	٥٠٠	٣٠٠	٢٠	٣٥

Total	٢٨,٥٢٢	١,٨٠٤	٦,٢٠٠	٩,٢٠٠	٣٠٠	١,٢٥٠
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* MOH-provided services.

** For replacement.

Source: Ministry of Economy and Planning estimates.

21.5 FUTURE VISION

Population forecasts indicate that up to 2024, Saudi population will continue to grow at a high rate, as a result of higher fertility and lower mortality. This increase will require additional health facilities and manpower to meet growing population needs and maintain service provision rates.

Estimates also indicate that the proportion of Saudi population in the 60-years-and-above age group in the total population will increase by 2020, with life expectancy increasing from 71.9 to 77 years. In addition, features of the health situation and rates of incidence of various diseases will continue to change. Prevention and health awareness programs, implemented as part of primary healthcare activities, will continue to effect further reduction in incidence of communicable diseases. In contrast, incidence of non-communicable diseases and accident injuries will have a rising trend due to urbanization, industrial development, increased population density, and change of life style. The resulting changes in the demand for health services necessitate expanding particular types of provision. In addition, more segments of population will be provided with healthcare services under the umbrella of the cooperative health insurance system.

21.6 DEVELOPMENT STRATEGY

The development strategy for the health sector aims at bringing healthcare services as fast as possible to the quality and level of countries with high human development standards.

21.6.1 Objectives

- Continuing to provide preventive, curative and rehabilitative healthcare, and facilitating access by the entire population.
- Developing and upgrading the efficiency of healthcare services.
- Improving the qualifications and Saudization of health manpower.

- Promoting the role of the private sector in providing healthcare services.
- Providing highly efficient emergency medical services.

21.6.2 Policies

The following policies will form the basis for achieving the key objectives of the health sector:

- Providing and developing primary healthcare programs.
- Developing maternity and child healthcare services.
- Controlling communicable diseases and reducing their incidence.
- Providing and upgrading efficiency of curative care.
- Increasing the scope of health service decentralization to ensuring that powers are commensurate with responsibilities.
- Developing adequate regulations for operating hospitals on commercial principles.
- Developing mechanisms and procedures for quality assurance of services.
- Implementing the cooperative health insurance system.
- Linking health centers with relevant referral general hospitals.
- Increasing the absorptive capacity of health education and training.
- Enhancing the scholarship program.
- Transferring ownership of some MOH hospitals to the private sector.
- Expanding the coverage of emergency medical services.

21.6.3 Targets

- Opening 300 and constructing 1,250 primary healthcare centers in all regions (Table 21.7).
- Achieving the maternity and childcare indicator levels set in Table 21.8.
- Reducing incidence of communicable diseases targeted for immunization to the levels set in Table 21.9.
- Opening 54 new hospitals with a total bed capacity of 6,200, and launching the construction of 42 hospitals with a total bed capacity of 9,200, in line with the regional distribution shown in Table 21.10.

- Reviewing current administrative and management structure and approving new ones.
- Implementing adequate regulations for operating government hospitals on economic principles.
- Reviewing service quality assurance mechanisms and procedures currently in place.
- Expanding the application of the health insurance system.
- Achieving full linkage between health centers and general hospitals.
- Opening 8 and constructing 22 health sciences colleges in all regions, as per the distribution shown in Table 21.11, to help achieve a Saudization level of 50% of total health staff, as envisaged by the Plan.
- Setting a target number of government hospitals to be transferred to the private sector.
- Completing the development of the information technology network.
- Applying the smart card system and tele-medicine.
- Opening 150 and constructing 90 emergency centers, and purchasing 750 ambulance vehicles to be distributed to regions and centers as per Table 21.12; making increased use of digital and wireless equipment to help reduce response time; and constructing landing pads for air ambulance services at 5 sites.

Table 21.7
Targets for Primary Healthcare Centers by Region
Eighth Development Plan

Region	Actual Number in 2003	Additions under Plan		Target for 2009
		Opening	Construction*	
Riyadh	324	32	203	356
Makkah	287	62	186	349
Al Madinah	123	18	85	141
Qassim	140	12	104	152
Eastern Region	193	44	141	237
Assir	243	34	171	277
Tabuk	45	18	34	63
Hail	85	12	66	97
Northern Borders	40	10	28	50
Jizan	135	18	95	153
Najran	61	10	44	71

Baha	81	10	58	91
Jouf	47	20	35	67
Total	1,804	300	1,250	2,104

* For replacement.

Source: Ministry of Economy and Planning estimates.

Table 21.8
Targets for Maternity and Childcare Services
Eighth Development Plan

Indicator	2003	Target for 2009*
<u>Maternity and child healthcare indicators:</u>		
• Pregnant women provided with healthcare by health professionals (%)	98	98
• Deliveries attended by health professionals (%)	96	97
• Child immunization against diphtheria, whooping cough and tetanus (%)	94.7	95
• Immunization of women against tetanus (%)	85	90
• Child immunization against poliomyelitis (%)	94.7	95
• Child immunization against TB (%)	97.3	98
• Child immunization against measles, rubella and mumps (%)	96.7	98
• Child immunization against hepatitis "B" (%)	97.3	98

* The Eighth Plan aims at achieving rates not less than shown in the Table.

Source: Ministry of Economy and Planning estimates.

Table 21.9
Targets for Communicable Diseases Control Services
Eighth Development Plan

Indicator	2003	2009
<u>Incidence indicators of communicable diseases targeted for immunization:</u>		
• Incidence of neo-natal tetanus per 1,000 live births	0.04	0.01
• Incidence of diphtheria per 100,000 population	0.04	0.01
• Incidence of whooping cough per 100,000 population	0.2	0.15
• Incidence of child poliomyelitis per 100,000 population	0	0
• Incidence of TB per 100,000 population	15.1	8
• Incidence of measles per 100,000 population	1.45	1.2
• Incidence of mumps per 100,000 population	4.5	2
• Incidence of hepatitis "B" per 100,000 population	26.3	15
<u>Other Indicators:</u>		
• Births below normal weight (%)	5	3
• Infant mortality per 1000 live births	18	10
• Life expectancy (general)	71.9	74

Source: Ministry of Economy and Planning estimates

Table 21.10
Targets for Hospitals by Region
Eighth Development Plan*

Region	Actual in 2003		Targeted additions (opening)		Targeted additions (Construction)	
	Hospitals	Beds	Hospitals	Beds	Hospitals	Beds
Riyadh	33	5,457	4	1,600	4	1,200
Makkah	32	7,270	7	650	4	1,300
Al Madinah	15	2,102	4	200	3	1,050
Qassim	16	2,036	1	50	2	350
Eastern Region	22	3,334	7	750	5	1,500
Assir	21	2,430	7	450	4	900
Tabuk	10	805	2	350	3	300
Hail	7	594	4	500	2	200
Northern Borders	4	589	2	400	3	700
Jizan	13	1,338	5	400	3	600
Najran	5	638	4	250	3	350
Baha	8	1,039	2	100	3	450
Jouf	8	890	5	500	3	300
Total	194	28,522	54	6,200	42	9,200

* MOH.

Source: Ministry of Economy and Planning estimates.

Table 21.11
Targeted Health Colleges by Region
Eighth Development Plan*

Region	Actual in 2003		Additions under the Plan (colleges only)	
	Colleges	Institutes	Opening	Construction
Riyadh	٢	٤	١	٤
Makkah	٣	٣	—	١
Al Madinah	—	٢	—	—
Qassim	٢	٢	—	—
Eastern Region	٣	٣	١	٤
Assir	٢	١	—	٢
Tabuk	—	٢	١	٢
Hail	—	٢	١	٢
Jizan	١	١	١	—
Northern Borders	—	١	١	١
Najran	—	١	—	١
Al-Baha	—	١	١	٢
Al-Jouf	—	٢	١	٣
Total	١٣	٢٥	٨	٢٢

- * Construction is underway of health colleges in Riyadh, Makkah, Al Madinah, Qassim, Assir, East Region, and Jizan.

Source: Ministry of Economy and Planning estimates

Table 21.12
Targeted Emergency Medical Centers by Region
Eighth Development Plan

Region	Actual 2003	Additions under the plan (to be opened)	Target for 2009
Riyadh	44	27	71
Makkah	40	20	60
Al Madinah	18	15	33
Qassim	14	12	26
Eastern Region	24	15	39
Assir	12	11	23
Tabuk	11	6	17
Hail	7	14	21
Northern Borders	8	5	13
Jizan	7	3	10
Najran	5	5	10
Baha	7	8	15
Jouf	9	9	18
Total	206	150	356

Source: Ministry of Economy and Planning estimates.

21.7 FINANCIAL REQUIREMENTS

A total of SR98 billion is earmarked in financial allocations during the Eighth Development Plan for the health sector (MOH, the Saudi Red Crescent Society, King Faisal Specialist Hospital and Research Center). These allocations are earmarked to finance expansion in construction of health facilities, support for primary healthcare, as well as protective and curative healthcare programs.

CHAPTER TWENTY TWO

INFORMATION AND COMMUNICATIONS TECHNOLOGY

22. INFORMATION AND COMMUNICATIONS TECHNOLOGY

22.1 INFORMATION & COMMUNICATIONS TECHNOLOGY

22.1.1 Introduction

Information and Communications Technology (ICT) has become one of the key factors in development of societies as information and knowledge have become a major factor of production in modern economies, with the ICT sector playing the role of the facilitator and motivator of efficiency and productivity in other sectors. The infrastructure of communications and the Internet have become the nervous system of modern societies, which are increasingly becoming knowledge and information based. Contributions of the ICT sector reached 7.5% of gross world product in 2003, compared to 5.5% in 1993.

As did many other countries, Saudi Arabia recognized the vital role of ICT in economic and social development and its contribution to enhancement of productivity, economic efficiency, creation of employment opportunities, and achievement of balanced regional development. Use of ICT grew rapidly in the past decade and the ICT sector is estimated to have grown at an annual rate of 9% over the 2002–2005 period.

This chapter presents the current conditions of the ICT sector, and the developments that took place in it under the Seventh Development Plan, concentrating on the key issues and challenges that should be confronted under the Eighth Development Plan and the recommended solutions. It will also focus on the future vision for the ICT sector and the objectives, policies and targets set for it by the Eighth Development Plan.

22.1.2 CURRENT CONDITIONS

22.1.2.1 Institutional and Organizational Development

Under the Seventh Development Plan, the telecommunications sector in Saudi Arabia experienced fundamental changes; most importantly privatization and restructuring. Council of Ministers Resolution 74 of 2001 approved the telecommunications Act and the Communications and Information Technology (C.I.T.C) ordinance, which were endorsed by

Royal Decree M/12 of 4/6/2001.

In the context of the administrative reorganization of government agencies, Royal Decree A/2 of 30/4/2003 amended the title of the Ministry of Posts, Telegraphs and Telephone to the Ministry of Communications and Information Technology (MCIT) and changed the name of the Saudi Telecom Commission to the Communications and Information Technology Commission (CITC).

The Telecommunications Act and Council of Ministers Resolution 133 of 21/7/2003 entrusted MCIT with regulating ICT services, by setting out general policies, plans and programs, proposing regulations, and representing the Kingdom in local, regional and international organizations. Royal Decree 7/B/33181 of 7/9/2003 set out the plan for electronically providing government services and transactions by the MCIT and Royal Decree 7/B/53847 of 5/1/2004 tasked MCIT with preparing and implementing the national IT plan.

The Communications and Information Technology Commission (CITC) was established in 2001 to undertake the task of organizing the sector (Box 22.1.1).

Box 22.1.1: Key Tasks of the Communications and Information Technology Commission (CITC)

- ❑ Participating in establishing and implementing ICT policies, plans and programs, ensuring enforcement of the telecommunications Act, licensing operators, and proposing service standards.
- ❑ Encouraging reliance on the market mechanism in the provision of ICT services and encouraging investment in these services.
- ❑ Safeguarding user interests and monitoring performance of service providers.
- ❑ Setting up the national frequency plan and the national numbering plan.
- ❑ Expanding infrastructure systematically.
- ❑ Coordinating arrangements for transition to e-Government with government agencies.
- ❑ Coordinating arrangements for utilization of e-commerce with government and private agencies.
- ❑ Encouraging R&D in ICT.

The Saudi Telecom Company (STC) has been the key provider of telecommunications services since it was assigned that role in 1998. It has achieved marked development, reflected in the wide spread of communications services, as well as in returns and profits and in its contribution to enhancing non-oil revenues of the state through charges for services (commercial service fees, licensing and frequency management fees) (Table 22.1.1). In 2003, 20% of the stocks were offered for public and 10% were assigned equally to the Pension Authority and the General Organization for Social Insurance.

Table 22.1.1
Financial Performance of the Communications Sector
(Saudi Telecom Company)

	(SR million)				
	1999*	2000	2001	2002	2003
Revenue	23,171	16,930	19,781	23,547	27,292
Annual Rate of Growth (%)	–	–26.9	16.8	19.0	15.9
Net Profit	4,122	3,953	3,479	3,546	8,525
Annual Rate of Growth (%)	–	–4.1	–12.0	1.9	140.4
Government Revenues from commercial service fees, licensing and frequency spectrum fees	4,441	3,345	3,964	6,299	5,548
Annual Rate of Growth (%)	–	–24.7	18.5	58.9	–11.9

* Commenced from 2/5/1998.

Source: Saudi Telecom Company.

Internet services are provided by 23 licensed providers.

Council of Ministers Resolution 171 of 2002 opened up competition in the communications sector. However, the new policy has been applied gradually. Four companies were licensed to provide Very Small Aperture Terminal (VSAT) services, and a second operator of mobile telephones was licensed, as were two data services providers. Council of Ministers Resolution 155 of 2004 reduced the rate of charges levied by the state on STC revenue and specified the rate of charges on the revenues of the new mobile telephone operators. A licence for a second fixed-telephone-line operator is due to be granted in 2006.

22.1.2.2 Infrastructure

Under the Seventh Development Plan, STC focused on responding to the increasing demand for mobile and fixed telephone lines. The number of mobile telephone service subscribers jumped from 836,628 in 1999 to

approximately 7.2 million in 2003, while the number of fixed telephone lines increased from 2.7 million to 3.5 million. Clearly, the enormous growth of mobile telephone subscriptions has affected the rate of growth of fixed line subscriptions (Table 22.1.2 and Figure 22.1.1).

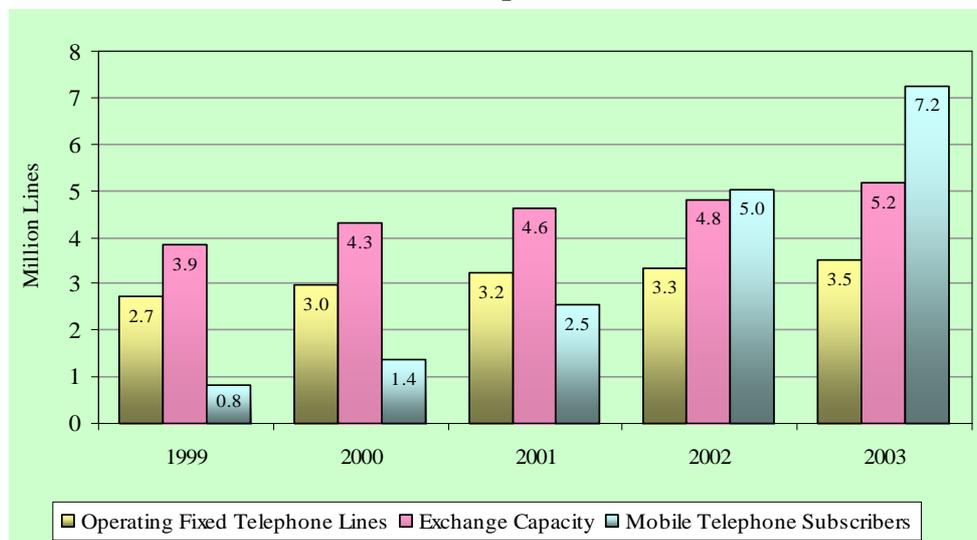
In 2002, STC introduced a prepaid mobile service, commercially known as “SAWA”. By the end of 2003, 52.7% of mobile telephone users were subscribers to this service.

Table 22.1.2
Mobile and Fixed Telephone Line Services
Seventh Development Plan

	1999	2000	2001	2002	2003	Annual Average Growth Rates 1999–2003
Mobile Telephone Subscribers	836,628	1,375,881	2,528,640	5,007,965	7,238,224	71.5
Fixed Line Subscribers	2,706,182	2,964,730	3,232,925	3,317,543	3,502,629	6.7

Source: Saudi Telecom Company.

Figure 22.1.1
Growth of Telephone Services



Mobile and fixed line services now cover most of the country. The advantages of mobile telephones and related technologies, in terms of flexibility and relative ease of creating infrastructure, facilitated the provision of mobile phone services to a large number of subscribers in an exceptionally short time (Table 22.1.3).

Table 22.1.3
Distribution of Telephone Services by Region (Thousand Lines)

Region	2000		2003		Average Annual Rate of Growth (%) 2001–2003	
	Fixed	Mobile	Fixed	Mobile	Fixed	Mobile
Riyadh	840.4	422.5	1012.2	1011.2	6.4	33.8
Makkah	885.3	393.8	999.0	918.5	4.1	32.6
Al Madinah	193.0	68.2	220.9	195.2	4.6	42.0
Qassim	123.1	65.2	142.4	170.4	5.0	37.7
Eastern Region	495.0	236.2	582.3	568.8	5.6	34.0
Assir	141.6	57.8	181.1	172.4	8.5	43.9
Tabuk	66.0	29.5	80.3	82.9	6.8	41.1
Hail	47.6	23.6	59.1	65.4	7.5	40.5
Northern Borders	24.8	9.1	28.9	28.6	5.2	46.5
Jizan	39.9	21.1	62.1	76.0	15.9	53.3
Najran	30.1	14.3	42.6	37.9	12.3	38.4
Baha	38.2	23.8	46.1	57.5	6.5	34.2
Jouf	39.7	10.7	45.7	39.4	4.8	54.4
Total	2964.7	1375.8	3502.6	3424.2	5.7	35.5

Note: Mobile telephone statistics do not include the prepaid mobile service whose subscribers are expected to reach 3.8 million by the end of 2003.

Source: Saudi Telecom Company.

22.1.2.3 Trends Towards the Information Society

Under the Seventh Development Plan, intensive efforts were made by government and private agencies to set up the necessary legal and regulatory environment for adoption of ICT and for moving towards the information society. Several regulations aimed at streamlining and organizing use of ICT were concluded, including intellectual property rights laws and regulations, which also protect software products and computer systems.

The Ministry of Interior, MCIT, CITC and King Abdulaziz City for Science and Technology are working together on setting up rules and regulations to protect communications networks from illegal access, intrusion and tampering. A system for ensuring confidentiality of classified information is close to completion. MCIT has prepared a draft electronic transactions act, including digital signature and authentication certificates, which is expected to be issued in the near future. The Saudi Arabian Monetary Agency (SAMA) has also issued regulations for Internet banking.

In the quest for an information society and for narrowing the digital divide, MCIT and CICT have sponsored a national initiative to supply PCs in cooperation with the private sector. It will also provide training, possible connections with the Internet, and supporting technical services. In addition, the Ministry of Education has established educational technology centers, with the objective of spreading e-education.

Most government agencies and public corporations have set up their websites. Some government agencies have also taken steps towards providing e-services, such as exchange of data, payment of fees, and visa and smart cards issuance. In the health services sector, several public and private hospitals use computer networks in their daily operations and management systems. Telework is becoming increasingly popular, particularly in the health, media, and publishing sectors. Most banks provide banking services through the Internet and by tele-networking.

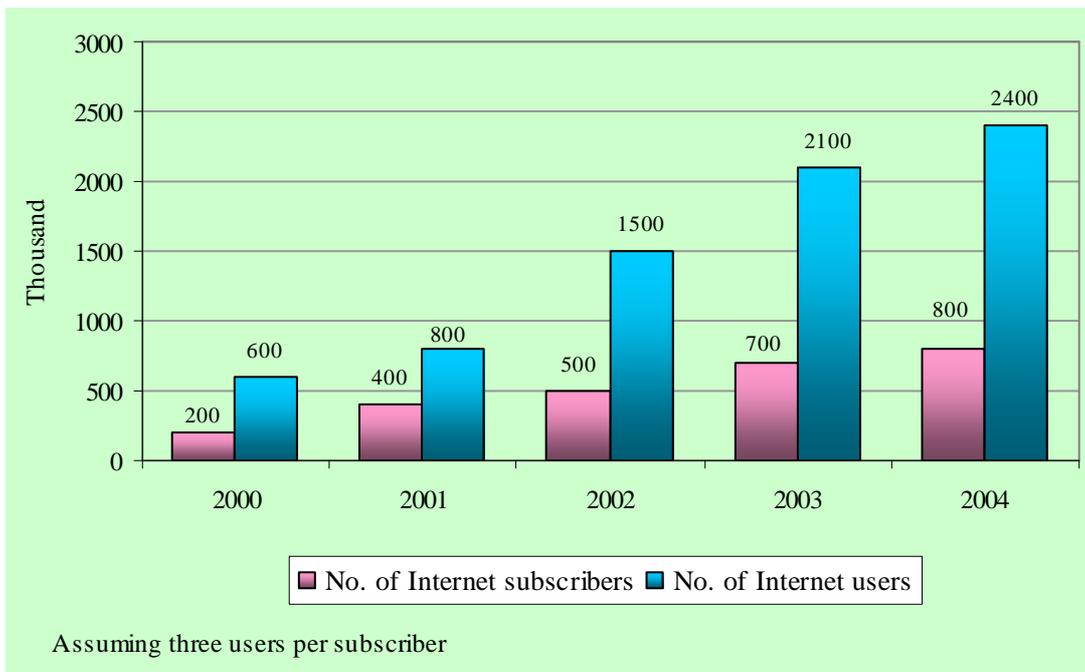
In 2004, MCIT, in cooperation with the Ministry of Finance and CITC, initiated the e-Government program, with the aim of enhancing government agencies in applying concepts and methods of e-Government; developing a national portal for government services; providing infrastructure and setting up uniform policies and specifications for e-Government programs in order to raise productivity and efficiency of the public sector; and delivering services and highly accurate information to individuals and the business sector in a timely manner.

King Abdulaziz City for Science and Technology (KACST) established the National Center for Digital Authentication, with the purpose of identifying the requirements for certification authorities and the mechanisms for issuing digital certificates, as well as developing the technical specifications of e-signatures. However, the functions of the Center were later transferred to MCIT (e-Government program). Moreover SAMA is developing a secure electronic payments system.

There are still many areas where e-commerce could be applied. Large companies, like Saudi ARAMCO, SABIC and Saudi Airlines (SAUDIA), apart, the majority of businesses only use e-commerce for a limited number of activities. The e-Commerce Committee, chaired by MCIT, has identified the constraints impeding the spread of e-commerce and recommended raising consumer awareness of the value of the Internet and promoting an e-commerce culture in the business community.

Figure 22.1.2 presents the growth of Internet users and subscribers. Notwithstanding the noticeable and rapid growth, Internet penetration is still relatively low, with the subscriber/population ratio reaching 9.2% only in 2003.

Figure 22.1.2
Development of Internet Services in the Kingdom
Seventh Development Plan



22.1.2.4 The Domestic IT Industry

In the past five years, IT industries achieved a growth rate of 37%. By end of 2003, there were 1,650 IT companies; some assemble personal computers, while others work in the system and software development. However, the majority of IT companies are trading companies focusing on the marketing and distribution of imported hardware and software.

22.1.3 ISSUES AND CHALLENGES

In recognition of the vital role played by the ICT sector in economic and social development, substantial progress in ICT has been made under the Seventh Development Plan. However, there are still many challenges and issues that need to be addressed under the Eighth Development Plan; the most important of which are the following:

22.1.3.1 Completion of ICT Infrastructure

Infrastructure is a key requirement for developing ICT and enabling it to play its vital role in supporting economic growth and enhancing competitiveness of the national economy. Despite the high rate of increase of coverage achieved in the past few years, a more comprehensive coverage requires providing Internet and communications services to the majority of the population, regardless of place of residence, work or financial abilities, as well as to most economic and social institutions. It is important, therefore, to expand and eliminate bottlenecks in the basic network, develop appropriate mechanisms for carrying out unprofitable expansions, and reduce prices and improve quality; in order to help narrow the digital divide among regions and social groups.

22.1.3.2 Digital Arabic Content

Even though Arabs constitute 5% of the world population, and in spite of the richness of Arab and Islamic cultural and scientific heritage, Arabic content on the Internet is still less than 1% of total web content. This significant weakness is hampering spread of the Internet in the Kingdom and the Arab world, and is a major reason for the digital divide. Efforts to increase the Arabic digital content should, therefore, be multiplied.

22.1.3.3 The Digital Divide

ICT infrastructure is a necessary but not a sufficient condition for growth of the internet and development of a knowledge-based economy. Users should also acquire the knowledge and skills for using technology to obtain and exchange information, and perform electronic transactions; including e-commerce, e-government and distance learning. In turn, this requires narrowing the digital divide by eliminating digital illiteracy through training, education and awareness; providing the basic infrastructure for connecting schools, universities and libraries with the internet; developing curricula and the education system; and producing educational materials and services for wired and on-line communities. The learning process should not be limited to students only. Instead, it should also include upgrading teacher skills in the use of ICT and the internet in the education process, and providing every citizen with the basic principles and skills necessary for using ICT.

In the business sector, for several reasons, including concerns over data

security of financial transactions and weak technical ability, the majority of SMEs is still dependent on manual operations and personal communications, rather than on electronic exchange of information on a Wide Area Network (WAN) or the Internet. In view of existence of a large number of SMEs, it is essential to provide incentives to encourage them to use ICT and become more involved in the digital economy.

22.1.3.4 Application of e-Government

The Kingdom aims to apply e-Government concepts and methods. However, most government agencies are still at the beginning of road. Widespread use of ICT and expansion of use of the Internet and area networks require upgrading government services to match. Indeed, adopting e-Government could in itself provide a driving force for the digital economy. It is, then, essential to provide government agencies with the financial and technical resources needed to deliver their services electronically, as well as to review government procedures and regulations to ensure consistency with the requirements of safe and efficient delivering of services electronically. Senior IT management posts are also required in all medium and large government agencies. In addition, it is essential to establish uniform specifications, policies and a unified framework for the national e-Government infrastructure.

22.1.4 DEMAND FOR ICT SERVICES

The rapid growth of fixed telephone line services of 6.7% per annum under the Seventh Development Plan has not been sufficient to meet the entire demand. Fixed lines are still the most efficient way of connecting users to the internet, and fast internet connections (DSL and ISDN) can only be provided through the fixed telephone network, while internet connection through mobile telephones or wireless connections is still limited by technical difficulties and higher prices. However, the new generation of mobile telephones should be able to overcome these obstacles.

The main indicators show that the demand is covered by 50% for mobile telephony, 63.4% for fixed telephony and 1.2% for high-speed Internet services, (Table 22.1.4). The estimates were based on the assumption that the rate of growth of demand for ICT would be similar to that in selected reference countries comparable to Saudi Arabia in terms of per capita GDP; taking into account other relevant factors, such as rate of education,

school enrollment, family size and percentage of children under 15 years of age.

Table 22.1.4
Key Communications and Internet Indicators

Country		Mobile Lines Subscriptions Per 100 Population	Fixed lines Per 100 Population	Cost Effective Fast Internet Connections Per 100 Fixed lines	PC's	Internet Users
					Per 100 Population	
Saudi Arabia	Demand	43.4	22.7	5.80	13.0	6.2
	Supply	21.7	14.4	0.07		
GCC		29.7	16.6	1.12	12.3	9.9
Malaysia		37.7	19.0	1.93	14.7	32.0
Reference Countries		58.4	54.2	17.81	36.3	37.4

Source: International Telecommunications Union – Demand Estimates: Analysis of the Ministry of Economy & Planning.

It is worth noting that the response to the demand for fixed lines is not regionally balanced. In 2003, 75% of the Riyadh city demand was satisfied, compared to only 66.6% for Makkah, Al Madinah, Qassim and Eastern Region, 55% for Tabuk, Hail, Jouf, Baha, Assir, Najran and Northern Borders, and 30% for Jizan.

Incomplete ICT infrastructure combined with lack of competition and high costs of internet connectivity are the major bottlenecks that prevent most families and SMEs from using the Internet and benefiting from it. The number of fixed lines and mobile telephones will increase during the Eighth Development Plan due to opening up of the ICT sector to competition and privatization.

Fixed lines are mostly used for voice transmission, rather than for internet use. In 2003, only 9.2% of the Saudi population were internet users. This is attributable to several economic and social factors, including the high cost for internet access, low quality of service, low speed, poor availability of Arabic digital content, and weak IT skills.

Demand for the Internet services by housing units and SMEs is expected to grow rapidly. Moreover, large companies, other establishments and many subscribers require multiple fixed line connections. Hence, it is estimated that 2.4 to 3.4 million fixed lines need to be added to existing capacity.

Table 22.1.5 presents the expected distribution of fixed lines by region at the end of the Eighth Development Plan.

Table 22.1.5
Expected Distribution of Fixed Lines by Regions
At the End of the Eighth Development Plan, (2009)

Region	2009 (000 lines)
Riyadh	1,787
Makkah	1,910
Al Madinah	425
Qassim	271
Eastern Region	1,233
Assir	429
Tabuk	177
Hail	132
Northern Borders	62
Jizan	291
Najran	91
Baha	113
Jouf	111
Total	7032

Source: Estimates by Ministry of Economy and Planning

22.1.5 FUTURE VISION

The future vision for ICT is based on the National IT Plan, which was initially prepared by the Saudi Computer Society, in response to Royal Decree 7/B/16838 of 18/3/2001, and which was later entrusted to MCIT by Royal Decree 7/B/53847 of 5/1/2004. It is also based on the resolutions and recommendations of the World Summit on the Information Society, and recommendations of the symposium on the future vision for the Saudi economy, organized by the Ministry of Economy and Planning in 2002.

The future vision for ICT calls for the creation of a knowledge-based society that is able to produce, access, use, and interact with the flow of latest information; thereby contributing to improving efficiency, productivity and quality of products and services. It envisages the following key features:

- Providing rapid and safe ICT services to the entire population, at reasonable prices.
- Developing a training and education environment to provide most of the population with the skills required for dealing with ICT applications, in line with the requirements of the digital Economy.
- Ensuring that the various economic and social sectors reach advanced levels in using ICT.
- Ensuring that the ICT sector becomes a major income generator.

22.1.6 DEVELOPMENT STRATEGY

The development strategy for ICT aims at following the global trend towards creating an information society and enhancing sustainable development.

22.1.6.1 Objectives

The general objectives for the ICT sector under the Eighth Development Plan are:

- Establishing a sound and competitive IT industry through scientific research and innovation and the development of specific strategic areas, as well as through enhancement of international and regional cooperation in ICT.
- Increasing productivity in all private and public sectors, through intensive widespread use of ICT applications.
- Providing high-quality affordable services and communications networks in all regions and enacting the necessary legislation for promoting information security.
- Enabling community groups in all regions to deal with information in an effective and efficient manner and eliminating the digital divide among them.
- Providing well trained and qualified ICT personnel through training Saudi manpower and attracting international expertise.

22.1.6.2 Policies

Achieving the general objectives for ICT relies on the following policies:

- Encouraging investment in developing new programs, systems and

ICT content.

- Enhancing IT and research innovations and encouraging individual initiatives in developing IT services.
- Providing mechanisms for financing an ICT industry based on national innovation.
- Intensifying use of ICT in government agencies and expanding e-government applications.
- Providing incentives to encourage the private sector, especially SMEs, to adopt ICT applications, such as e-commerce.
- Concluding the necessary regulations and legislation to provide the regulatory environment governing relationships among various ICT groups.
- Meeting the demand for fixed lines and mobile telephones and expanding competition in these services.
- Meeting the demand for internet services throughout the country at reasonable prices, and providing broadband digital technologies to increase speed and improve efficiency of services.
- Developing use of ICT applications by household and individuals, through free training programs on basic IT applications, with emphasis on low-income groups, women, the elderly, and the disabled.
- Setting up special programs to provide IT qualifications, including establishing specialist colleges.
- Supporting retraining programs for university and secondary-school graduates in ICT.
- Classifying ICT jobs in the public and private sectors.

22.1.6.3 Targets

Under the Eighth Development Plan, the following targets are expected to be achieved:

- Raising direct foreign investments in ICT projects to SR2 billion.
- Establishing a number of IT incubators and technology zones.
- Continuing review of government procedures to make them consistent with e-Government best practice and provide government services on the internet.
- Establishing a national gateway for e-Government.

- Creating high administrative posts for IT in government agencies.
- Establishing a center under the umbrella of the Chambers of Commerce and Industry to support greater use of ICT applications in the private sector.
- Issuing the e-Transactions regulation.
- Opening up competition in fixed-line services in 2006.
- Licensing at least one additional operator to deliver mobile telephone services.
- Continuing to provide digital subscriber lines (DSL) to facilitate access to internet services.
- Providing access to integrated services digital network (ISDN) on a wider scale.
- Attaining 20 PCs and 20 Internet user connections per 100 population.
- Training at least one million citizens in IT applications.

22.2 THE POSTAL SERVICES SECTOR

22.2.1 INTRODUCTION

A key part of the communications infrastructure, the postal sector plays a vital role in economic and social life. Under the Seventh Development Plan, this sector underwent impressive structural changes designed to enable it to perform its tasks efficiently and respond to economic developments by applying modern practices and providing various services with greater flexibility.

This section reviews the present conditions of the postal sector, describes the developments that took place under the Seventh Development Plan, and identifies the key issues to be addressed under the Eighth Development Plan and the proposed solutions. It also presents the future vision for the sector and the objectives, targets and policies set for it by the Plan.

22.2.2 CURRENT CONDITIONS

22.2.2.1 Organizational and Institutional Development

During the Seventh Development Plan, the organizational and institutional structures of the Postal sector have changed dramatically since 2000.

Royal Decree 7/b/5877 of 2000 approved transforming the posts into a public corporation, the Saudi Postal Corporation, under the supervision of a Board of Directors comprising members from government and the private sector. Later, Council of Ministers Resolution 78 of 2002 approved the regulation establishing the Corporation to replace the General Directorate for Posts (Box 22.2.1).

Box (22.2.1): Main Features of the Saudi Postal Corporation

1. By virtue of this regulation, a public corporation, named the Saudi Postal Corporation, enjoying an independent legal personality and an autonomous financial status is established.
2. The Corporation shall operate on a commercial basis and enjoy the flexibility and authority that are necessary for undertaking the functions assigned to it and readying it for privatization at a later stage.
3. The key functions of the Corporation shall be the following:
 - Providing postal services, financial postal services and any other services that fall under its jurisdiction.
 - Participating in meetings of international and regional organizations and unions.
 - Establishing subsidiary companies and participating in founding companies to perform related functions.
4. The Corporation shall have a Board of Directors chaired by the Minister of Communications and Information Technology. The Board shall be the highest authority and shall manage and administer the Corporation, including exercising the following powers:
 - a. Setting objectives and policies for the Corporation.
 - b. Approving internal and administrative regulations for the corporation.
 - c. Issuing financial regulations in coordination with the Ministry of Finance. Approving the organizational structure, the personnel procedures and the salary scales.
 - d. Approving the business plan and the operational plans within the framework of development plan of the country. Approving the budget, final accounts, the auditors' report and the annual report.
 - e. Setting the basis for the Corporation to work on a commercial and competitive basis, and approving service charges.
 - f. Setting the rules and regulations of postal saving accounts, issuing postal money transfers and other postal services of financial nature.
 - g. Approving purchase and sale of real estate.
5. The finances of the Corporation shall be made up of postal service revenues and government allocations, in addition to the fixed and moveable assets at the disposal of the General Directorate of Posts and its dues and other liabilities.
6. The Corporation shall have an independent budget.

22.2.2.2 Postal Facilities

Under the Seventh Development Plan, postal services were extended to cover more than 6,000 cities, provinces and regions. Table 22.2.1 shows the growth of postal facilities by the end of the fourth year of the Seventh Development Plan 2003, as compared to the end of the Sixth Development Plan. Table 22.2.2 presents the size of the postal service network by region in 2003.

The private sector plays an important role in providing postal services through postal agencies, which have contributed to expansion of services in major cities. The Saudi Postal Corporation is currently assessing this experience, to examine the possibility of expanding the network of private postal agencies and reduce the constraints on their operations.

Table 22.2.1
Development of Postal Service Facilities
Seventh Development Plan

Description	1999	2003
Number of Main Post offices	461	478
Number of Branch Post Offices	185	190
Number of Express Mail Centers	85	114
Number of Post Agents	711	770
Number of Villages Served by Surface Mail Services	596	648
Number of Villages Served by Roaming Post Services	4,355	4,227
Number of Subscribers' Post Office Boxes	385,460	543,501
Number of Street Post Boxes	2,745	2,634
Number of Postal Agencies (Private Post Offices)	69	79

Source: Saudi Postal Corporation.

Table 22.2.2
The Postal Services Network by Region
2003

Region	Post Offices	Postal Branches	Express Mail Centers	Postal Agents	Private Post Offices	Villages With Surface Mail	Villages with Roaming Mail	Subscribers' Post Office Boxes	Postal Pools	Postal Clusters
Riyadh	93	33	27	138	33	90	935	188,232	4	1
Makkah	53	55	12	74	19	77	525	104,912	3	1
Al Madinah	30	12	5	29	5	40	258	22,967	–	–
Qassim	35	18	11	90	3	55	230	30,411	–	–
Eastern Region	55	32	16	55	16	98	131	86,602	1	1
Assir	79	9	10	117	3	84	789	26,300	–	–
Tabuk	13	4	7	15	–	29	91	12,499	–	–
Hail	13	8	5	61	–	58	399	40,700	–	–
Northern Borders	20	4	3	11	–	18	32	4,200	–	–
Jizan	30	4	2	69	–	25	412	6,400	–	–
Najran	14	6	3	15	–	28	128	7,100	–	–
Al-Baha	23	2	8	79	–	28	260	5,350	–	–
Al-Jouf	20	3	5	17	–	18	37	7,828	–	–
Total	478	190	114	770	79	648	4227	543,501	8	3

Source: Saudi Postal Corporation

22.2.2.3 Volume of Postal Services

In 2003, the volume of postal services was 607.9 million mail items, down from 718 million items in 1999; a reduction of 15.3%. This reduction was mainly due to a change in the statistical methods used to count mail items in accordance with the Universal Postal Union standards. External mail represents 54% of the entire mail traffic. The quantity of handled mail was 840 million items in 2003, as compared to 907.3 million items in 1999 (See Table 22.2.3).

Table 22.2.3
Volume of Postal Service
Seventh Development Plan (Thousand)

Mail Type	1999	2000	2001	2002	2003
Internal	243,585	272,410	267,747	250,803	278,883
Incoming	240,297	290,548	274,168	206,876	176,638
Outgoing	232,192	177,766	185,323	206,415	150,263
Express Mail	1,539	1,538	1,631	1,448	1,463
Outgoing Parcels	165	270	186	288	319
Incoming Parcels	254	395	246	323	334
Total Service Volume	718,032	742,927	729,301	666,153	607,900
Handled Items	907,280	939,543	930,483	850,585	840,069

Source: Saudi Postal Corporation

22.2.2.4 Manpower Development

The postal sector is labor intensive with 9,000 direct employees employed during the Seventh Development Plan, of whom 99.7% were Saudis.

5,242 employees were trained during the Seventh Plan, representing 88% of the Plan target.

22.2.2.5 Development of Productivity

Productivity of mail delivery improved under the Seventh Development Plan. The rate of mail delivered within 48 hours of deposit increased to 91% in 2003 as compared to 28% in 1999, while the number of staff per one thousand persons improved from 0.45 to 0.40.

22.2.2.6 Budget Allocations

Total actual allocations for development projects in the postal sector during the Seventh Development Plan were SR4004,6 million, which represents 110% of the planned amount. The total revenues are expected to reach SR2,000 million which will cover 50% of the budget allocations.

22.2.3 ISSUES AND CHALLENGES

As noted earlier, under the Seventh Development Plan, the postal sector underwent structural, operational, financial and organizational changes that will, undoubtedly, contribute towards meeting the challenges it faces.

A new postal act has been drafted, which If approved will set out important organizational rules for postal services, such as:

1. A clear definition of the strategic organizational and operational roles of the parties involved i.e., strategy maker, organizer, operator and postal service provider.
2. Rules governing provision of additional mail services such as commercial, and value added services.
3. A clear identification of the services which are open to competition.
4. The terms and obligations of mail service providers.

The Saudi Postal Corporation (SPC) developed new internal administrative and financial regulations designed to enhance the operational flexibility and enable the Corporation to seek new investment methods, provide various services, and implement new projects according to schedule.

Planned development of a new set of human resources rules and regulations should contribute to rationalizing use of manpower resources, reviewing recruitment policies, and allowing introduction of an incentive system to encourage productivity and reward competence.

In addition to basic conventional mail services such as mail messages, packages, express mail services and post parcels, SPC intends offering other commercial services to generate additional revenues.

Currently, post offices depend on mail Boxes for 85% of deliveries. SPC is currently preparing to launch a huge project of home delivery service, and procuring state-of-the art sorting machines to speed up mail processing and delivery.

Implementation of these development projects will enhance the SPC's competitiveness vis-a-vis other postal services providers. Several small companies provide advanced mail services, responding quickly to the customer requirements and offering competent domestic and international services at reasonable prices.

22.2.4 DEMAND FOR POSTAL SERVICES

Economic, social and technological factors affect demand for postal services. The econometric models of the Universal Postal Union suggest

that an increase of 1% in GDP generates a 0.8% –1% increase in demand. However, the demand is also affected by the rate of inflation and population growth. Additional factors include rates of education and illiteracy and availability of other forms of communications. Improvement of quality of services is another factor that increases the demand. Therefore, efforts to improving quality of post services continue to be made including improving efficiency of mail processing, improving delivery times and introducing a tracking system for express mail. The latter will be extended to cover registered and official mail services during the Eighth Development Plan. Improvements will also include a computerized system for logging registered and official mail, in addition to the continued effort to measure effectiveness of service, and improve promotional mail services. These steps would improve quality, and encourage use and, therefore, increase demand.

The postal service is facing tough competition from other communications services as well as from other service providers. Competition in the communications market in general and in postal services in particular is not expected to weaken during the course of the Eighth Development Plan. In addition, membership of the WTO and eventual adoption of an open market policy will encourage competition, as will imminent approval of the new postal act.

The trend towards use of promotional mail as a service to businessmen and continued reliance on diversified mail services, such as e-mail, e-commerce, hybrid mail and logistic mail, will positively affect mail volume during the Eighth Development Plan. However, the postal service may lose market share due to introduction of high-quality internet and e-mail services. The influence of economic, social and other factors on demand for mail services in general, and letter services in particular, is likely to be very strong. Nevertheless, positive effects are expected to outweigh negative effects. Using the standard model of the Universal Postal Union (UPU), the net effect points to an increase in demand for postal services at an average annual rate of 2% during the period of the Eighth Development Plan.

In order to respond to potential demand for postal services, it is essential to improve the quality of and diversify existing services, benefiting from the flexible and autonomous managerial environment available to SPC.

During the Eighth Development Plan emphasis will be on diversification

and improvement of the counter services, such as payment of bills, receiving government services forms and computerized processing of acceptances, in addition to introduction of new services and products. Examples of these include financial services, such as express domestic and international money transfer services, through agreements with appropriate agencies; hybrid mail services, through arrangements with utility companies (telecom, water and electricity); bill paying, through arrangements with banks; and e-commerce supporting services through distribution of electronically ordered goods and parcels, which is a service that was introduced in Riyadh towards the end of the Seventh Development Plan. In addition, home-delivery of mail will be expanded depending on the financial allocations available to SPC.

22.2.5 FUTURE VISION

The long-term postal strategy takes into account national strategies such as the strategy for improving living standards and the strategy for achieving balanced regional development, the national spatial development strategy, and the privatization strategy. In addition, the organizational changes undergone by the postal sector and the need to introduce new services to face competition have been considered.

This vision is based on the following goals:

1. Building a strong corporation capable of rising to envisaged local and international challenges.
2. Laying the ground for comprehensive postal services covering all regions and all segments of population at affordable prices.
3. Continuing to support postal services in the least developed regions, and introducing new services to serve the requirements of the provinces and administrative centers with low population density.
4. Providing diversified services to customers, as well as services tailored to the requirements of major customers, through optimum utilization of financial and human resources and improvement of the existing services.
5. Liberalizing the postal services that may be open to competition.
6. Utilizing new technologies in postal and administrative operations, and upgrading efficiency of postal operations by reviewing business processes and procedures.

7. Encouraging the private sector to participate in providing postal services.
8. Improving the financial position of the Postal Sector.
9. Development of national manpower by quality training designed to serve the purpose of transforming the postal sector into a public corporation and eventually privatization.

22.2.6 DEVELOPMENT STRATEGY

In the context of the structural developments undergone by the postal sector during the Seventh Development Plan, SPC initiated a comprehensive reform program, aimed at providing postal services to international standards, introducing new services meeting market needs, and enhancing its overall competitive capacity.

22.2.6.1 Objectives

The key objectives for the postal services sector under the Eighth Development Plan are as follows:

- Improving quality of postal services.
- Diversifying postal services and products.
- Improving the financial position of the postal sector.
- Developing human resources to meet the needs of the postal sector.

22.2.6.2 Policies

Achieving general objectives of the postal sector relies on the following policies:

- Restructuring conventional postal services.
- Improving registered mail, parcels, express mail, and promotional mail services.
- Restructuring mail processing.
- Monitoring quality of services regularly using performance and efficiency benchmarks.
- Expanding postal services and improving coverage in the least developed regions.

- Diversifying counter services.
- Introducing money transfer services, hybrid mail services, and logistic mail services.
- Providing support services to e-Commerce.
- Reducing expenses, developing financial resources, reviewing and amending service charge in line with costs.
- Continuing training of national manpower to increase productivity and matching emerging business trends.

22.2.6.3 Targets

The following targets are expected to be achieved during the Eighth Development Plan:

- Establishing 15 postal buildings in the provinces.
- Establishing 34 postal departments in various regions.
- Introducing domestic and international money transfer services.
- Distributing parcels using electronic maps.
- Using mail tracking system for registered and express mail and parcels services.
- Training 12,000 employees.

22.2.7 FINANCIAL REQUIREMENTS

The Eighth Development Plan envisages allocating an amount of SR3682,4 million to the postal sector services. Funds will be used to upgrade the performance of the sector, diversify services, upgrade existing facilities, add new facilities and undertake human resources development.

CHAPTER TWENTY THREE

WATER

23. WATER

23.1 INTRODUCTION

Water is not only essential for human life but also for economic development and social welfare. In view of the dry climate of the country, existing water resources, irrespective of volumes or origin, are scarce and critical. Hence, they should be conserved and their utilization rationalized.

During the period of the Eight Development Plan, a comprehensive survey of water resources will be conducted to update current estimates, which are based on a survey conducted more than 20 years ago. This past survey estimated reserves of non-renewable ground water to be 500 billion cubic meters. Should the new survey confirm these estimates, then that would mean that the water situation is very critical, when we take into account consumption of non-renewable ground water since then.

However, past estimates may not have been very precise due to the state of the available technologies then. A new survey is, therefore, necessary to ascertain the actual volume of water resources in order to adopt a sustainable water policy. Nevertheless, irrespective of the volume of available non-renewable ground water resources, sustainable development and improvement of standards of living require urgent reduction of dependence on non-renewable water resources, leaving these as a strategic reserve for drinking and household uses in the first place.

This chapter addresses the current conditions of water and reviews development of water provision to all regions, as well as water consumption for various purposes. It also discusses the water supply and demand balance, and the current status and costs of ground water utilization. The institutional developments in the water sector and the issues and challenges that should be addressed under the Eighth Development Plan are also addressed.

The expected role of the private sector in supporting the water sector is also considered, along with the expectations regarding future water demand, and demand for water and wastewater services. The water sector development strategy, including general objectives, policies, and targets, is also examined.

23.2 CURRENT CONDITIONS

23.2.1 Conventional Water Supply Sources

Renewable Water Resources

Directly fed by rain, the renewable water resource comprises surface water that collects in wadis and behind dams, and shallow ground water that collects in wadi sediments or cracks and fissures below ground surface. Average annual rainfall varies between 60 and 200 mm/year, with the exception of the Empty Quarter, which is very dry. Compared to other regions of the country, rainfall in the South-Western region is relatively high, exceeding 600 mm/year in some of the mountainous areas.

The volume of renewable surface water is not negligible. An extensive network of dams has, therefore, been built to collect it and utilize it optimally, and these also provide protection against floods, help recharge ground water wells and directly provide drinking and irrigation water.

Currently, there are 223 dams serving various purposes and having various sizes, with a total storage capacity of 835.6 million cubic meters (Table 23.1). Seventeen dams are under construction, with a total storage capacity of 979.5 million cubic meters, in addition to fifteen others planned for implementation. Figure 23.1 shows the storage capacity of dams by region in 2004.

Non-renewable Ground Water Resources

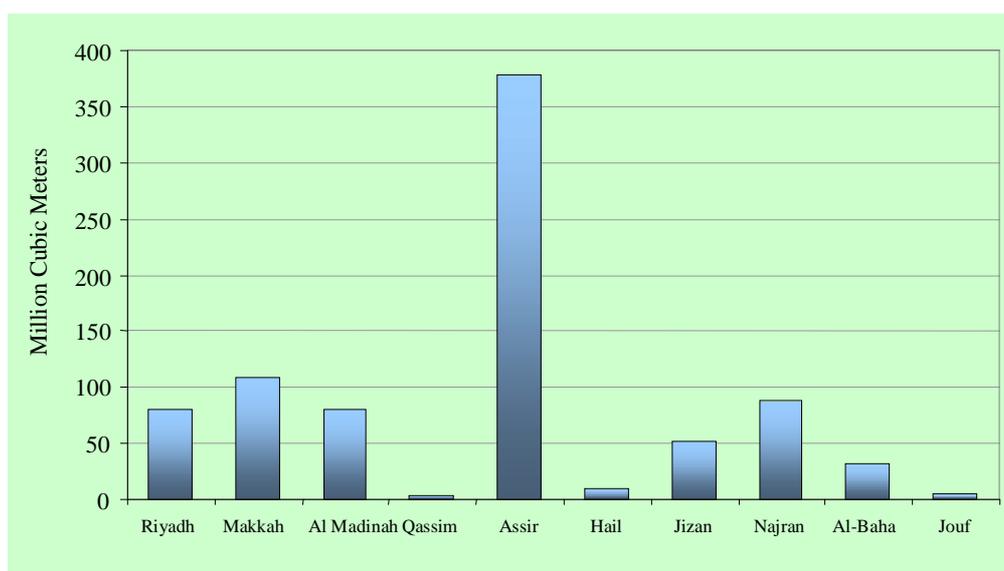
Ground water which has been stored in sedimentary aquifers for thousands of years has been the main source of water supply for decades. Non-renewable water is a strategic stock that is depletable if not handled with great care and used optimally. The aquifers are still the most important water resource for meeting the water needs for agricultural and municipal purposes. The volume of water utilized from them in 2004 was estimated to be 12,400 million cubic meters.

Table 23.1
Distribution of Dams by Purpose
and Storage Capacity, 2004

Region	Distribution by Purpose					Storage Capacity (million m ³)
	Total	Drinking	Control	Recharge	Irrigation	
Riyadh	٦٠	—	١٨	٤٢	—	٨٠.٤
Makkah	٢٥	٢	٣	٢٠	—	١٠٨.٠
Al Madinah	١٦	—	٦	١٠	—	٨٠.٧
Qassim	٣	—	١	٢	—	٣.١
Assir	٦٤	١٤	١٦	٣٤	—	٣٧٨.١
Hail	١٧	—	٣	١٤	—	٩.٣
Jizan	٣	١	١	—	١	٥١.٤
Najran	٦	—	٣	٣	—	٨٨.٢
Baha	٢٦	١	٣	٢١	١	٣١.٢
Jouf	٣	—	٣	—	—	٥.٢
Total	٢٢٣	١٨	٥٧	١٤٦	٢	٨٣٥.٦

Source: Ministry of Water and Electricity.

Figure 23.1
Storage Capacity of Dams, 2004



23.2.2 Non-conventional Water Resources

Desalinated Water

The Kingdom ranks first in the world in utilization of sea water desalination technology. It has the largest water desalination capacity, with the volume of produced desalinated water reaching 2.9 million cubic meters per day in 2004. Desalination plants also provide a net contribution of 3,426 MW (megawatts) of electrical power to the national electricity grid.

During the period of the Seventh Development Plan, three additional desalination plants were commissioned in Khobar, Shuaiba and Jubail, with a total capacity of 710,000 cubic meters of water per day and 651 MW of electricity. With these three plants, the number of desalination plants operated by the Saline Water Conversion Corporation (SWCC) reached 30 plants, distributed along the coasts (Table 23.2). New plants currently under construction will, by the end of the Eighth Development Plan, add 580 million cubic meters/day to the existing total capacity. In addition, a program for rehabilitation and renovation of existing desalination plants and facilities will be implemented (Figure 23.2).

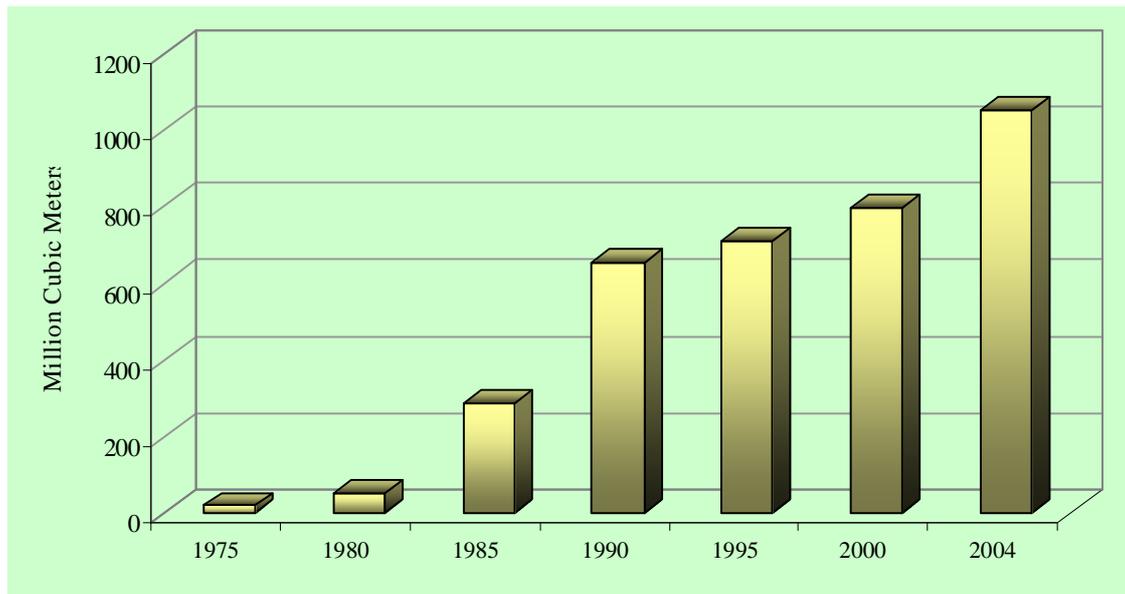
Table 23.2
Production Capacity of Desalination Plants
By end of 2003
Seventh Development Plan

	Net Water Production Capacity (000 cu m/d)	Net Power Production Capacity (MW)
Existing Plants	2,167	2,775
New Plants	710	651
Total	2,877	3,426

Source: Saline Water Conversion Corporation.

Expansion of production capacity was accompanied by a parallel development of the network of transmission lines and storage facilities. In 2004, the lengths of pipelines reached 4,170 kilometers, and the number of pumping stations reached 30, in addition to 165 water reservoirs, with a total capacity of 9.4 million cubic meters. By the end of the Seventh Development Plan, this expansion enabled desalinated water to cover 51% of the overall water demand for municipal purposes.

Figure 23.2
Production of Desalinated Water



Reclaimed Wastewater

In 2004, the average rate of collection and treatment of wastewater reached 33.5%, rising from 32% in 2000. This rate varies substantially among cities, approaching full coverage in Jubail and Dammam, but ranging between 30% and 40% in Riyadh, Jeddah and Al Madinah. About two thirds of municipal water is not collected and treated, but leaks into the ground, causing a rise in surface water levels in some areas and causing environmental pressures and health hazards. In addition, high leakage prevents making use of the substantial potential in wastewater.

Rapid expansion of cities and urban centers had led to past efforts being concentrated on getting rid of wastewater, rather than treating and re-using it in an effective way for appropriate purposes.

In view of the importance of reclaimed wastewater, as an alternative to fresh water for agricultural, industrial and recreational purposes, projects aimed at utilizing reclaimed wastewater for irrigation purposes were launched during the Seventh Development Plan; one of which, covering the area extending from South of Riyadh to al-Muzahymiah in Riyadh Region, is expected to be operational in 2006.

The Al-Hasa Irrigation and Drainage Authority (HIDA) is also expected to utilize fully the treatment plants in Hofuf, Mubaraz and Thoqba; thereby

adding in 2009 about 93 million cubic meters of reclaimed water per year to the irrigation resources of Al-Hasa project.

23.2.3 Water and Wastewater Services

Development of water and wastewater networks during the period of the Seventh Development Plan has contributed to the rise in the rate of water services coverage from 60% in 1999 to 67% in 2004. The rate of wastewater services coverage also increased from 26% in 1999 to 30% in 2004 (Table 23.3).

Table 23.3
Expansion of Water and Wastewater Networks
Seventh Development Plan

Item	1999		2004		Change	
	Number	Coverage Rate (%)	Number	Coverage Rate (%)	Increase in Number	Increase in Coverage Rate (%)
Household Connections (000)	942	60	1,020	67	78	7
Length of Networks (000 km)	29.9	60	36.1	67	6.2	7
Wastewater Connections (000)	584	26	665	30	81	4
Length of Wastewater Networks (000 km)	10.3	26	12.9	30	2.6	4

Source: Ministry of Water and Electricity.

23.2.4 Total Renewable and Non-Conventional Water Resources

The volume of renewable and non-conventional water resources in 2004 was estimated to be around 9.4 billion cubic meters per year, of which renewable water constitutes about 85% (Table 23.4), with the remainder being non-conventional (desalinated) water. Development of these resources is, therefore, one of the priorities of the Eighth Development Plan.

Table 23.4
Estimates of Renewable and
Non-Conventional Water Resources, 2004
(Million Cubic Meters per Year)

Resource Type	Supply
– Renewable Water Resources	8,000
– Desalinated Water	1,070
– Reused Wastewater	260
– Treated agricultural Wastewater	40
Total Supply of Used Renewable and non-conventional Water	9,370

Source: Ministry of Water and Electricity, SWCC and HIDA.

23.2.5 Water Consumption

Total water consumption in 2004 reached 20,270 million cubic meters, compared to 20,740 million cubic meters in 1999, which is equivalent to an annual rate of decline of 0.5% (Table 23.5).

Table 23.5
Water Consumption by Main Purpose
Seventh Development Plan
(Million Cubic Meters/Year)

Purpose	1999	2004	Realized Average Annual Growth Rate (%)	Targeted Rate of Increase in the Seventh Plan (%)
Municipal	1,750	2,100	4,0	3,0
Industrial	450	640	8,4	5,9
Agricultural	18,540	17,530	-1,1	1,4
Total Consumption	20,740	20,270	-0,5	1,6

Source: Ministry of Economy and Planning Estimates

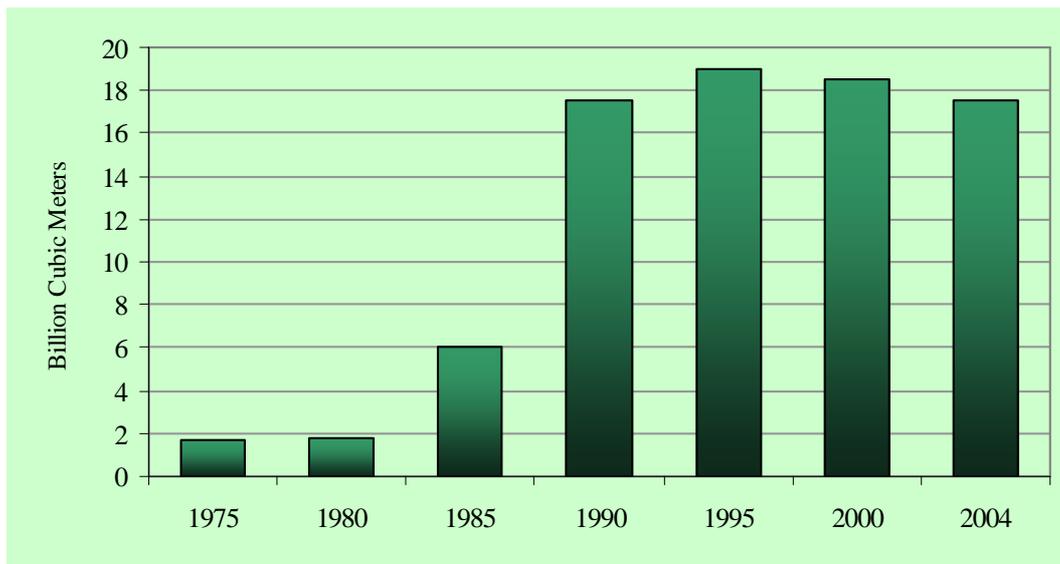
Consumption was affected by several factors and inherent developments in each of the three main consumption categories: Agricultural, Municipal, and Industrial Consumption.

Agricultural Consumption

Water consumption for agricultural purposes predominates, representing about 86.5% of total water consumption. It was estimated at around 17,530 million cubic meters in 2004, which translates into an average annual decline of 1.1% during the Seventh Plan. Moreover, consumption in 2004 was below its peak level of 1992, when it reached 19,826 million cubic meters. The decline was primarily due to policies aimed at rationalizing the

cultivation of water-intensive crops and re-directing agriculture towards highly water-efficient crops, such as vegetables and fruits. The government took further rationalization measures, such as reducing subsidies for growing wheat and barley and putting a five-year moratorium on granting new agricultural lands.

Figure 23.3
Water Consumption for Agricultural Purposes in the Kingdom



Water consumption rationalization is inadequate. Indeed, water is still provided for agricultural purposes irrespective of efficiency of consumption. The rate of water loss in agriculture is approximately 30%, which is relatively high. Moreover, the current water conservation code, which regulates licensed well-drilling operations, does not regulate water discharge rates. It, therefore, fails to protect ground water aquifers, adjacent wells, and the environment from various forms of detrimental use.

Municipal Consumption

Total municipal water consumption increased at an average annual growth rate of 4%, rising from 1,750 million cubic meters in 1999 to 2,100 million cubic meters in 2004, when it constituted 10.4% of total water consumption. By the end of the Seventh Plan, network coverage reached 67% of households; a modest increase over coverage at the beginning of the Plan, with newly added connections being less than 40% of the target set by the Plan.

Water consumption per capita is estimated to be around 230 liters daily. However, it exceeds 300 liters per day in some cities, such as Riyadh and the cities of the Eastern region. It is, thus, high, compared to standard international rates, which range between 150 and 200 liters per capita per day. Several factors influence water consumption, the most prominent of which are the dry climate and the levels of income. However, the situation is aggravated by lack of incentives for rationalizing consumption, since water tariffs do not reflect cost of production.

Moreover, water networks suffer from high water loss rates. Unaccounted-for water, lost in the network and at source before reaching the consumer, is estimated to be 28.5%. Hence, reducing water loss is evidently one of the least costly means of satisfying future additional demand for municipal water in the coming decade. It is, thus, essential to develop a clear policy for managing demand for municipal water, with a focus on bringing about a substantial reduction in network losses and on encouraging households and commercial water users in urban areas to rationalize consumption. Additional measures to promote awareness of the importance of water must also be taken.

Industrial Consumption

Water consumption for industrial purposes increased from 450 million cubic meters per year at the beginning of the Seventh Development Plan to 640 million cubic meters by its end; an increase that exceeded the expected rate set in the Plan for 2004 by about 40 million cubic meters, even though water used to inject oil wells is not included.

In general, water consumption in the industrial sector is characterized by a high degree of rationalization and efficiency of utilization, particularly in the big industrial cities. The end result is that the impact of industrial development on water resources is within reasonable limits. Moreover, regulations preclude the industrial sector from using ground water unconditionally, as is the case in other sectors. In addition, big industrial cities make greater use of wastewater through collecting, treating and reusing such water while guaranteeing non-pollution of municipal water by industrial waste.

23.2.6 Water Supply and Demand Balance and Ground Water Utilization

The gap between demand for water and the supply of renewable and non-conventional water is covered by non-renewable ground-water resources. This gap, which represents the rate of depletion of non-renewable ground water-reserves, reached 12,400 million cubic meters in 2004, rising from 11,769 million cubic meters in 1999.

The remaining life span of ground-water reserves may be estimated through knowing their proven volume and the rates of extraction. This, however, is surrounded with considerable uncertainty for a number of reasons; the most significant of which is that the latest proven reserve estimate of 500 billion cubic meters was made during the Fourth Development Plan when the technology and methods for making these estimates was rather poorly developed. Moreover, extraction estimates are indirect, being based on estimating regional water usage by cultivated land area and types of cultivated crops, rather than on direct measurement by metering devices which are currently not installed on wells. The situation will be rectified during the Eighth Development Plan through conducting a new survey of the ground-water reserves using modern technologies and techniques, as well as through installing meters to measure rates of extraction continuously. The new estimates of ground-water reserves and their remaining life span are not expected to affect the strategic policies that aim at rationalizing consumption and attaining sustainable agricultural development, but will certainly affect procedures and schedules.

The limited volume and life-span of ground water would not mean that it will cease to be used. Rather, the emphasis will be on optimizing its utilization in the service of sustainable development. Indeed, ground water may be utilized for municipal purposes, for it is less costly than other available alternatives, such as desalinated water, while concentrating on agriculture fed by natural renewable water resources and reclaimed water.

23.2.7 Water Cost

Table 23.6 presents the water tariff for municipal purposes, as per Council of Ministers Resolution 96 of 26/12/1994. At present, provision of water for agricultural purposes is unrestricted.

By comparing the water tariff with the cost estimates for providing water

from desalination plants, ground water and dams, the following observations may be made:

Table 23.6
Structure of Water Tariff for Municipal Purposes

Segment	Volume Segment (m ³ /month)	Tariff per m ³ (Riyal)
First Segment	0–50	0.10
Second Segment	51–100	0.15
Third Segment	101–200	2.0
Fourth Segment	201–300	4.0
Fifth Segment	301 and Over	6.0

- The price of water is much below the cost of providing it.
- Average water consumption for a family of 6 is estimated to be around 41 m³/month. Such consumption falls under the first segment. Consequently the actual price paid by most consumers is SR0.10 per cubic meter. This price is far below the actual cost of provision and, thus, weakens the incentive to rationalize consumption.
- While fully acknowledging the social importance of providing citizens with their water needs at prices within the reach of their purchasing power, consumption beyond average household levels should, however, be priced at actual cost of water provision.
- For agricultural uses, natural renewable water and reclaimed water are the most economically and socially feasible sources.
- Water extracted from dams has a high economic feasibility for all uses and is expected to play a major role in the future in attaining sustainable agricultural development.

23.2.8 Institutional and Organizational Development

The water sector underwent major institutional development during the period of the Seventh Development Plan, within the framework of the overall process of administrative development. The Water Affairs Department was separated from the Ministry of Agriculture and a new Ministry designated as the Ministry of Water was established by Council of Ministers Resolution 125 of 16/7/2001.

The Ministry of Water incorporated all water and wastewater departments and bodies that were under the Ministry of Municipal and Rural Affairs and the former Ministry of Agriculture and Water. The new Ministry supervises the water sector and its facilities, conducts studies related to water, and develops water policies. It has set up the mechanisms necessary for consolidating all agencies responsible for water in order to eliminate duplication in management of water affairs.

The electricity sector was subsequently incorporated into the Ministry of Water, which was then designated as the Ministry of Water and Electricity, with the aim of coordinating the administration of both and integrating electricity generation and water desalination.

The process of administrative development is expected to continue under the Eighth Development Plan, with a push towards enhancing decentralization through delegating more powers and responsibilities to the regional water administrations and involving the private sector in providing water services.

23.2.9 Budget Allocations

Total budget allocations for water sector development programs during the Seventh Development Plan amounted to SR34,859 million, which is equivalent to 99.9% of the total allocations proposed by the Plan.

23.3 ISSUES AND CHALLENGES

The water sector is facing a number of critical issues and challenges, the most important of which are the following.

23.3.1 Water Pricing

The Seventh Development Plan emphasized that inappropriate water pricing is the main cause of waste of water resources, since the consumer pays only a small share of the cost. Given the limited availability of water resources and their crucial importance for development, it is essential to set tariffs that will serve as an effective incentive for rationalizing consumption and raising consumer awareness of the actual cost and high value of water. To this end, the Eighth Development Plan will review water tariffs, taking into consideration the financial capabilities of low-income citizens.

23.3.2 Matching between Water and Wastewater Networks

Poor coordination between water supply development and wastewater network development has limited possibilities of collecting and treating wastewater to benefit from it and avoid pollution and other problems resulting from unsafe disposal. While water supply coverage reached 67%, wastewater network coverage was below 30%. To redress the situation, it is necessary to concentrate efforts during the next few years on speedy development of wastewater networks and wastewater treatment capacities, particularly in cities and major urban centers.

23.3.3 Maintenance of Existing Facilities

Water policies have given due care to development of new water resources and establishing new facilities. However, efficient maintenance and operation of existing facilities have not been accorded the same priority, despite significance of the savings that could be achieved. This issue was addressed by the Seventh Development Plan which emphasized that reduction of water losses is one of the least costly sources of water and the most efficient option, both economically and environmentally.

23.3.4 Reclaimed Wastewater

Coordination of water and reclaimed wastewater supplies is one of the essential features of modern municipal water management, particularly in big cities that face environmental pressures. Reclaimed wastewater accounted for 12% of the volume of water supply over the period of the Seventh Development Plan. This is low in comparison with many countries that consider reclaimed wastewater as one of the sustainable sources of water.

To ensure more utilization of reclaimed wastewater, the following measures will be adopted during the Eighth Development Plan:

- Encouraging maximum possible utilization of reclaimed wastewater by reviewing standard specifications and classifying wastewater types according to utilization.
- Establishing utilization of wastewater as an integral part of the irrigation and drainage strategy at the regional level and accelerating development of drainage and treatment systems in all cities and regions.

- Increasing the role of the private sector in owning, managing and operating, collection and treatment wastewater facilities.
- Studying the possibility of implementing a dual network for household purposes where one line provides potable water, while the other provides gray water for sanitary purposes and other uses.

23.3.5 Water and Wastewater Services

Massive investments in water and wastewater services could not cope with escalating demand due to rapid urban expansion. As a result, coverage of public water and wastewater networks is still far below the required level, which adversely affects efficiency of services. Wastewater treatment is limited, due both to a severe shortage of treatment stations and the low operational capacity of existing ones. Furthermore, due to high leakage rates, water losses in some parts of the network are excessive leading to large economic losses.

Effective resolution of this issue requires speedy implementation of appropriate financing alternatives, expanding the role of the private sector in providing services, obligating investors in large land development and builders of residential and commercial compounds to provide facilities to appropriate specifications, increasing revenues through diligent collection and continuous review of service charges, and continuing to launching programs designed to enhance citizens awareness of the importance of looking after water and wastewater facilities.

23.3.6 Water Conservation

A number of measures aimed at conserving water and rationalizing its consumption were taken under the Seventh Development Plan, including suspension of distribution of agricultural lands for five years and reducing subsidy to some crops. Water conservation code and regulations executive rules are also being reviewed. Nevertheless, it is necessary to develop and enforce measures that would ensure adherence to regulations and rules, in addition to other measures such as: adopting effective and transparent methods for collection of water bills, coupled with imposing penalties on defaulters; obliging users to install water meters on all agricultural wells within a specified period; obliging industries that directly benefit from municipal water networks to bear the actual cost; increasing application of technologies and modern models in water conservation and rationalization

of consumption; rehabilitating the networks and monitoring them automatically to prevent leakage and avoid water loss; developing specifications and standards for household appliances designed to reduce water consumption; promoting public awareness of the importance of conserving water and rationalizing consumption; sponsoring awareness and training programs on water conservation techniques.

23.3.7 Monitoring, Follow-up and Enforcement of Regulations

Despite the efforts made in the past to monitor water uses, there is still a need for a comprehensive monitoring system for ground water. The regulatory framework for development and utilization of ground water should be reviewed to make it cover project planning, drilling and extraction licensing processes and monitoring mechanisms.

Effective water management through improving efficiency and monitoring and performance evaluation require enhancing databases to ensure their comprehensiveness and reliability. It is also equally important to provide specialized skilled national manpower to ensure that water management is carried out efficiently and effectively in sustainable manner.

23.3.8 Strengthening Water Regulations

Existing regulations lack certain provisions necessary to meet present and future needs of the sector; foremost among which are regulations to: prioritize water uses; determine responsibilities of service users and polluters of the environment and water resources; define responsibilities and powers of regional and local authorities; set quality standards of reclaimed water; and provide for penalties and fines on violators.

23.3.9 Administrative Centralization

Water services, particularly those related to distribution and provision of final services to users, are of a decentralized nature. Hence, centralized provision of services upsets the balance between responsibilities and powers of service providers, which negatively affects service efficiency and effectiveness. It is, therefore, necessary to conclude the process of administrative development, which has led to consolidation of activities under the Ministry of Water and Electricity, by promoting decentralization of services.

23.4 THE ROLE OF THE PRIVATE SECTOR

The water sector figures prominently among the sectors open for domestic and foreign direct investment, as per Council of Ministers Resolution 219 of 11/11/2002, which listed facilities and activities targeted for privatization. The second half of the Seventh Development Plan witnessed the beginnings of private-sector activities when a private company started building on the Eastern coast a dual-purpose plant for production of desalinated water and electricity. Moreover, the Saline Water Conversion Corporation is planning to offer a number of desalination projects for direct investment in the near future. Indeed, with the required investments estimated at about SR275 billion in the coming two decades, the water sector offers extensive investment opportunities.

Participation of the private sector has been confined to implementation of construction and maintenance works, water transportation services, and provision of engineering consultancy. The Eighth Development Plan is expected to witness marked progress, with private-sector participation including constructing, managing and owning production, distribution, and treatment facilities. However, privatization is facing a number of constraints that need to be removed; the most significant of which is the low level of prices of delivered water in comparison with the cost of providing the service. Furthermore, success of privatization is depends upon establishing both regulations and effective regulatory bodies.

23.5 WATER DEMAND FORECASTS

Water demand forecasts during the Eighth Development Plan are based on the following major assumptions, which constitute part of the targets set for the sector.

23.5.1 Water Tariffs

The possibility of introducing some form of agricultural water tariff aimed at limiting water consumption in the agricultural sector will be considered. Installation of metering devices on all wells is suggested. In the meantime, consideration should be given to imposing an annual lump sum charge per cultivated hectare, depending on the water efficiency of the crop, the irrigation system being used, and the quality and source of water.

Anticipated future increase in consumption of water for municipal, industrial and other uses requires reconsideration of tariff segments. The Ministry of Water and Electricity has assigned to the National Water Advisory Board the task of conducting detailed studies of tariffs.

23.5.2 Reclaimed Wastewater

Projections indicate an increase in the share of reclaimed wastewater consumption from 33.5% of water consumed for municipal purposes in 2004 to 40% by the end of the Eighth Development Plan in 2009. These estimates also assume an increase in the rate of reclaimed wastewater utilization from 37% to 40% during the same period. This will allow increasing the volume of reused reclaimed wastewater from 260 million cubic meters to 380 million cubic meters during the Plan period. However, this target may be exceeded if projects being implemented are completed on the specified dates.

23.5.3 Water Desalination Capacity

Projections indicate an increase of the actual capacity of water desalination plants at an average annual growth rate of 9%, from 1,070 million cubic meters in 2004 to 1,650 million cubic meters in 2009, due to operating four new desalination plants at Ras Al-Zoor and Jubail (on the Eastern coast), and Shuayba and Shaqiq (on the Western coast), in addition to other small desalination plants.

23.5.4 Total Water Demand

Based on the above assumptions, total water demand is expected to decrease from about 20,270 million cubic meters in 2004 to about 18,260 million cubic meters in 2009, due to the expected decrease in the volume of water consumed for agricultural purposes at an average annual rate of 3%, coupled with an increase in demand for municipal and industrial purposes at an average annual growth rate of 2.7% and 3.8%, respectively (Table 23.7).

Table 23.7
Water Demand by Source and Use
Eighth Development Plan (Million m³)

Water Resource	Water Consumption 2004				Expected Water Demand 2009				Annual Growth Rate (%)			
	Municipal	Industrial	Agricultural	Total	Municipal	Industrial	Agricultural	Total	Municipal	Industrial	Agricultural	Total
Renewable Surface & Ground Water (Arabian Shield)	180	–	5,230	5,410	190	–	5,540	5,730	1.1	–	1.2	1.2
Renewable Ground Water (Continental Shelf)	60	–	1,030	1,090	70	–	1,100	1,170	3.1	–	1.3	1.4
Non-Renewable Ground Water	790	620	10,990	12,400	470	740	8,060	9,270	-9.9	3.6	-6.0	-5.7
Desalinated Water	1,050	20	–	1,070	1,650	–	–	1,650	9.0	-1.1	–	9.0
Reclaimed Wastewater	20	–	240	260	20	30	330	380	1.1	–	6.6	7.9
Reclaimed Agricultural Wastewater	–	–	40	40	–	–	60	60	–	–	8.4	8.4
Total	2,100	640	17,530	20,270	2,400	770	15,090	18,260	2.7	3.8	-3.1	-2.1

Source: Ministry of Economy and Planning Estimates.

23.5.5 Demand for Water and Wastewater Services

Water and wastewater demand is estimated mainly from rates of population increase and expected sectoral economic growth. Overall projections indicate the need for about 890,000 household connections, 30,000 kilometers of water networks, 2.22 million wastewater connections, and more than 40,000 kilometers of wastewater networks. Table 23.8 shows the expected demand for water and wastewater services by administrative region.

Table 23.8
Projections of Demand for Water and Wastewater Services
by Region, 2009

Region	Water Services		Wastewater Services	
	Connections (000)	Networks (Km)	Connections (000)	Networks (Km)
Riyadh	154.7	5,157	511.2	9,295
Makkah	188.7	6,290	509.8	9,269
Al Madinah	49.9	1,663	145.9	2,653
Qassim	31.8	1,060	103.2	1,876
Eastern Region	145.6	4,853	337.0	6,127
Assir	93.7	3,123	159.7	2,904
Tabuk	36.8	1,227	70.4	1,280
Hail	18.8	627	62.4	1,135
Northern Borders	14.6	487	33.9	616
Jizan	79.3	2,643	135.3	2,460
Najran	24.8	827	42.3	769
Baha	27.1	903	52.8	960
Jouf	24.4	813	56.3	1,024
Total	890.2	29,673	2,220.2	40,368

Source: Ministry of Water and Electricity Estimates.

23.6 FUTURE VISION

The future vision of the water sector aims at satisfying the growing demand for water for residential and industrial purposes as well as gradually decreasing the demand for water for agricultural purposes, through the following measures:

1. ***Development of non-conventional and renewable water resources:***
This will be achieved through synchronized development of natural renewable water resources and non-conventional resources (desalinated water and reclaimed water). The new renewable water resources are expected to meet the increasing demand for residential, industrial and agricultural purposes, along with efforts to protect and conserve non-renewable sources of water.
2. ***Enhancing water conservation and protection of water resources:***
A set of measures will be taken to ensure conservation and rational consumption of water, protecting water resources against pollution and early depletion, reducing water losses and intensifying monitoring operations.
3. ***Applying the economic value of water:*** Government subsidies provided to the agricultural sector will be reconsidered, particularly

with respect to their impact on water consumption, in addition to setting tariffs for water used for agricultural purposes, concentrating on growing high value-added crops in a competitive global environment, adopting modern irrigation technologies, and increasing the use of reclaimed water. Furthermore, over-consumption of potable water will be limited, through a suitable pricing system that covers costs while giving due consideration to low-income groups, and offering incentives to encourage rationalization of water consumption. Prices for water consumption for industrial purposes would cover full costs according to type of water supplied.

4. ***Administrative Development:*** The sector is expected to witness positive administrative changes through a set of measures, including restructuring the water sector as part of the process of restructuring the government sector, updating water regulations, increasing participation of the private sector, upgrading the skills of water sector employees, and increasing the rates of provision of water and wastewater services.

23.7 DEVELOPMENT STRATEGY

The development strategy for the water sector rests upon adopting integrated management of water resources, and enhancing the effectiveness of rationalization techniques and ensuring optimal application of such techniques.

23.7.1 Objectives

The following are the main objectives set for the water sector under the Eighth Development Plan:

- Conservation and development of water resources, along with ensuring rationalized use.
- Provision of water and wastewater services to all segments of population at a high level of quality and reliability and at the lowest possible price, taking into consideration the purchasing power of low-income citizens.
- Provision of water for industrial and agricultural purposes within the limits of sustainability of water resources and economic and social effectiveness.

- Realizing integrated management of water resources.

23.7.2 Policies

The following are the policies set for the water sector under the Eighth Development Plan:

- Intensifying water rationalization and conservation techniques.
- Developing desalinated water and reclaimed wastewater as additional non-conventional water resources.
- Applying economic value to all uses and achieving sustainable balance between water prices and cost of production.
- Developing and increasing efficiency of utilization of renewable water, and limiting consumption of non-renewable ground water.
- Protecting natural water resources against pollution, and raising awareness of their importance and the importance of their conservation.
- Giving priority to meeting demand for water used for drinking and municipal purposes, and encouraging utilization of reclaimed wastewater for agricultural, industrial and other purposes.
- Improving standards of water-sector management and enhancing effectiveness of demand management to ensure water consumption efficiency.
- Encouraging the private sector to invest in wastewater collection and treatment facilities.
- Enhancing R&D in water-use technologies.
- Increasing the actual capacity of water desalination and encouraging private investment in the desalination sector.
- Enhancing the contribution of and developing adequate training programs for national manpower in the water sector.
- Concluding the preparatory studies and research for the National Water Plan, in coordination and collaboration with all relevant agencies, and expediting issuing it.
- Reviewing and developing the legislation governing water uses.
- Establishing comprehensive databases for the water sector.

23.7.3 Targets

- Increasing dam storage capacities by about 1.1 billion cubic meters.

- Raising the actual capacity of water desalination to 1,650 million cubic meters per year.
- Implementing 350,000 household connections and 11,000 kilometers of water distribution networks.
- Implementing 600,000 wastewater connections and 14,000 kilometers of wastewater networks.
- Reducing total water network losses to around 20%.
- Increasing the rate of reclaimed wastewater usage to 40% and increasing the rate of reuse to 40%.
- Increasing the share of the private sector in total investment in water and wastewater projects and facilities to 30% and raising the share in water desalination to 50%.
- Increasing financial allocations for R&D in desalination water technologies to 4%.
- Concluding the preparation of the National Water Plan.
- Updating studies on identification of water resources and reserves, particularly non-renewable ground water.
- Reviewing water tariffs for municipal, industrial and agricultural uses.
- Finalizing the regulatory framework for water uses.
- Intensifying training programs to upgrade Saudi manpower and improve its efficiency.
- Completing the comprehensive database for water sector management.

23.8 FINANCIAL REQUIREMENTS

The financial requirements of the water sector under the Eighth Development Plan (Ministry of Water and Electricity–Water Affairs, Saline Water Conversion Corporation, Al-Hassa Irrigation and Drainage Authority) amount to SR41,570 million needed for financing water facilities operation and management programs, developing water resources, implementing water and wastewater projects, establishing new desalination plants, rehabilitating existing plants, and operating the HIDA Project.

CHAPTER TWENTY FOUR

OIL AND NATURAL GAS

24. OIL AND NATURAL GAS

24.1 INTRODUCTION

Possessing about 25% and about 4% of the world's proven reserves of crude oil and natural gas, respectively, Saudi Arabia has successfully maintained its leading position as the largest global producer and exporter of oil. The Kingdom also continued to pursue balanced global oil market policies. Within OPEC, it continued the policy of coordination among member countries to maintain their common interests, particularly as oil exports constitute the major source of income for member countries. The Organization has adopted a fair oil price regime that ensures a reasonable return for exporter countries, while supporting global economic growth.

At the domestic level, through compensating quantities produced by new discoveries, the Kingdom has maintained its production capacity of about 11 million barrels per day (mbd) of crude oil, while sustaining proven reserves at the level of 262.8 billion barrels. In addition, supply pipelines, additional production facilities and treatment plants have been constructed and the number of the tanker fleet has been increased.

Saudi Arabia has also continued to increase its reserves of natural gas and expand gas production capacity. Recently the natural gas sector was opened to direct private investment in all operations, including exploration, production and marketing, with concessions granted to a group of international companies in 2003.

Despite considerable fluctuations in global economic activity, following the events of 11th of September 2001, decline in Venezuelan and Nigerian production, and the war in Iraq, the oil market experienced in the past four years relative stability, thanks to continuous coordination by the Kingdom with OPEC and other producing countries. In addition, the Kingdom participated in the international negotiations and discussions on climate change, focusing its efforts on avoiding adoption of policies and measures prejudicial to its interests, while supporting adoption of a balanced approach to fossil fuel.

This chapter presents the petroleum policy of the Kingdom, reviews the current conditions of the oil and gas sector, and discusses the future vision for this sector and forecasts the oil and gas industry during the Eighth Development Plan period. It also reviews general objectives, policies and

targets set for the sector under the plan.

24.2 OIL POLICY

The Kingdom has adopted a coherent dynamic oil strategy that takes into consideration global developments in the oil market and the petroleum industries. This strategy emphasizes the following policies:

- Adopting a flexible pricing policy to help sustain reliance on oil as a main source of world energy supply.
- Pricing Saudi oil products competitively in international oil and oil-product markets.
- Maintaining a production capacity commensurate with global demand for oil, and meeting potential shortage at times of crisis to help maintain stability of world oil markets.
- Continuing with domestic and foreign investment in marketing and oil refining and facilities to secure assured marketing of the required quantities of Saudi oil and benefit from returns on the value added by refining and marketing operations.
- Strengthening cooperation and coordination with all oil exporting countries inside and outside OPEC, and stimulating dialogue with consumer countries. Hosting the General Secretariat of the International Energy Forum (IEF) in Riyadh is expected to stimulate the dialogue between exporter and consumer countries to serve the global economy.
- Controlling environmental pollution and global warming, while combating policies and measures that prejudice the oil interests of the Kingdom; effectively participating in international meetings on environmental protection and safety, particularly those sponsored by the UN and other international organizations; cooperating further with oil producing countries in particular, and with developing countries in general, on this sector.

24.3 CURRENT CONDITIONS

24.3.1 Development of Crude Oil and Natural Gas Reserves

Oil and natural gas exploration efforts continued under the Seventh Development Plan, resulting in maintaining the level of proven crude oil

reserves at 262.8 billion barrels in 2003, and compensating for the quantities produced during the first four years of the Plan, which amounted to 12.2 billion barrels (Table 24.1).

Four new fields were discovered during the Seventh Development Plan period, bringing the total to 91 by the end of 2003. During this period, exploration activities concentrated on non-associated natural gas deposits, with reserves increasing during the first four years of the Plan from 217.0 to 238.5 trillion ft³. Notably, the quantity of natural gas extracted over the same period reached 7.8 trillion ft³ and two new fields were discovered in 2002.

Table 24.1
Crude Oil and Natural Gas Reserves
1999–2003

Year	Crude Oil Reserves (billion barrels)	Natural Gas Reserves (Trillion ft ³)
1999	262.8	217.0
2000	262.8	222.5
2001	262.8	227.9
2002	262.8	234.7
2003	262.8	238.5

Source: Ministry of Petroleum and Mineral Resources.

24.3.2 Production of Crude Oil and Natural Gas

Production of crude oil increased at an average annual growth rate of 2.7%, from 2761.2 million barrels in 1999 to 3069.7 million barrels in 2003. The share of the Kingdom in OPEC production of oil and natural gas liquids stood at 31.4%, while the share of the organization in world production amounted to 38.4% in 2003.

Saudi ARAMCO accounted for about 97.5% of Saudi total production, with the rest produced by ARAMCO Gulf Works Limited and Texaco Saudi Arabia, both operating in the subdivided neutral zone. These companies have sustained a production capacity of about 11 mbd, thus maintaining the strategic position of the Kingdom in the international oil industry as the major producer and exporter (Table 24.2 and Figure 24.1).

Under the Seventh Development Plan, production of natural gas increased continuously, reflecting the growing role of gas in enhancing the ability of

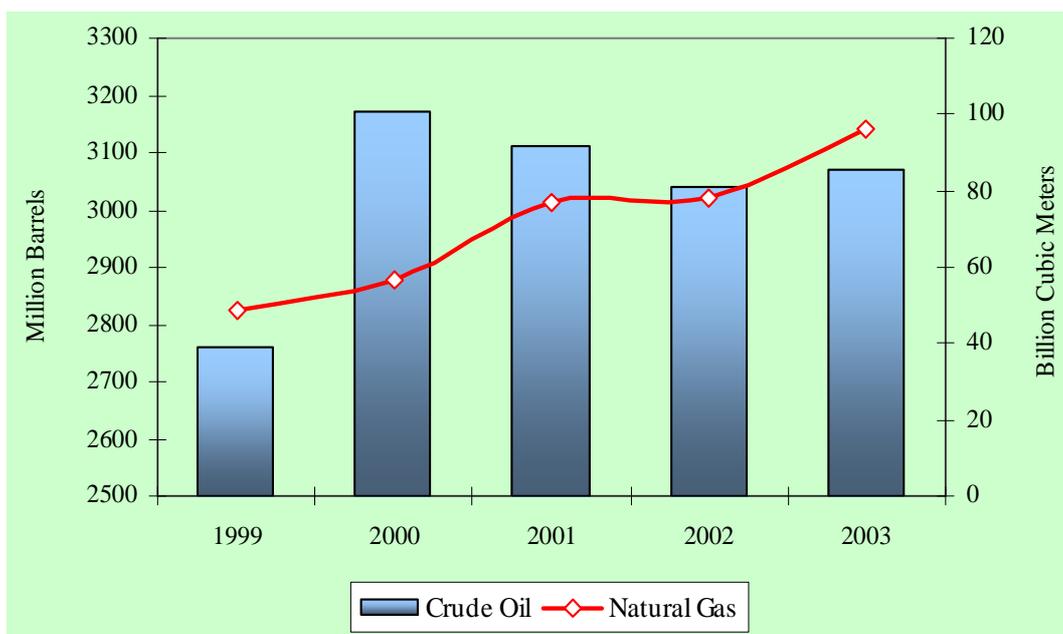
the country to meet domestic demand for natural gas and its derivatives independently of crude oil production, which is subject to world oil market volatility. Over the first four years of the Plan, production of natural gas increased at an average annual rate of about 6.8%, reaching in 2003 about 63.91 billion m³, against a total production capacity of 96.07 billion m³, while production of dry gas (methane) reached 44.46 billion m³, against a capacity of 72.3 billion m³. In the same year, production of ethane reached 4.3 billion m³ and that of LNG 134.4 million barrels.

Table 24.2
Production of Crude Oil and
Production Capacity of Natural Gas
1999–2003

Year	Crude Oil (million barrels)	Natural Gas Production Capacity (billion m ³)
1999	2761.2	48.79
2000	3171.0	56.59
2001	3113.0	77.24
2002	3038.0	78.09
2003	3069.7	96.07
Total 2000–2003	10102.9	307.99
Average annual growth rate (%)	2.7	18.5

Source: Ministry of Petroleum and Mineral Resources.

Figure 24.1
Production of Crude Oil and Natural Gas
(1999–2003)



Capacity of the main gas network was enhanced markedly under the Seventh Development Plan, through bringing on stream in 2002 the Al-Hawiyah Plant, which is first plant designed for processing non-associated gas in the Kingdom, with a capacity of 1.6 billion ft³ per day of natural gas and 160,000 barrels per day of natural gas liquids. A similar plant, the Haradh Gas Processing Plant, was added in 2003, with a production capacity of 1.6 billion ft³ per day of natural gas and 170,000 barrels of natural gas liquids per day. During the period, Saudi ARAMCO expanded the Berri Gas Plant, increasing its processing capacity to 1.56 billion ft³ per day of natural gas, extracting about 288 million ft³ of ethane, and increasing liquid natural gas production capacity by about 196,000 barrels/day. Expansion of capacity at the Berri Plant is part of an expansion program involving the three original plants of Shedgum, Uthmaniyah and Berri.

During the period of the Plan, methane gas was supplied, through a pipeline, from the Eastern region to feed electricity generating plants and other industrial facilities in the second industrial city in Riyadh. In addition, Yanbu city was supplied with about 400 million ft³ per day of methane and quantities of ethane were freed for use as feedstock in the petrochemical industries.

24.3.3 Refining and Distribution

Total capacity of the existing seven refineries remained about 1.8 mbd,

distributed through 20 petroleum-product distribution centers and 17 jet fuel supply units all over the country. Stability of the refining capacity notwithstanding, the structure of refined products shifted relative towards high value light products, as a result of upgrading some domestic refineries. Table 24.3 shows that the share of naphtha and diesel improved at the expense of heavy fuel oil. During the 1999–2003 period, production increased at an average annual rate of 2.5%, mainly due to a substantial production increase in 2003, as well as to a tangible improvement in capacity utilization during that year. Figure 24.2 shows the shares of refined oil products in 2003.

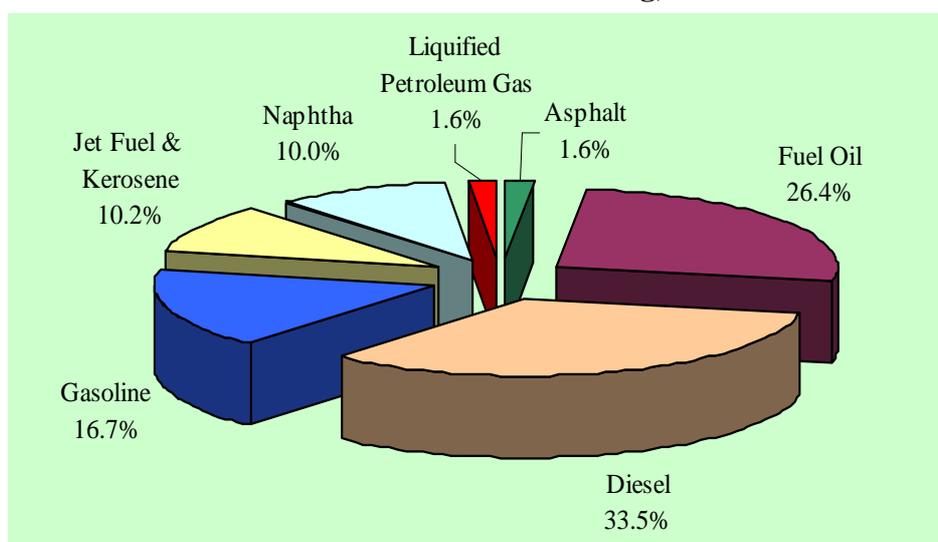
Under the Seventh Development Plan, supply of benzene, diesel and fuel oil to the South Western region was enhanced by increasing storage capacity in the Jizan region by about fivefold to 1.5 million barrels. A harbor for unloading tankers, with a total capacity of 45,000 tons, was also constructed. In 1999, a pipeline to transport refined products from Dhahran to Riyadh and from Riyadh to Qassim, was constructed with a total length of 750 km including a branch pipeline to Al-Hassa. These pipelines replaced about 2,500 tankers that used to serve this region; thus increasing efficiency and reliability of supply of products and reducing costs resulting from damage caused by trucks to roads, traffic safety and environmental health.

Table 24.3
Refined Oil Products (1000 barrels/day)
(1999–2003)

Product	1999	2000	2003	Average annual growth rate (%)	Relative share	
					1999	2003
Liquified petroleum gas	۳۴.۳	۲۶.۴	۲۷.۸	– 5.1	۲.۲	۱.۶
Naphtha	۱۳۵.۱	۱۵۰.۸	۱۷۶.۰	۶.۸	۸.۵	۱۰.۰
Jet fuel & Kerosene	۱۶۶.۱	۱۸۳.۳	۱۷۹.۶	۲.۰	۱۰.۴	۱۰.۲
Gasoline	۲۷۲.۷	۲۷۵.۰	۲۹۴.۵	۱.۹	۱۷.۱	۱۶.۷
Diesel	۵۱۷.۴	۵۴۳.۰	۵۹۰.۷	۳.۴	۳۲.۵	۳۳.۵
Heavy fuel oil	۴۴۹.۴	۴۴۹.۲	۴۶۴.۱	۰.۸	۲۸.۲	۲۶.۴
Asphalt	۱۸.۲	۲۲.۱	۲۸.۱	۱۱.۵	۱.۱	۱.۶
Other products	۰.۰	۰.۰	۰.۰	۰.۰	۰.۰	۰.۰
Total	۱,۵۹۳.۲	۱,۶۴۹.۸	۱,۷۶۰.۸	۲.۵	۱۰۰.۰	۱۰۰.۰

Source: Ministry of Petroleum and Mineral Resources.

Figure 24.2
Structure of Domestic Refining, 2003



Saudi Arabia is a partner in four refining and marketing joint-venture projects operating in international markets, with a total refining capacity of 1,645 million barrels per day. The share of the Kingdom in these ventures averaged 44.3% (Table 24.4).

Table 24.4
International Joint Ventures in Oil Refining

Venture	Country	Refining Capacity (1000) barrel/day	Kingdom's Share (%)
1. Motiva Enterprises	USA	840.0	50.0
2. S-Oil	S. Korea	525.0	35.0
3. Petron	Philippines	180.0	40.0
4. Hellas	Greece	100.0	50.0

Source: Ministry of Petroleum and Mineral Resources, 2003.

In sea transportation, Vela International Marine Company (an affiliate of ARAMCO) transported 687 million barrels of crude oil and 293 million barrels of products to world markets in 2002. The company added five new tankers to its fleet; thereby bringing the total number to 28 large and medium-size tankers.

24.3.4 Restructuring and Privatization

The Seventh Development Plan period witnessed the first fruits of the initiative launched by H.R.H The Crown Prince in 1998 to open the gas sector to private local and foreign investment. Under this Saudi Gas

Initiative, contracts for joint ventures were concluded with three international groups in 2004 (Box 24.1).

The oil refining sector was also opened to private investment. In 2002, a Royal decree approved the formation of a new company for manufacturing and energy services, in which the private sector was invited to participate, with the aim of serving the development objectives of privatization, diversification of sources of income and technology transfer and indigenization.

The process of dissolving PETROMIN was completed by the end of 2003, with establishing the Saudi Geological Survey Commission, which took over PETROMIN's activities, as well as the posts and tasks of the General Survey Department of the Ministry of Petroleum and Mineral Resources.

Box 24.1: Development of the Saudi Gas Initiative

In 2003 and 2004, contracts were signed with international oil companies for four main gas joint ventures to be implemented under the Eighth Plan:

- Royal Dutch Shell and French Total signed an agreement to establish a new company that obtained a 25-year concession for gas exploration and production in an area of 210,000 Km² in the Empty Quarter. Shell will control 40%, with TOTAL and Saudi ARAMCO controlling 30% each.
- Lukoil of Russia signed an agreement to explore an area of 29,900 Km² in the northern part of the Empty Quarter. A new company, 80% owned by Lukoil and 20% by Saudi ARAMCO, was set up to handle the joint venture.
- China Petroleum and Chemical Corporation (SINOPEC) signed an agreement to explore an area of 38,800 Km². A new company, 80% owned by SINOPEC and 20% by Saudi ARAMCO, was set up to handle the joint venture.
- A consortium of Italy's ENI and Spain's REPSOL signed an agreement to explore an area of 52,000 Km². A company, in which ENI holds 50%, REPSOL 30% and Saudi ARAMCO 20%, was established to handle the joint venture.

24.3.5 Domestic Consumption of Energy

Domestic energy consumption grew in line with overall economic growth, with a average annual growth rate of 4.2% during 1999–2003, compared with the expected growth rate of 6.1% envisaged by the Plan. Total energy consumption increased from 1877.6 thousand to 2213.1 thousand barrels of crude oil equivalent per day in the same period. The annual growth rates of the main categories of energy consumption were as follows: refined

products 5.9%, crude oil for direct consumption –13.4% and natural gas 6.8% (Table 24.5 and Figure 24.3).

The share of natural gas in total energy consumption increased from 38.2% in 1999 to 42.1% in 2003, while the share of crude oil declined from 13.4% to 6.4%, and the share of refined products increased from 48.4% to 51.5%, due to the increase in the share of heavy fuel oil, which is a cheaper alternative to crude oil (Table 24.5).

As for refined products, consumption of diesel increased at an average annual rate of 4.1%, although its share in total refined products decreased from 43.6% in 1999 to 40.8% in 2003; mainly due to the increase in the share of heavy fuel oil from 18.3% to 22.7% (Table 24.6). These developments in the domestic energy market were in line with the strategic objectives for the energy sector.

Table 24.5
Domestic Energy Consumption
(1999–2003)

Thousand barrels of oil equivalent/day

Year	Oil Liquids		Energy		Total Energy
	Crude Oil for Direct Combustion	Refined Products	Total Oil Liquids	Natural Gas (fuel)	
1999	252.4	908.5	1160.9	716.7	1877.6
2000	239.7	939.6	1179.3	770.6	1949.9
2001	203.1	982.0	1185.1	835.8	2020.9
2002	166.6	1053.7	1220.3	895.9	2116.2
2003	141.7	1140.5	1282.2	930.9	2213.1
Average annual growth rate (%)	-13.4	5.9	2.5	6.8	4.2
Share in Total (%)					
1999	13.4	48.4	61.8	38.2	100.0
2003	6.4	51.5	57.9	42.1	100.0

Source: Ministry of Petroleum and Mineral Resources.

Figure 24.3
Domestic Consumption of Energy

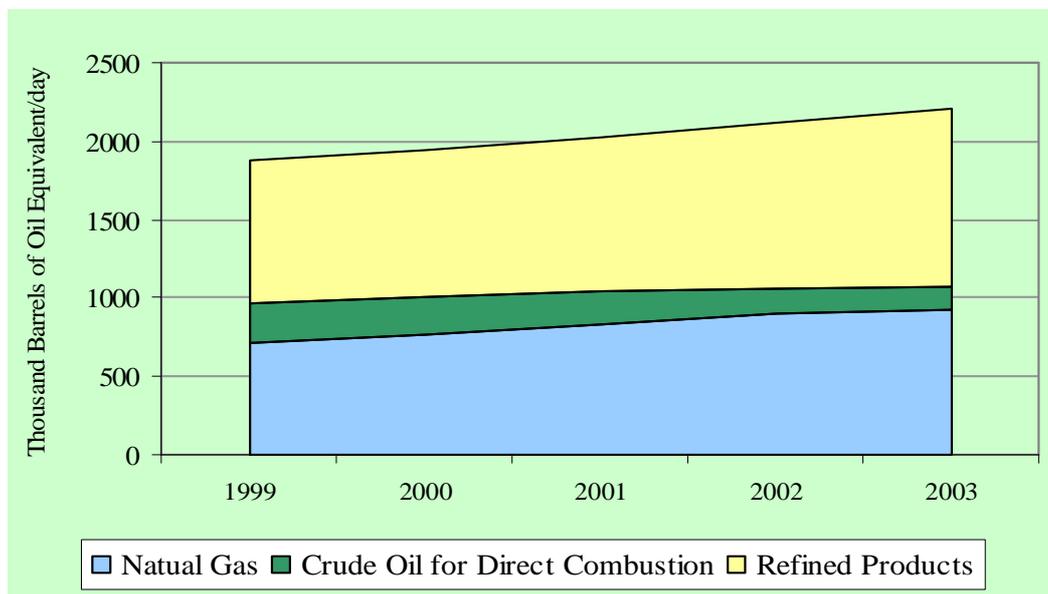


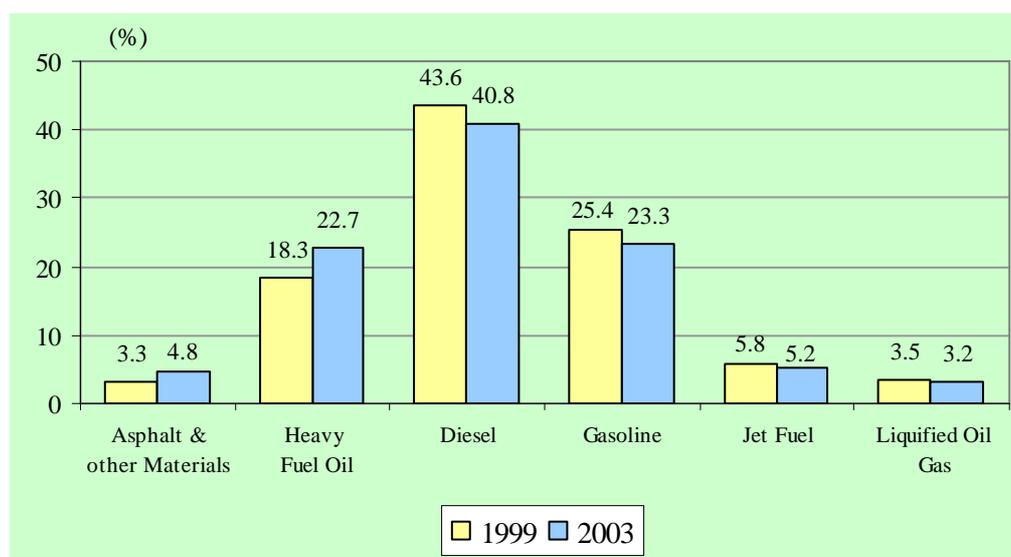
Table 24.6
Domestic Consumption of Refined Products
(1999–2003)

Year	Thousand barrels/day						Total refined products
	Asphalt and others	Heavy Fuel oil	Diesel	Gasoline	Jet fuel/ kerosene	Liquified oil gas	
1999	30.3	166.2	395.9	231.1	52.9	32.1	908.5
2000	32.6	170.8	410.0	238.0	55.5	32.6	939.5
2001	34.3	177.7	436.7	246.1	53.8	33.4	982.0
2002	47.1	213.6	447.1	256.2	53.8	35.9	1,053.7
2003	55.1	258.9	465.6	265.6	58.8	36.5	1,140.5
Average annual growth rate (%)	16.1	11.7	4.1	3.5	2.7	3.3	5.9
Share in total (%) *							
1999	3.3	18.3	43.6	25.4	5.8	3.5	100.0
2003	4.8	22.7	40.8	23.3	5.2	3.2	100.0

* Figures rounded to one decimal point.

Source: Ministry of Petroleum and Mineral Resources.

Figure 24.4
Structure of Refined Products Consumption
in the Domestic Market, 1999–2003



24.3.6 Budget Allocations

During the period of the Seventh Development Plan, the total funds allocated in the state budget for the Oil Sector of the Ministry of Petroleum and Mineral Resources was about SR442.5 million, or 101% of the total amount proposed by the Plan.

24.4 ASPIRATIONS AND FORECASTS OF THE EIGHTH DEVELOPMENT PLAN

In accordance with the general objectives and strategic principles of the Eighth Development Plan and the future vision it has for the oil sector, it is hoped that the sector would achieve the following objectives.

24.4.1 Crude Oil and Natural Gas Reserves

- Maintaining the level of proven crude oil reserves.
- Sustaining exploration of non-associated natural gas deposits in all regions, in order to determine the size and locations of proven reserves.
- Maintaining a gas pricing mechanism that is commensurate with production costs but makes it available at competitive prices for use in the Saudi economy.

24.4.2 Crude Oil and Natural Gas Production

- Developing crude oil production capacity in line with growth of global demand, while maintaining surplus capacity to help ensure stability of international oil markets.
- Enhancing natural gas production capacity to meet the demand that is expected to grow at an annual rate of about 10%, while emphasizing development of the non-associated gas production capacity.

24.4.3 Refining, Transportation and Distribution

- Increasing the production capacity of local refineries, particularly in regions lacking refining facilities, with effective participation from local and foreign private sector.
- Continuing to enhance the position of the Saudi petroleum industry in global markets, through further investments in refining, distribution and marketing facilities.
- Developing Saudi petroleum products distinguished by their trademarks in the international markets.

24.4.4 Continuing Privatization Process

A study of possible privatization of refining and distribution operations is

expected to be conducted during the period of the Eighth Development Plan to pave the way for participation of national and foreign private capital in the downstream activities of the oil sector. The private sector is expected to assume a major role in providing the envisaged refining capacities.

In addition to the implementation of already concluded agreements with international companies specialized in natural gas exploration and production, further agreements will be signed under the Eighth Development Plan to initiate exploration and production in the promising regions.

24.4.5 Indigenization and Development of Technologies

- Continuing the efforts towards indigenization and development of technology that were initiated with the establishment in 2003 of the Manufacturing and Energy Services Company in partnership between the state and the private sector.
- Saudi ARAMCO, in coordination with King Abdul-Aziz City of Science and Technology and appropriate Saudi universities, is expected to adopt a program for R&D in safe disposal of carbon dioxide, fuel cell technologies based on crude oil as feedstock, and other fields that could enhance the status of oil and develop its uses.

24.4.6 Domestic Consumption of Energy

Domestic consumption of energy is expected to grow at an average annual rate of 5% during the period of the Eighth Development Plan, from 2,138 thousand barrels of crude oil equivalent per day in 2004 to 2,733 thousand in 2009 (Table 24.7 and Figure 24.5).

Domestic consumption in the main energy categories (Table 24.7) is expected to grow, at an annual rate of 3.3% for refined products and 14.8% for crude oil for direct combustion. The share of refined products in total consumption is expected to decline from 54.2% in 2004 to 49.9% in 2009, while the share of crude oil will rise from 6% to 9.4%. Consumption of natural gas as a fuel is expected to grow at an average annual rate of 5.5%, increasing its share in total energy consumption from 39.8% to 40.7%. However, consumption of natural gas is not limited to its use as fuel. Its use as a feedstock is expected to grow at an average annual rate of 16.8% during the period. Thus, total consumption of natural gas, including gas

liquids, will increase at an average annual rate of 10%, from 1273 thousand to 2054 thousand barrels of oil equivalent per day (Table 24.8).

Table 24.7
Expected Domestic Energy Consumption
Eighth Development Plan
(Thousand barrels of oil equivalent per day)

Year	Oil Liquids		Energy		
	Crude Oil for Direct Combustion	Refined Products	Total Oil Liquids	Natural Gas (fuel)	Total Energy
2004	129	1109	1288	800	2138
2005	163	1188	1301	879	2230
2006	170	1228	1399	896	2290
2007	207	1209	1466	938	2400
2008	209	1306	1010	1033	2048
2009	207	1363	1620	1113	2733
Average annual growth rate (%)	14.8	3.3	4.7	0.0	5.0
Share in total (%)					
2004	6.0	54.2	60.2	39.8	100.0
2009	9.4	49.9	59.3	40.7	100.0

Source: Ministry of Petroleum and Mineral Resources.

Figure 24.5
Expected Domestic Energy Consumption
Eighth Development Plan

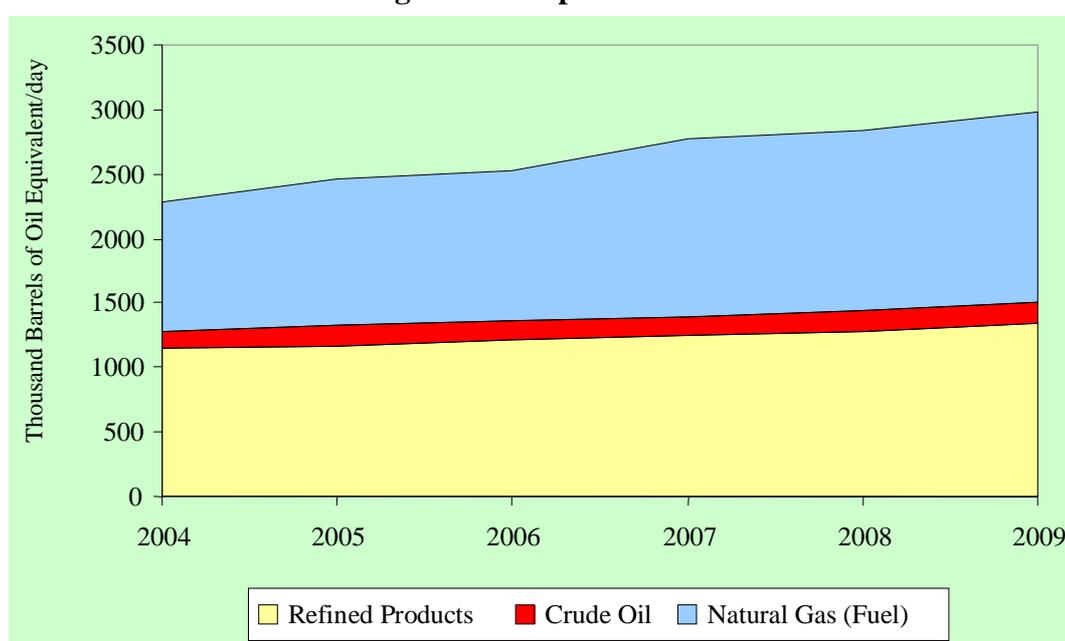
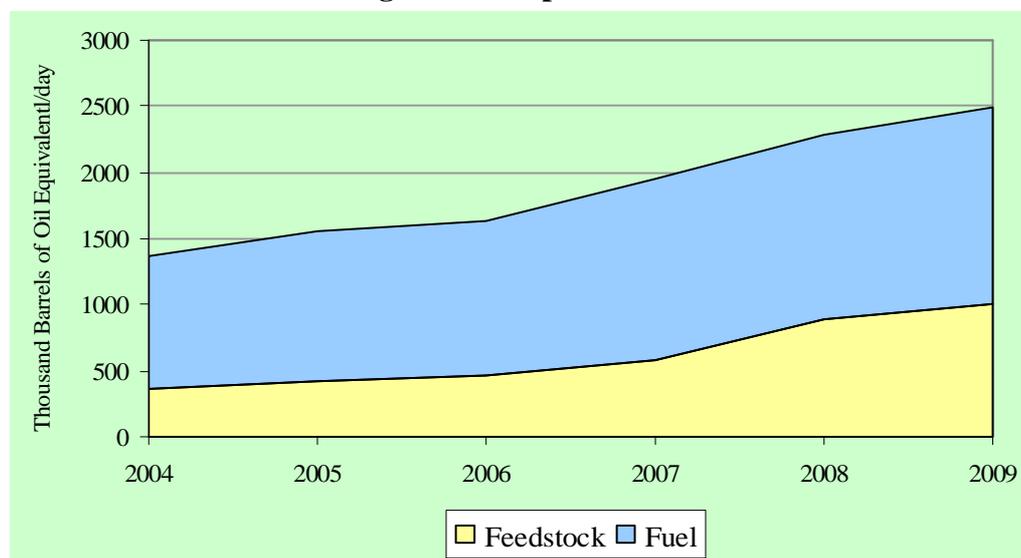


Table 24.8
Expected Domestic Natural Gas Consumption
Eighth Development Plan
(Thousand barrels crude oil equivalent /day)

Year	Natural Gas Liquids and Ethane Gas	Methane Gas	Total Natural Gas
2004	394	879	1273
2005	400	1031	1431
2006	474	1074	1548
2007	521	1020	1541
2008	797	1109	1906
2009	855	1199	2054
Average annual growth rate (%)	16.8	6.4	10.0
2005–2009			

Source: Ministry of Petroleum and Mineral Resources.

Figure 24.6
Expected Domestic Natural Gas Consumption
Eighth Development Plan



As for refined products, consumption of heavy fuel oil is expected to grow at an average annual rate of 6.3%, almost more than double the rate of consumption of total refined products; thus increasing its share in total refined products from 30.0% in 2004 to 34.6% in 2009 (Table 24.9). The growth in consumption of heavy fuel oil and the expected growth in

consumption of natural gas come at the expense of crude oil for direct combustion and diesel oil used as fuel in furnaces. Consequently, consumption of diesel is expected to grow at a relatively low annual rate of 1.1%. Forecasts of consumption of furnace fuel are in line with the strategy aimed at substituting crude and heavy oil fuel for natural gas, which has the potential for enhancing the economic growth of the industrial sector.

Table 24.9
Domestic Consumption of Refined Products
Eighth Development Plan

Year	Thousand Barrels/Day						
	Asphalt & others	Heavy fuel oil	Diesel	Gasoline	Jet fuel (kerosene)	Liquified oil gas	Total Refined products
2004	39	348	413	271	57	31	1109
2005	40	357	423	280	58	30	1188
2006	40	378	431	289	59	31	1228
2007	42	404	424	297	60	32	1259
2008	42	430	429	306	61	33	1306
2009	43	472	437	316	61	34	1363
Average annual growth rate (%)	2.0	6.3	1.1	3.1	1.4	1.9	3.3
Share in total (%)							
2004	3.3	31.0	35.7	23.4	4.9	2.7	100
2009	3.2	34.6	32.0	23.2	4.5	2.5	100

Source: Ministry of Petroleum and Mineral Resources.

24.5 FUTURE VISION

The future vision for the oil and natural gas sector acknowledges the central role of this sector as the main engine of economic development and a key source of comparative advantage for the national economy; hence the importance of maximizing this role. However, in view of the non-renewable nature of oil resources and the uncertainty of their long-run future, it is essential that they be utilized optimally in building a competitive advantage for the national economy, which, in turn, will enable diversification of the economic base, provide alternative income sources, and achieve sustainable development. This entails maximization of value added and enhancement of oil industry integration, through

increasing refining capacity within and outside the Kingdom and ensuring full utilization of natural gas resources in the development of the industrial base; all in a competitive environment that contributes to upgrading performance and attaining economic efficiency in all relevant activities.

However, securing a competitive advantage for the national economy is contingent upon establishing an advanced science and technology base, including R&D centers and an integrated state-of-the art information and communication technology infrastructure. Given the advanced level and leading role of the oil industry, it can, both as an incubator and a user, play a vital role in technology transfer and indigenization, as well as in enhancement of R&D capabilities. Hence, the main features of the future vision of the oil sector are:

- An oil industry of high efficiency and productivity by international standards, having a unique global presence based on excellent products and well-known trademarks world markets.
- An advanced refining industry commensurate with the status of the Kingdom as the largest producer and exporter of oil, so that most of the crude oil produced by the country will be refined by Saudi refineries inside the Kingdom and abroad, with local refining capacity not less than two thirds of the total.
- A comprehensive national network for transportation of all types of energy products, covering all regions and linking refineries and gas processing plants with the consumption centers.
- A major comprehensive role for the private sector in the oil sector, covering, within a competitive framework, the whole chain of natural gas industry operations, as well as all downstream oil activities.
- The Kingdom becoming a major international center for energy research and studies through establishing reputable R&D centers, universities and specialist institutes that provide postgraduate studies and research in the various domains of energy, and are linked with similar institutions all over the world.
- Transfer and indigenization of technology through highly efficient Saudi, Arab and international engineering companies capable of contributing to various fields of energy.

24.6 DEVELOPMENT STRATEGY

The development strategy for the oil and natural gas sector aims at

maximizing the benefit from this sector as the main source of comparative advantage for the national economy, through adoption of an integrated set of objectives and policies.

24.6.1 Objectives

The following are the general objectives for development of the oil and natural gas sector:

- Maximizing the economic value added of oil and natural gas resources.
- Production of oil and natural gas using the best technical and economic means, along with development of reserves.
- Maintaining the share of oil in the global consumption of energy, along with maintaining the position of the Kingdom in the world market.
- Ensuring stability of oil markets, and securing a sustainable income from oil.

24.6.2 Policies

Achieving the main objectives set by the Eighth Development Plan for the oil and natural gas sector relies on the following policies:

- Maintaining oil exploration operations to increase reserves.
- Developing domestic refining capacities.
- Increasing the level of integration of the Saudi oil industry globally.
- Expanding the national petroleum-product network to regions that have not been covered yet.
- Providing a competitive local market for refining, distribution and other pertinent operations.
- Sustaining gas exploration operations.
- Proceeding with privatization and development of the natural gas industry.
- Maintaining development of the national gas network.
- Adhering to environmental standards at all stages of planning, design, construction and operation of all oil related facilities.
- Proceeding with rationalization of energy consumption through modifying the structure and level of prices to reflect opportunity

cost.

- Supporting and adopting R & D programs for safe disposal of oil and gas industry pollutants and for utilizing oil in alternative technologies.

24.6.3 Targets

During the period of the Eighth Development Plan, domestic consumption of energy is expected to grow at an average annual rate of 5%, with the corresponding rates being 3.3% for refined products, 10% for natural gas and 14.8% for crude oil for direct combustion.

The following targets are also expected to be achieved during the period of the plan:

- Compensating the quantity of oil produced to meet demand.
- Adding new oil refining capacity to meet demand.
- Entering into economically worthwhile refining and marketing projects in international markets.
- Achieving comprehensive coverage of distribution of oil products of all regions by the end of the Plan.
- Developing a specific program for privatization of refining, distribution and downstream activities.
- Opening new areas for exploration of natural gas.
- Developing a competitive market in the natural gas industry.
- Ensuring comprehensive coverage of the natural gas network of all regions to meet domestic demand for feedstocks and fuel.
- Including environmental impact assessments in all feasibility studies of facilities and enterprises.
- Revising prices of domestic natural gas regularly.
- Preparing an integrated program of natural gas industry R&D.

24.7 FINANCIAL REQUIREMENTS

The financial requirements of oil and natural gas sector under the Eighth Development plan amount to SR 456.59 million, to cover financing management, operation and maintenance, manpower development, oil facilities development, support services, renovation of buildings, studies and research, and demarcation of borders.

CHAPTER TWENTY FIVE

MINERAL RESOURCES

25. MINERAL RESOURCES

25.1 INTRODUCTION

This chapter presents the current conditions of the mineral resources sector and the relevant developments under the Seventh Development Plan, points out the key issues and challenges that will face the sector under the Eighth Development Plan, and discusses the role of the private sector and the investment opportunities available. Key features of the new Mining Investment Code and the future vision, objectives, policies and targets for the mineral resources sector are also addressed.

25.2 CURRENT CONDITIONS

25.2.1 Key Developments

Capacity of the mineral resources sector for raw material extraction, processing and manufacturing into semi-final or final products has increased to meet growing domestic demand for building materials and processed products, with excess production exported to overseas markets. Under the Seventh Development Plan, the sector made several achievements expected to accelerate its development (Box 25.1). Both public and private sector companies contributed to these achievements.

Contribution of the mineral resources sector to GDP of 0.4%, however, fell short of meeting the target set by the Seventh Plan for annual growth of value added of 9%, with the annual growth rate achieved being limited to 2% only. This is due to several factors that will be addressed in the section on Issues and Challenges of this chapter.

Several new mineral ore deposits were discovered, notably gold, feldspar, dolomite, silica sand, kaolin, aggregate, pozzolan, precious stones and other building materials. The number of mining concessions increased from 21 in 2000 to 32 in 2004 (Figure 25.1). Production began in two new gold mines. The number of small mine permits increased at an annual growth rate of 8.1%, from 21 in 2000 to 31 in 2004. Figure 25.2 shows the sites of small mines in 2003. Building materials extraction permits increased at an annual growth rate of 0.9%, from 876 to 970 permits. Projects for extraction of phosphate, iron, bauxite and magnesite are still in the exploration and assessment of economic feasibility stage.

Box 25.1: Key developments in the mining and mineral resources sector during the period of the Seventh Development Plan

- The Mining Investment Code issued by Royal Decree M/47 of 4/10/2004.
- Establishment of the Saudi Geological Survey (SGS), by Council of Ministers Resolution 115 of 25/10/1999.
- Council of Ministers Resolution 109 of 24/5/2004 launches privatization of the Saudi Arabian Mining Company (Ma'adin).
- Completion of the draft of the mining strategy.
- The Foreign Investment Act issued by Royal Decree M/1 of 20/4/200.
- The Income Tax Law issued by Royal Decree M/1 of 6/3/2004.

Most mining activities achieved remarkable progress under the Seventh Development Plan, which augurs well for the sector. The number of exploration licences increased at an average annual growth rate of 10.2%. In terms of area covered by the licences, gold came first, with 70% of total area, followed by base metals, with 20%. The rest went for industrial minerals and rare metals, including tantalum, and a site for iron ore. The number of mining concessions granted increased at an average annual growth rate of 8.8%, while areas earmarked for mining activities increased at 15.8% per year. The volume of extracted raw minerals increased at an average annual rate of 5.1%, from 160 million tons in 2000 to 210 million tons by the end of the Plan in 2005 (Table 25.1).

**Table 25.1
Development in Mining and Mineral Resources Sector
Seventh Development Plan**

Mining Activity	2000	2004	Average Annual growth (%)
Reconnaissance permits	23	26	2.5
Exploration licences	16	26	10.2
Small mine permits	21	31	8.1
Building material permits	876	970	0.9
Mining concessions	21	32	8.8
Number of mining areas	77	160	15.8
Area reserved for mining activities (1000 Km ²)	6.8	11.45	11.0
Total area under exploration licences (1000 Km ²)	51.6	123.5	19.1
Number of mining companies and establishments	600	640	1.3
Volume of raw material under exploitation (Million Tons)	160	210	5.1

Source: Deputy Ministry of Mineral Resources, Ministry of Petroleum and Mineral Resources.

Figure 25.1 shows sites of mining leases, Figure 25.2 shows sites of small mine permits, and Figure 25.3 shows exploration licence sites; all in 2003.

In 2003, mining activities related to building materials and extraction and processing of industrial minerals had an overwhelming share of production, amounting to 208 million tons of extracted material. Raw building materials, such as sand, gravel, granite and marble, ranked first, with an output of 160 million tons of extracted materials. Cement came second, with over 24 million tons of regular, resistant and pozzolan type cement produced by eight operating companies, making over SR2.4 billion in profits. Red brick production came third, with 5 million tons produced by 15 red brick factories, 2 plaster factories and 3 calcium silicate brick factories. Production of ornamental stones (marble and granite), at 11 plants located in various areas, amounted to 880,000 tons. Most of the factories and plants operating in the sector are located in Riyadh (15 factories), Makkah (10 factories) and the Eastern Region (5 factories).

Current precious metals mining activities include gold extraction carried out by the Saudi Arabian Mining Company (Ma'aden), a state-owned company that will be privatized under the Eighth Development Plan, as per Council of Ministers Resolution 109 of 2004. It is hoped that private-sector companies will get actively involved in production of industrial minerals, such as ornamental stones, brick, ceramics, gypsum, limestone, feldspar, basalt, pozzolan, silica sand and salt. Table 25.2 gives an overview of the non-oil activities of the mineral resources sector.

Minerals production in 2003 included 5.4 million square meters of ceramic materials, 19,000 tons of sanitary accessories, 1.4 million tons of salt, 8,769 Kg of gold, 364,000 tons of silica sand, 62,000 tons of feldspar, 720,000 tons of marble crush, 4,000 tons of Kaolin, 260,000 tons of pozzolan, and 86,000 tons of basalt.

Figure 25.1
Map of the Kingdom of Saudi Arabia:
Sites of Valid Mining Concessions at year-end 2003

Figure 25.2
Map of the Kingdom of Saudi Arabia:
Sites of Valid Small Mine Permits at year-end 2003

Figure 25.3
Map of the Kingdom of Saudi Arabia:
Licensed Exploration Sites at year-end 2003

Table 25.2
Activities in the Mineral Resources Sector

Mineral Product	Activity
Metallic Minerals	
Iron ore	Iron is being mined as an input of the cement industry. Production of iron ore is estimated at some 80,000 tons a year.
Non-ferrous metals	Copper, zinc and lead are produced as byproducts of gold mining operations. In 2003, production from Mahd Al Dahab mine amounted to 837 tons of copper and 1797 tons of Zinc
Precious metals	There are 4 mines producing gold and silver. In 2003, 8769 Kg of gold and 17402 Kg of silver were extracted.
Industrial Minerals	
Raw building materials	Crushed materials and sand are mined in over 800 sites in various parts of the country. In 2003, 132 million tons of crushed materials and 28 million tons of sand were produced.
Cement raw materials	8 companies are involved in the exploitation of limestone, (Kaolin) clay, ferruginous sand and pozzolan. In 2003, more than 24 million tons of cement were produced by 15 quarrying concessions.
Red brick materials	In 2003, clay and sand were mined and manufactured in about 30 locations, with a total output of 5 million tons.
Ornamental stones	Many companies and establishments are involved in producing and manufacturing granite, marble and dolomite. Part of the output is exported. In 2003, production of ornamental stones was over 880,000 tons.
Other industrial minerals	Several companies and establishments are involved in producing marble (crush), limestone, kaolin, glassy sand (silica), salt, plaster, tuff (pozzolan), basalt, barites, lime-dolomite, peridot, feldspar, pyrophyllite and others.

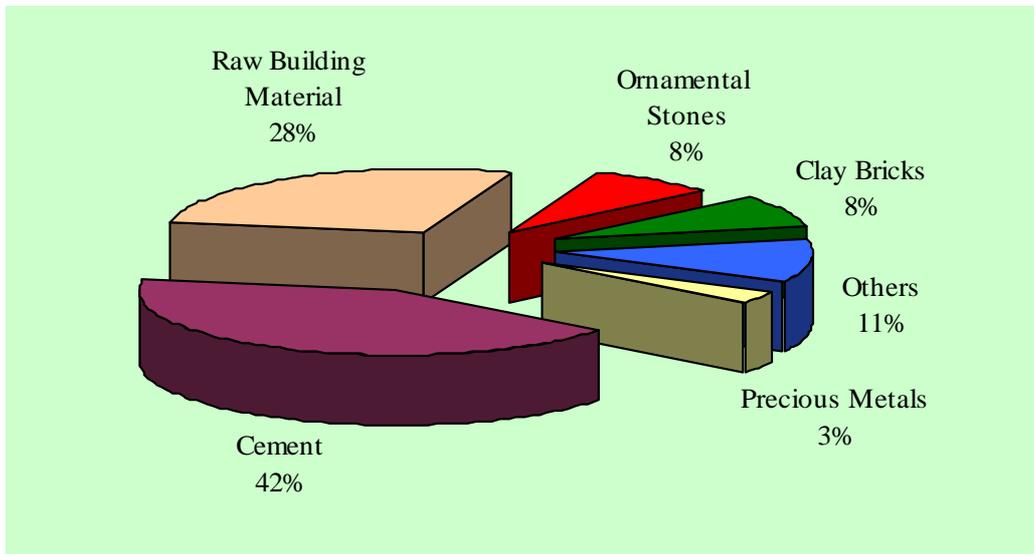
Source: Deputy Ministry of Mineral Resources, Ministry of Petroleum and Mineral Resources.

25.2.2 Mineral Resource Sector Revenues

In 2003, revenues derived from non-oil mining products exceeded SR11.5 billion, with investors posting over SR3.4 billion in profit. Cement is the most important such product, accounting for some 42% of total revenues (Figure 25.4). Raw building materials come next, with a share of 28%. Shares of ornamental stones, clay bricks and precious metals in total revenues stood at 8%, 8% and 3%, respectively, while the share of all other remaining mining activities amounted to 11%. Although performance of copper and zinc is still modest, initial production indicators point to a very promising potential for growth.

Revenues generated from permit fees for surface mining rent and charges for exploitation and export of mineral raw materials increased from SR 16 million in 1999 to over SR 96 million in 2004.

Figure 25.4
Relative Share of Non-oil Mining Products in
Total Mining Sector Revenues, 2003



25.2.3 Institutional and Organizational Progress

The mineral resource sector was restructured, as part of administrative reorganization under the Seventh Development Plan. The Saudi Geological Survey (SGS) was established with a mandate to undertake geological, geochemical and geophysical research; hydro-geological surveys for mineral resources exploration; monitoring seismic and volcanic activities and geo-hazards; conducting engineering and environmental studies; and developing a technical database.

The Deputy Ministry for Mineral Resources (DMMR) will continue to monitor all mining activities, oversee enforcement of the Mining Investment Code, carry out demarcation and reservation of mineralized areas, and pursue efforts to substitute imported mineral raw materials by domestic products. A separate department within DMMR has been established with the responsibility of issuing licences for mining activities. An Investment Services Center has also been created to provide investors with all available information relevant to the mineral resources sector and work is underway to develop a website with a wide-ranging base of data and information.

Royal Decree M/47 of 5/10/2004 approved the new Mining Investment Code, which, with associated regulations, will mark a significant step on the road of accelerated development of the mining sector (Box 25.2).

Box (25.2): Salient Features of the Mining Investment Code

The new Mining Investment Code, which is characterized by clarity and transparency, has the following key features:

1. Streamlined procedures and facilitated issuing of mining licences.
2. Introduction of the principle of granting a licence to the first applicant, when advantages and conditions offered by applicants for the same area are equal.
3. Simple and streamlined procedures for obtaining reconnaissance and exploration licences, in order to provide opportunities to the largest number investors having the requisite technical expertise and financial capability.
4. Allowing individual investors to obtain any number of licences and to prospect for all minerals in the area covered by the licence, without any entitlement to ownership.
5. An application for a licence or renewal may not be turned down, except for just cause offered in writing.
6. Fair and equitable treatment of all investors.
7. Procedures to be completed within specified time frames, in order to guarantee public good and investor interests.
8. Financial interests of investors are safeguarded by, for example, exempting equipment and spare parts required for mining projects from customs duties. However, as all resources are state property, the state charges each holder of a mining licence, who is not subject to income tax, a financial levy amounting to 25% of net annual income, or the equivalent of income tax, whichever is lower. Zakat dues shall be deducted from this levy. Moreover, regulations specify the fees charged for other exploitation licences and for surface leases, but exempts privately owned land.
9. An investor may obtain more than one licence for a small mine.
10. Reduction of minimum area licensed for exploration from 10,000 km² to 100 km², to offer opportunities to as many investors as possible.
11. Ministry of Petroleum and Mineral Resources is vested with the authority to issue all licences.
12. Subsuming all documents related to granting of mining rights, whether to reconnaissance, exploration or investment, under the one rubric of licence.

25.2.4 Budget Allocations

Under the Seventh plan, actual financial allocations for the mining sector (DMMR, with SGS then forming part of DMMR) totaled SR 825.5 million, or 125.36% of the allocations envisaged in the plan.

25.3 ISSUES AND CHALLENGES

The key economic sector of mineral resources could play a significant role in diversifying the economic base. However, in order to attain this strategic objective, endeavors will have to be made to address certain issues and challenges; key among which are the following.

25.3.1 Infrastructure

Lack of infrastructure and public services in the most promising mining areas has been a major constraint on the exploitation of mineral resources. The proposed rail-way link project between phosphate and bauxite mines in Jalameed and Al-Zubairah in the north-western and central regions and the major sea ports, expected to be completed under Eighth Development Plan, will be an important step towards addressing this issue. In addition, the authorities should identify needed infrastructure and service projects and their implementation mechanisms, with due consideration to the advantages accruing to citizens and to existing and potential economic activities. Moreover, areas reserved for mining activities should be expanded and protected from ownership disputes or transgression.

25.3.2 Role of Private Sector

Private sector involvement in exploitation of metallic ores remains well below expectations. In fact, it is to a great extent limited to exploitation of non-metallic ores, such as building materials, brick, ornamental stones, cement, sand, gypsum, limestone, basalt, and silica sand. The reasons are several, including the high investment costs associated with mining projects, the numerous regulations and procedures governing licensing and the multitude of agencies involved, and skilled manpower shortages.

In the absence of competition of mining companies, most mineral-ore exploration and mining licences have been granted to the state owned company, Ma'aden. Domestic and foreign companies have obtained mining licences for metallic minerals in recent years, but the numbers are

still below expectations.

It is therefore necessary to create a favorable investment environment conducive to entry of new companies. Privatization of Ma'aden, in implementation of the Council of Ministers Resolution 109 of 24/5/2004, should be accelerated. Effective measures to encourage private investment in mining activities should also be adopted. In addition, the aforementioned constraints should be removed through enforcement of the new Mining Investment Code, and the incentives provided in the code should be publicized. National and foreign private sector enterprises should be given full opportunities for participation, and banks should be encouraged to extend the credit facilities necessary for support of private-sector activity.

25.3.3 Integration of Production Cycles

The ultimate objective of mining sector development is to attain the highest level of integration of all processes, leading to the manufacture of high-quality, high- value added products capable of competing effectively in international markets. Depending on the product, the mining industry has achieved varying levels of integration, but further integration is needed and so is diversification of activities, within the framework of the competitive advantage of the Saudi economy. Achieving this objective requires feasibility studies of investment opportunities in all parts of the value chain of mining activities, along with encouraging the private sector to take up what feasible and profitable opportunities are ascertained. Moreover, specialist companies should be given the chance to prepare economic feasibility studies on commercial basis.

25.3.4 Land Use for Mining Purposes

Since mining activities occur in lands where mining ores occur, development of such activities calls for formulation of well-defined procedures enabling companies to exploit land for mining purposes, and clear rules establishing the rights and obligations of owners and investors, while taking into account that all mineral ores are state owned property.

25.4 OPPORTUNITIES AVAILABLE FOR PRIVATE SECTOR

The Eighth Development Plan envisages taking all the measures necessary for enabling the private sector to play a vital role in developing the mining

sector. The new Mining Investment Code, the intended privatization of Ma'aden, and the Foreign Investment Code should promote new promising mining investments where no exploitation has taken place as yet and which have good marketing prospects in both internal and external markets. Table 25.3 lists mining opportunities available to the private sector.

Table 25.3
Mining Investment Opportunities available in mining sector

Sub-Sector/Group	Investment Opportunities
Metallic Minerals	
<p>Iron ore</p> <p>Iron and steel production.</p> <p>Tantalum, Chromium, Cobalt, Manganese, Molybdenum, Nickel, Tungsten, Titanium, Vanadium.</p>	<p>Feasibility studies and intensive exploration of iron deposits are needed. A concession for mining for Al-Sawaween iron ore has been issued.</p> <p>Good prospects exist for increasing steel production through importation of iron ore for steel, making use of comparative advantage of the Kingdom in energy resources</p> <p>Potential for a new tantalum project. An exploration licence has been issued for Al-Ghurayyah prospect, one of the largest and most promising, located 85 km south west of Tabuk city.</p>
<p>Bauxite</p> <p>Copper, Zinc, Lead</p> <p>Production of primary minerals</p>	<p>Exploitation of the Al-Zabirah bauxite deposit is expected to generate significant growth in bauxite mining and production, and hence in the alumina and aluminum industry.</p> <p>Within this group, copper has good potential at present. Several exploration licences have been issued.</p> <p>Potential exists for increased domestic processing through importation of raw materials utilizing the comparative advantage of the Kingdom in energy resources.</p>
Precious Metals	
<p>Gold</p> <p>Silver</p>	<p>The new Mining Investment Code opens the way for local and foreign companies to invest in gold mining, in an effort to maintain or increase the current level of production.</p> <p>At present, silver is mined only as a byproduct of gold mining. Limited known prospects and world market conditions are among the factors limiting growth of production.</p>

Sub-Sector/Group	Investment Opportunities
Industrial Minerals	
Building materials	With export options still limited, growth depends on activity in the local construction sector. Marked improvement in export performance has been experienced in recent years with exportation of silica sand, basalt and limestone.
Cement raw materials	Growth relies on activity in the local construction sector, and export options are very good.
Brick raw material	Growth relies on activity in the local construction sector. An active domestic market absorbs production.
Ornamental stones.	Growth relies on activity in the local construction industry. Export options are very promising for granite, limestone, and crushed marble.
Phosphate rocks	Production is due to start in 2008. Growth potential is very promising.
Other industrial minerals - Kaolin, gypsum, silica sand, salt, magnezite, dolomite, feldspar, clay, limestone (not for cement) bentonite, diatomite, and others.	Very promising potential for domestic exploitation and export. Considerable quantities are exploited locally, with marked improvement in exportation of these ores to neighboring countries.

* Includes both exploited and potential opportunities.

Source: Deputy Ministry of Mineral Resources, Saudi Geological Survey.

25.5 FUTURE VISION

As a result of the new Mining Investment Code, which will help attract domestic investors and boost foreign investment, the mining sector is expected to experience accelerated growth under the Eighth Development Plan. In turn, this will lead to increased total factor productivity, along with increasing mineral exports, leading to a projected annual growth rate of some 7.9%, with the hope that investment would be initiated in some large-scale mining projects, such as phosphate for the fertilizer industry and bauxite for the alumina and aluminum industry.

In order for the mining sector to attain the targeted growth, the focus would be on enhancing existing mining industry, boosting relevant investment, and diversifying the production base of the sector. Emphasis would also be placed on optimizing the value added of mining products, through domestically manufacturing them into intermediate or end-

products, making use of the comparative advantage the Kingdom has in energy resources, as well as of active measures to achieve greater integration of these activities in the manufacturing chain.

Domestic and foreign investments would play an increasingly significant role in the development of the mineral resources sector, with the role of the state being limited to regulating activities, exploration for new mineral resources, production of geological maps, issuance of licences, reservation of mineralized areas, promotion of investment, and provision of data to investors.

25.6 DEVELOPMENT STRATEGY

25.6.1 Objectives

The Eighth Development Plan seeks to achieve the following objectives:

- Promoting exploitation of mineral resources.
- Achieving adequate state revenues from mining activities.
- Increasing private-sector participation in mining activities.
- Diversifying mining activities and promoting primary production and processing of raw material.
- Promoting manufacturing industries that depend on local mining products.

25.6.2 Policies

In order to achieve the key objectives set by the Eighth Development Plan for the mineral resources sector, the following policies would be adopted:

- Increasing investment opportunities in the mining sector.
- Identifying, assessing and protecting mineral occurrences and prospects.
- Developing a mining database.
- Developing Saudi manpower in mining sector agencies and building up their capabilities.
- Studying geo-hazards and environmental dangers and mitigating their impacts.
- Encouraging and motivating banks and domestic financial

- institutions to extend credit and support to mining companies.
- Providing infrastructure for major mining projects.
 - Developing geological, technical and economic knowledge of mineral projects and relevant investment opportunities.

25.6.3 Targets

The mining sector is expected to grow under Eighth Development Plan at an average annual rate of 7.9%. The following targets are also expected to be achieved:

- Issuing the Mineral Resources Strategy, comprising a comprehensive policy for the sector from geological survey all the way to manufacturing and export.
- Providing infrastructure in mining investment areas.
- Completing privatization of the Saudi Arabian Mining Company, Ma'aden.
- Launching a website for the mineral resources database.
- Developing and enforcing environmental standards.
- Preparing and updating basic geological maps and databases of mineral resources and making them available to investors.
- Finalizing indicators for development and monitoring of the mineral resources sector during the Eighth Development Plan.

25.7 FINANCIAL REQUIREMENTS

Financial requirements for the mining sector (DMMR and SGS) under the Eighth Development Plan will total SR1196.46 million, providing for funding management, operation, and maintenance, national manpower development, promotion of mining investments, support and monitoring of mining investments, surveys and prospecting, geological studies and information technology.

TWENTY SIX
AGRICULTURE

26. AGRICULTURE

26.1 INTRODUCTION

The agricultural sector plays a major role in economic and social development, through its contribution to food security, economic diversification, creation of job opportunities, and enhancement of balanced regional development. Thanks to continued government support, agriculture achieved notable progress over the successive development plans.

This chapter reviews the current conditions of the agricultural sector, discusses the achievements made under the Seventh Development Plan, and points out the issues and challenges that will be addressed under the Eighth Development Plan. Demand for agricultural products, the future vision, objectives, policies and targets set by the Eighth Development Plan for the sector are also discussed.

26.2 CURRENT CONDITIONS

26.2.1 Developments

Under the Seventh Development Plan, the agricultural sector grew at an average annual rate of 2.0%, with value added increasing at constant 1999 prices from SR34.44 billion in 1999 to SR38.01 billion in 2004. Over the same period, the average contribution of the sector to GDP amounted to 5.5% at constant 1999 prices and agricultural investment amounted to about SR18.8 billion, which attests to the relative importance of the sector and its ability to attract investment.

26.2.2 Crop Areas, Livestock and Production

In line with the strategy of rationalizing cultivation of water-intensive crops, such as cereals and fodder, in favor of highly water-efficient crops, such as fruits and vegetables, total crop area decreased by about 6.4% under the Seventh Development Plan. Total fodder cultivated area decreased by 22.3% and cereal cultivated area by 8.5%, while vegetable cultivated area increased by 26.1% to constitute 10.1% of the total cultivated area, compared to 7.5% at the beginning of the Plan. Fruit cultivated area also increased by 6.3%, of which more than 70% under date

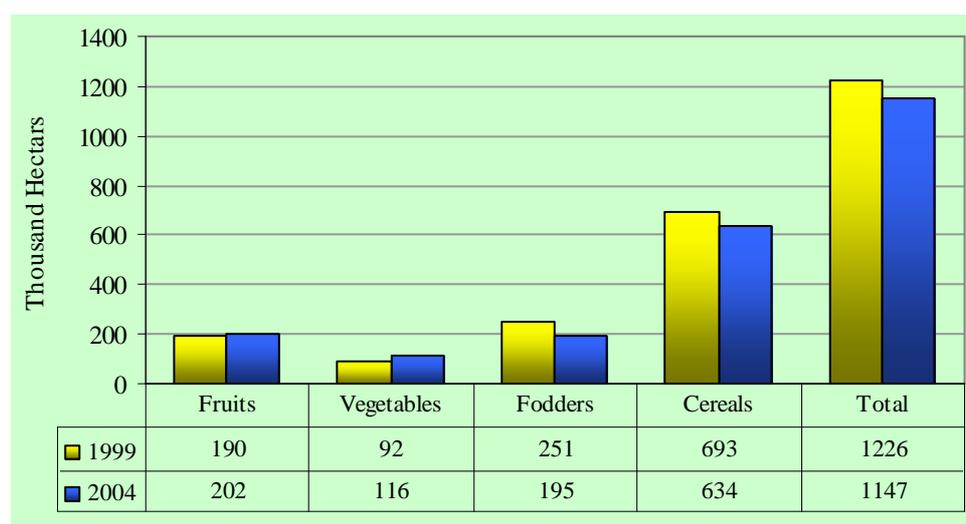
palms, to constitute 17.6% of total crop area, compared to 15.5% at the beginning of the Plan (Table 26.1 and Figure 26.1).

Table 26.1
Crop Areas
Seventh Development Plan

Type of Crop	1999		2004		Change During Plan Period (%)
	Area (000 hectares)	share (%)	Area (000 hectares)	share (%)	
Cereals	693	56.5	634	55.3	-8.5
Fodder	251	20.5	195	17.0	-22.3
Vegetables	92	7.5	116	10.1	26.1
Fruits	190	15.5	202	17.6	6.3
Total:	1,226	100.0	1,147	100.0	-6.4

Source: Ministry of Agriculture.

Figure 26.1
Crop Areas
Seventh Development Plan



Council of Ministers Resolution 264 of 2003 reduced the purchase price of locally produced wheat from SR1.5 to SR1.0 per kg, as from the 2005 season, and allowed agricultural companies to supply 300,000–600,000 tons of wheat per year to the Grain Silos and Flour Mills Organization. In addition, a Royal Directive suspended agricultural land distribution for a period of five years from 2003, and the Ministry of Water and Electricity has been entrusted with the responsibility of reviewing water policies in the context of the National Water Plan. For these reasons, production of cereals and green fodder is not expected to expand, with future efforts focusing on maximizing benefits from the comparative advantages of the various regions to achieve optimum cropping patterns.

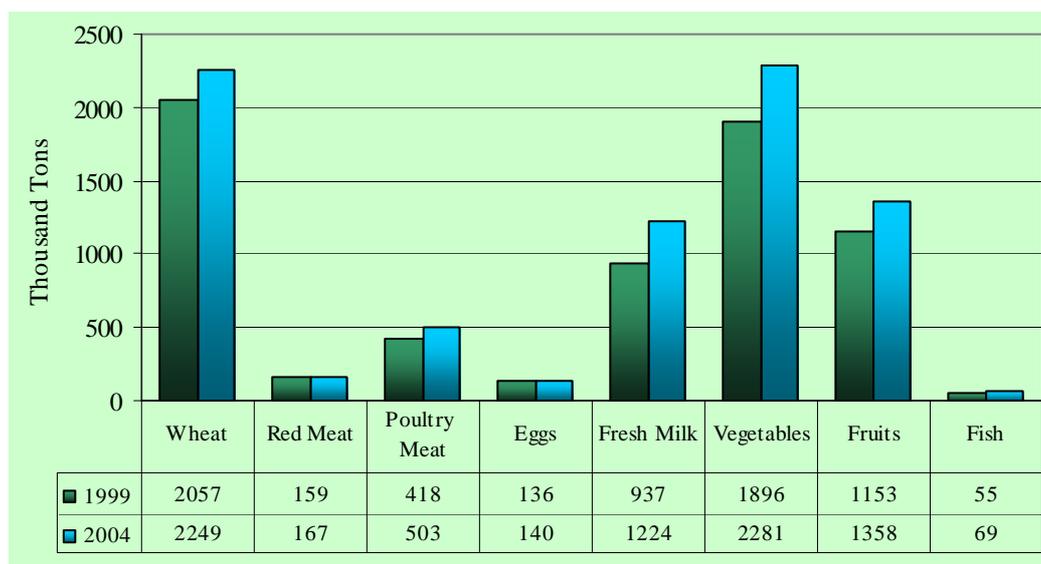
Major agricultural products grew at an average annual rate of 0.6–5.5% under the Seventh Plan, with rates of growth indicating expansion of production of capital-intensive products; mainly poultry, fish, fruits, vegetables and fresh milk, which is in conformity with the climatic conditions and scarcity of water resources (Table 26.2 and Figure 26.2).

Table 26.2
Production of Selected Agricultural Products
Seventh Development Plan

Product	1999 (000 tons)	2004 (000 tons)	Annual Average Growth Rate (%)
Wheat	2,057	2,249	1.8
Red Meat	159	167	1.0
Poultry Meat	418	503	3.8
Eggs	136	140	0.6
Fresh Milk	937	1,224	5.5
Vegetables	1,896	2,281	3.8
Fruits	1,153	1,358	3.3
Fish	55	69	4.6

Source: Ministry of Agriculture.

Figure 26.2
Production of Selected Agricultural Products
Seventh Development Plan



In livestock production, the number of cows increased during the Seventh Development Plan by 18.2%, mostly using modern farming methods, while sheep and goats decreased in number slightly by 1.4% and 5.4%, respectively. The number of camels also increased slightly, by 1.6%, and poultry population increased by 32.3% (Table 26.3). These data indicate that growth trends have been consistent with the objective of enhancing livestock production capacities.

Table 26.3
Livestock and Poultry Numbers (Thousand Heads)
Seventh Development Plan*

	1999			2004			Change During the Plan Period (%)
	Traditional Sector	Modern Sector	Total	Traditional Sector	Modern Sector	Total	
Camels	255	–	255	259	–	259	1.6
Cows	131	149	280	139	192	331	18.2
Sheep	6,760	794	7,554	6,495	955	7,450	-1.4
Goats	2,368	–	2,368	2,241	–	2,241	-5.4
Poultry	485	342,700	343,185	511	453,580	454,091	32.3

* Excluding animals in nomadic areas and outside farms.

Source: Ministry of Agriculture.

By the end of the Plan, rates of sufficiency in food products indicated, an excess supply of fresh dairy products and eggs, self sufficiency in wheat, while sufficiency rates in poultry meat, vegetables and fruits were 64%, 82.1% and 60.6%, respectively. However, the level of sufficiency in red meat and fish decreased (Table 26.4 and Figure 26.3).

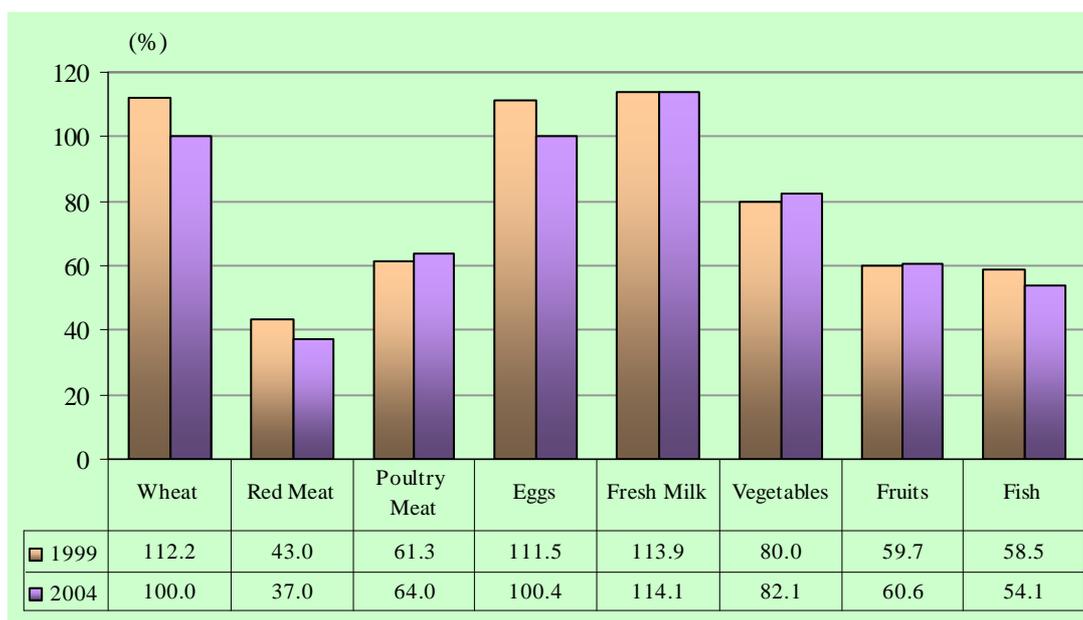
Table 26.4
Ratios of Self-Sufficiency in Food Products
Seventh Development Plan

Product	Level of Sufficiency (%)		Increase/Decrease
	1999	2004	
Wheat	112.2	100.0	-12.2
Red Meat	43.0	37.0	-6.0
Poultry Meat	61.3	64.0	2.7
Eggs	111.5	100.4	-11.1
Fresh Milk	113.9	114.1	0.2
Vegetables	80.0	82.1	2.1
Fruits	59.7	60.6	0.9
Fish	58.5	54.1	-4.4

Note: 100 = full self-sufficiency achieved.

Source: Ministry of Agriculture.

Figure 26.3
Ratios of Self-Sufficiency in Food Products
Seventh Development Plan



During the period of the Seventh Development Plan, the Grain Silos and Flour Mills Organization continued to provide the flour needs of the country using locally produced wheat, in addition to maintaining a strategic wheat stock and processing animal feed.

26.2.3 Agricultural Loans and Subsidies

Support to the agricultural sector in the form of soft loans and subsidies continued under the Seventh Development Plan. The total amount of loans provided by the Saudi Arabian Agricultural Bank amounted to about SR1.16 billion annually, almost twice the amount provided during the Sixth Plan, with medium-term loans constituting 89.4%. The Bank also provided subsidies to producers at an average annual amount of SR229 million.

In addition, some crops were purchased at an official support price, including wheat at SR1.5/kg. Support was also provided to imported barley and poultry feed at SR150/ton and SR160/ton, respectively, while support to date palm seedlings amounted to SR50/seedling. Also, about 21,000 tons of some types of dates were purchased annually by the government at SR3/kg.

26.2.4 Institutional and Organizational Development

To ensure adequate supervision of agricultural development, changes of the organizational structure of the Ministry of Agriculture were introduced; the most important of which was detaching the Deputy Ministry for Water Affairs to form the Ministry of Water (currently Ministry of Water and Electricity) by Council of Ministers Resolution 125 of 16/7/2001. In addition, departments dealing with animal production were reorganized and attached to the recently established Deputy Ministry for Animal Resources.

The Ministry of Agriculture provides its services via 25 directorates, including 117 branches spread throughout the country. In addition, agricultural research centers and plant and animal quarantines at air, sea and land entry points have contributed positively to the provision of services as well as to implementing agricultural development plans in all regions.

In the context of the privatization strategy approved by the Supreme Economic Council, and in response to Council of Ministers resolution 219 of 11/11/2002, a preliminary study of privatization of the Grain Silos and Flour Mills Organization has been prepared. Moreover, in accordance with Council of Ministers Resolution 215 of 15/3/1999, appropriate sites are being leased to the private sector in forested and uncultivated lands and in national parks to provide vital tourism and recreation services. In addition, agreement with the private sector has been concluded to operate certain animal quarantines.

26.2.5 Budget Allocations

Total budget allocations for developing the agricultural sector (Ministry of Agriculture and the Grain Silos and Flour Mills Organization) amounted under the Seventh Plan to SR6,828 million, which are equivalent to 95.6% of the proposed allocations.

26.3 ISSUES AND CHALLENGES

Positive performance of the agricultural sector under the Seventh Development Plan notwithstanding, a number of issues and challenges need to be addressed under the Eighth Development Plan; the most prominent of which are the following.

26.3.1 Crop Economic Efficiency

Studies have shown that the return on the use of water in agriculture is generally much lower than the return on its use for municipal or industrial purposes, with the return in the municipal sector estimated to be 50% more and in the industrial sector to be almost fivefold. Nevertheless, some few agricultural activities, such as vegetable production in greenhouses, yield as high a return on water inputs as industrial activities. Table 26.5 shows that estimated returns on water use per thousand cubic meters amount to SR610, SR2,050 and SR1,466 for wheat, vegetables and dates, respectively.

Table 26.5
Estimated Water Intensity and Relative Returns
for Some Major Crops

Crop	Rate of Water consumption (m ³ /ha/year)	Average Productivity (tons/ha)	Producer prices (SR/ton)	Returns on water (SR per 1000 m ³ of water)
Wheat	8000	4.88	1000	610
Vegetables (tomatoes, onions, potatoes)	15000	20.5	1500	2050
Dates	26000	6.25	6100	1466

Source: Ministry of Agriculture.

With increased openness to competitive world markets, economic production costs, calculated with taking the opportunity costs of the use of water into account, would be higher. Moreover, given requirements of globalization and international agreements, high levels of self-sufficiency would no longer be a strategic objective. Hence, it is essential to review agricultural policies regularly, particularly price support (subsidy) policies, in addition to encouraging the use of advanced technology to enhance efficiency of resource utilization and the production of high value-added crops.

26.3.2 Efficiency of Irrigation Systems

Significant progress has been achieved in the use of modern, highly efficient irrigation systems, which currently cover about 67% of the irrigated area. The remaining third, which is the conventional agricultural land, continues to be irrigated by inefficient traditional methods.

Information about the reasons that limit adoption of modern irrigation systems by farmers is lacking. Hence, it is important to conduct research into the efficiency levels of the irrigation methods in use, in order to provide irrigation water according to the actual needs of individual crops; thereby improving efficiency levels. It is also necessary to collect information about traditional methods of irrigation, with the aim of rehabilitating them, while enhancing awareness of small farmers of the importance of irrigation water, and helping them make use of government support for modern irrigation systems, as per Council of Ministers Resolution 217 of 2004 on restructuring agricultural subsidies.

26.3.3 Utilization of Reclaimed Wastewater for Agricultural Purposes

Use of reclaimed waste water in agriculture has not received sufficient attention, despite the proven benefits of such use; the most important of which are: preventing direct pollution of sea coasts, water courses, canals and other surface water sources, water conservation, and providing farmers with a reliable water supply. Moreover, use of treated waste water will free large amounts of fresh ground water for other uses (see the chapter on water).

26.3.4 Supply of and Demand for Fish Products

Despite government support for fishing and fish farming, fish production is still limited. The increase in total production under the Seventh Development Plan was only 14,000 tons, from about 55,000 tons to about 69,000 tons. The latter amount represented only 54.1% of the total domestic demand of 127,500 tons. The reasons for this situation include inefficient fishing in territorial waters due to the use of traditional boats and equipment, limited boat and net capacities, and high production costs.

Addressing this issue requires providing finance and incentives to investments in fish farming and processing, in addition to providing assistance to fishermen, particularly small ones, through programs for productivity improvement, use of advanced fishing techniques, preservation and transportation of fish products, and construction of harbors. Moreover, agreements concluded with neighboring countries need to provide for utilization of available fish resources.

26.3.5 Production and Marketing Efficiency of Dates

Given the appropriate climatic conditions and the wealth of experience accumulated by farmers, dates are a strategic crop. According to Ministry of Agriculture statistics, the number of palm trees was estimated at about 21 million in 2003, with an annual production of about 884,000 tons. Thus, the Kingdom ranks third among date producing countries. However, there are problems of low productivity and marketing inefficiency. Even though dates are included in the Kingdom's foreign aid programs, exports were only 8.8% of total world exports, or 4.1% of total domestic production. Export prices for Saudi dates are low comparatively and there are also great disparities in the local prices of various types of dates. To address these issues, Royal Decree 7/B/18070 of 27/5/2004 ordered establishing an advanced date center by the Saudi Council of the Chambers of Commerce and Industry, in collaboration with the Ministry of Agriculture, to support production and marketing of dates. Moreover, the role of the Dates Producers Association in marketing, processing and exportation should be enhanced; plans for addressing production, marketing and processing problems should be formulated; loans and other forms of support to small producers should be offered; and R&D efforts to address outstanding issues and to improve productivity should be intensified.

26.4 DEMAND FOR MAIN AGRICULTURAL PRODUCTS

Based on the expected population growth rate during the period of the Eighth Development Plan, as well as other determinants of consumption, demand for the main agricultural products is expected to grow at an average annual rate of 2.5% (Table 26.6).

Table 26.6
Demand Projections for Main Agricultural Products
Eighth Development Plan

Product	(Thousand tons)	
	2004	2009
Wheat	2249	2032
Vegetables	2760	3134
Fruits	2000	2280
Milk	1088	1220
Red Meat	328	373
Poultry Meat	871	990

Eggs	۱۴۴	۱۶۲
Fish	۱۳۳	۱۵۱

Source: Ministry of Economy and Planning projections.

26.5 FUTURE VISION

In the last three decades, the agricultural sector has contributed effectively to economic and social development, supported economic diversification, and provided the necessary inputs for a promising national food processing industry. Efforts will continue to enhance and sustain this role in the long run and to achieve accord between the two major national objectives of water security and food security.

Appropriate scientific and practical solutions for the problems involved in developing the agricultural sector would rest upon a vision of the future that has the following major features:

- Optimal utilization of water resources, in accordance with the results of the water resources assessment to be carried out in the context of the National Water Plan and in a manner that would lead to sustainable agricultural development.
- Optimal utilization of rain water through construction of more dams and embankments on major and minor valleys.
- Full utilization of reclaimed waste water for agricultural purposes and for developing areas close to urban centers.
- A support and extension system that contributes to the development of small and medium high-value agriculture in rural areas, as well as to supporting population settlement in these areas.
- An advanced system for research into agriculture, irrigation technology, identification of crops appropriate to the climatic conditions of the country, maximization of the productivity of the existing crops, and improvement of marketing efficiency.
- A capable, highly skilled national agricultural manpower.

26.6 DEVELOPMENT STRATEGY

26.6.1 Objectives

The main development objectives for the agricultural sector set by the

Eighth Development Plan comprise the following:

- Enhancing the contribution of the sector to diversification of the economic base.
- Improving the efficiency of utilization of natural resources to ensure sustainable agricultural development.
- Improving the economic performance of the sector to keep pace with the national, regional and international developments.
- Enhancing the investment capabilities of the sector to provide more job opportunities and to improve the standard of living.
- Protecting the environment and developing grazing ranges and forests.

26.6.2 Policies

Achieving the main objectives of the agricultural sector under the Eighth Development Plan will rely on the following policies:

- Conservation of water by identifying the types of crops and the associated water requirements, in line with the National Water Plan.
- Provision of information and conduct of research to assess the most competitive agricultural activities, and utilization of non-conventional water resources in conformity with environment protection requirements.
- Reviewing agricultural support and subsidy policies in line with emerging requirements.
- Supporting the use of advanced technology and production of high value-added crops in small farms.
- Improving efficiency of fishing and fish farming.
- Upgrading agricultural processing and marketing by supporting the establishment of cooperative societies and development programs for export promotion and attraction of foreign investments.
- Institutional and administrative development, through finalizing privatization of agricultural projects and the Grain Silos and Flour Mills Organization, and reviewing land distribution policies.
- Enhancing agricultural services by implementing intensive extension programs to improve skills of farmers, as well as developing policies and mechanisms for compensating farmers in cases of natural and

- environmental disasters.
- Training of agricultural indigenous manpower.

26.6.3 Targets

The agricultural sector is expected to grow at an average annual rate of 3.2% during the period of the Eighth Development Plan. The following targets are also expected to be achieved:

- Finalizing legislation and measures to limit use of water, fertilizers and pesticides.
- Increasing utilization of reclaimed wastewater for agricultural purposes.
- Supporting establishment of agricultural marketing cooperatives.
- Establishing an advanced center to support production and marketing of dates.
- Establishing an agricultural database at the Ministry of Agriculture to provide agricultural and technical information to producers and investors.
- Conducting a study of the competitiveness of the agricultural activities in the country and how to enhance them.
- Privatizing the Ministry of Agriculture laboratories, parks and animal and plant quarantines and finalizing the study and implementation of privatization of the Grain Silos and Flour Mills Organization.
- Conducting studies of how to improve the economic efficiency of fish production.

26.7 FINANCIAL REQUIREMENTS

Total financial requirements for the agricultural sector (Ministry of Agriculture and the Grain Silos and Flour Mills Organization) under the Eighth Development Plan are estimated at SR7,456.4 million for financing development programs, agricultural research, development of manpower, and improving the standard of living of all agriculture-related population in the various regions of the Kingdom.

CHAPTER TWENTY SEVEN

INDUSTRY

27. INDUSTRY

27.1 INTRODUCTION

Industry is one of the principal factors of economic and social development, for it is the main instrument for increasing the value added of the national resources and diversification of the economic base, on the road to sustainable development. As a result, industry has enjoyed particular attention since the beginning of the development process. A supportive environment for industrial growth and development has been created by providing infrastructure and services in fourteen industrial estates spread throughout the country, in addition to the two distinguished industrial cities of Jubail and Yanbu.

Moreover, several other measures have been taken, including providing soft loans for industrial projects through a number of specialized credit institutions, exempting many of the inputs of the industrial sector from custom duties, creating an improved investment climate, and establishing international bilateral and multilateral trade relations to promote Saudi industry.

As a result of these initiatives, the industrial sector has over the last three decades realized notable achievements, with many Saudi products competing successfully in local and regional markets and making inroads into international markets.

The Eighth Development Plan aims at strengthening the competitive advantage of Saudi industries; enhancing their local, regional and international linkages; encouraging advanced high value-added industries; and expanding provision of infrastructure and services needed for industrial development in all regions of the country.

This chapter presents the current conditions of the industrial sector and the main developments under the Seventh Development Plan period. The key issues and challenges that need to be addressed, and the goals, objectives, policies and targets set by the Eighth Development Plan are also discussed.

27.2 CURRENT CONDITIONS

27.2.1 Growth of Industrial Sector

Under the Seventh Development Plan, the value added of the industrial sector grew at an average annual rate of 4.8%, which was higher than the rate of growth of GDP (3.4%) and non-oil GDP (3.9%). Thus, contribution of the industrial sector to GDP increased from 10.4% in 1999 to 11.1% in 2004, due primarily to the relatively good performance of the “Other Manufacturing Industries”. These grew at an average annual rate of 5.9%; thereby raising their share of the total value added of the sector from 61.7% to 64.9%, which is a positive indication of diversification of the economic base (Table 27.1).

Table 27.1
Industrial Sector Performance Indicators
Seventh Development Plan
Constant 1999 Prices*

Indicator	Value (SR Billion)		Actual Average Annual Growth Rate (%)	Planned Average Annual Growth Rate (%)
	1999	2004		
Total sector value added	62.8	79.5	4.8	5.1
Oil refining value added	18.0	20.5	2.6	1.1
Petrochemicals value added	6.0	7.4	4.1	8.3
Other manufacturing value added	38.8	51.6	5.9	7.2
Non-oil GDP	433.2	525.3	3.9	4.0
Total GDP	603.6	714.9	3.4	3.2
Industrial Exports	18.9	52.2	22.5	8.3
Industrial Investments	22.9	20.6	-2.1	14.3
Industrial Employment (Thousands)	638.5	650.6	0.4	2.3

* Figures and Ratios are rounded to one decimal point.

Source: Ministry of Economy and Planning

Due to delays in some projects, the petrochemical industry grew over the period at an average annual rate of 4.1%, which was lower than the Seventh Development Plan target of 8.3%. As a result, its share of the total value added of the industrial sector decreased slightly from 9.6% in 1999 to about 9.3% in 2004. However, due to high rates of refining capacity utilization, rather than capacity increases, the oil refining industry grew at an average annual rate of 2.6%, which is higher than the Seventh

Development Plan target of 1.1%. Nevertheless, the share of oil-refining in the total value added of the industrial sector decreased from 28.7% in 1999 to 25.8% in 2004 (Table 27.1).

Exports of industrial products increased substantially at an average annual growth rate of 22.5%, from SR18.9 billion in 1999 to SR52.2 billion in 2004; thereby achieving the target set by the Seventh Development Plan.

27.2.2 Industry Structure and Trends

During the period of the Seventh Development Plan, 489 new factories were constructed, with total assets of about SR25 billion. Thus, the number of operating factories increased to 3,652 in 2004, with total assets of around SR256 billion (Table 27.2). Industrial activity was concentrated mainly on producing metallic products, machinery and equipment; chemicals and plastic products; building materials, chinaware, ceramics, and glass; and food and beverages; which together account for about 80.8% of the total number of factories (Figure 27.1)

The chemicals and plastic products industry secured about 62.2% of total investment in the industrial sector, followed by the building materials, chinaware, ceramics, and glass industry at 11.3%; the metallic products, machinery and equipment industry at 10.6%; and the food and beverages at 8%. (Table 27.2 and Figure 27.2).

Table 27.2
Operating Factories and Total Investment
Seventh Development Plan

Industrial Activity	1999 (Cumulative)		By end of 2004* (Cumulative)		Change During the 7 th Plan Period	
	Number of factories	Total Investment (SR Million)	Number of Factories	Total Investment (SR million)	Number of Factories	Total Investment (SR Million)
Food and Beverages	504	16151	577	20454	73	4303
Textiles, Ready Made Clothing & Leather	141	3465	174	4311	33	846
Wood, wooden products & furniture.	145	2226	190	2774	45	548
Paper, printing and publishing	195	5432	226	7360	31	1928
Chemicals and Plastic Products	630	150644	795	159156	165	8512
Building Materials, Chinaware, Ceramics and Glass	545	25281	585	29043	40	3762
Base Metals	11	4074	16	4217	5	143
Metallic Products, Machinery and Equipment	893	22375	993	27174	100	4799
Other Miscellaneous Industries	78	1372	80	1312	2	-60
Transport and storage	21	213	16	185	-5	-28
Total	3163	231233	3652	255986	489	24753

* Up to the end of 2004.

Source: Ministry of Commerce and Industry.

Figure 27.1
Number of Factories by Activity
Seventh Development Plan

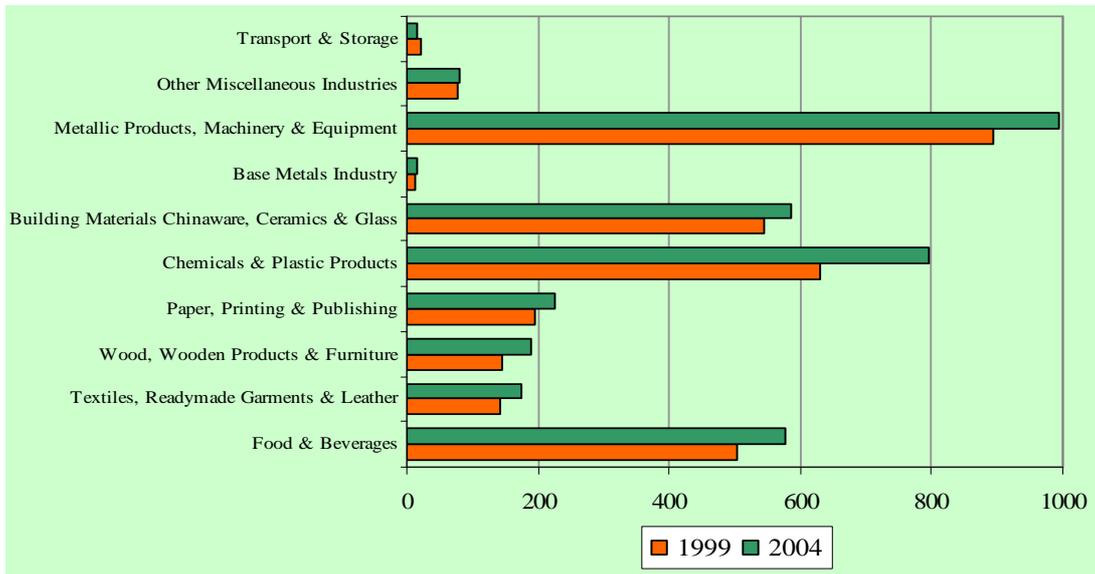
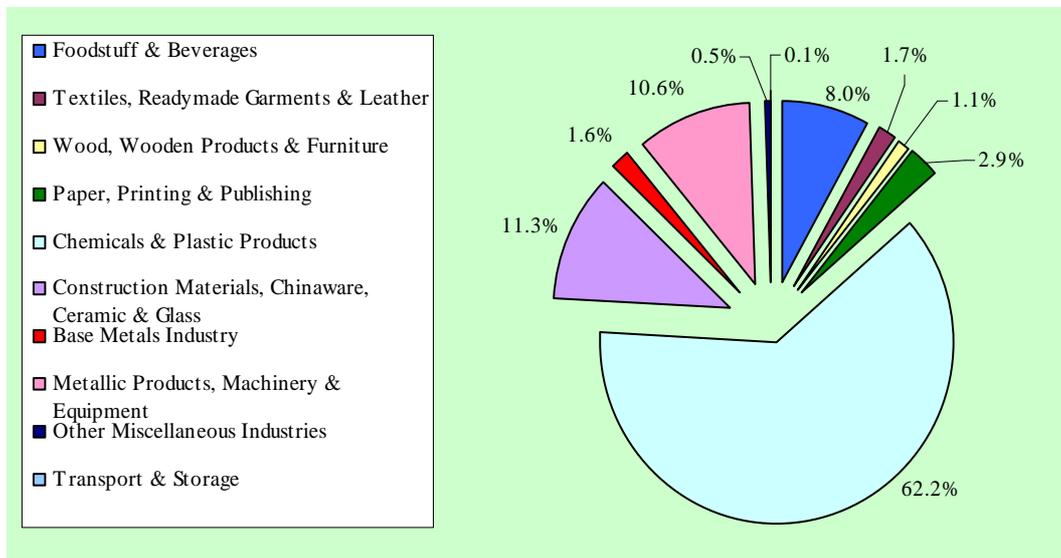


Figure 27.2
Industrial Sector
Percentage Distribution of Cumulative Investment
Seventh Development Plan*



* Figures are rounded to one decimal point.

The Saudi Industrial Development Fund (SIDF), which is the main government instrument for development of national industry, provides medium and long-term soft loans for new industrial projects and for expansion of existing projects, up to 50% of total project cost. It also

provides marketing, financial and technical advice, as well as regular monitoring of performance. Notably, SIDF provides loans to both Saudi and non-Saudi industrial investors. In the period between its establishment in 1974 and the end of 2004, it granted 2622 loans, with a total value of SR45.6 billion.

27.2.3 Direct Foreign Investment in the Industrial Sector

By the end of 2004, 501 operating factories; i.e. 13.7% of the total number of operating factories, had been established by virtue of the Foreign Capital Investment Law, with investments amounting to SR132.7 billion, or 51.8% of the total investment in the industrial sector, which amounted then to about SR256 billion. These 501 factories employed a total of 73,923 workers. Table 27.3 shows that in terms of the number of factories, the metal industry (base metals industry; metals products, machinery and equipment) came first, with a 37.5% share, followed by chemical industries and plastic products at 26.9%. In terms of total investment, chemical industries and plastic products came first, an 85.2% share, followed by metal industries at 5.2%. Notably, more than half of the industrial investments are Saudi-foreign joint ventures.

Table 27.3
Operating Factories Licensed under the
Foreign Investment Law in 2004

Industrial Activity	Number of Factories	Share (%)	Total Finance (SR Million)	Share (%)
Food and Beverages	44	8.8	3519	2.7
Textile, Readymade Clothing and Leather	20	4.0	553	0.4
Wood, Wooden Products and Furniture	22	4.4	496	0.4
Paper, Printing and Publishing	23	4.6	1560	1.2
Chemical and Plastics	135	26.9	113056	85.2
Building Materials, Chinaware, Ceramic and Glass	62	12.4	6221	4.7
Base Metals	1	0.2	40	0.0
Metal Products, Machinery and Equipment	187	37.3	6917	5.2
Other Miscellaneous Industries	7	1.4	327	0.2
Total	501	100.0	132689	100.0

Source: Ministry of Commerce and Industry.

The Economic Offset Program is an important channel for foreign direct investment, aimed at transfer and indigenization of the advanced technology, training of national manpower, and enhancing integration of

The Saudi industry with the world industry. As part of this program, 8 agreements have been concluded with a number of countries and international companies, leading to formation of 17 Saudi-foreign joint companies operating in various fields, including maintenance of aircraft chassis and engines, production of electronic systems and products, electricity meters, sugar refining, chemicals, vehicle batteries, heavy machinery, and development of communications and information systems software. The total capital invested in these companies exceeded SR2.8 billion.

27.2.4 Geographic Distribution of Industrial Activity

Geographic distribution of industrial activity reflects population distribution, but is also affected by a number of other factors, such as availability of natural resources, proximity to internal and external markets, disparities in level of development, and availability of infrastructure and other necessary services. Hence, industrial activity is mainly concentrated on the main development corridor extending from the east coast via the central part of the country to the west coast in the Makkah and Al Madinah regions (Table 27.4).

Table 27.4
National Productive Factories by Region
Seventh Development Plan

Region	Number of Productive Factories		Increase During the Seventh Plan Period
	1999	2004 *	
Riyadh	1094	1312	218
Makkah	861	965	104
Al Madinah	121	147	26
Qassim	134	137	3
Eastern Region	745	848	103
Assir	72	84	12
Tabuk	27	31	4
Hail	25	29	4
Northern Borders	6	8	2
Jizan	35	38	3
Najran	19	19	–
Baha	12	14	2
Jouf	12	20	8
Total	3163	3652	489

*.Up to end of 2004.

Source: Ministry of Commerce and Industry

27.2.5 Institutional and Organizational Development

Within the context of administrative reform and restructuring of government agencies and organizations, Royal Decree A/2 of 10/4/2003 abolished the Ministry of Industry and Electricity and transferred industrial sector affairs to the Ministry of Commerce, which was renamed to Ministry of Commerce and Industry.

In addition, the Saudi Organization for Industrial Estates and Technology Zones was established by Council of Ministers Resolution 235 of 13/11/2001. An autonomous body, this organization is entrusted with supervising the construction, management, operation, maintenance and development of industrial estates, as well as with formulating relevant regulations. Such step was taken as part of the structural reforms that are aiming at developing the industrial sector as well as meeting its need of developed industrial estates. Industrial cities and technology zones would be built, operated, and developed by the private sector, with commercial fees collected for services provided.

27.2.6 Industrial Sector Employment

Under the Seventh Development Plan, industrial sector employment grew at an average annual rate of 0.4%, from 638,500 workers in 1999 to 650,600 in 2004 (Table 27.1). Corresponding Saudi employment increased at an average annual growth rate of 3.6%, from about 82,000 in 1999 to about 98,000 in 2004. Nevertheless, the share of Saudis in total employment is still below the desired level. Hence, efforts to increase this share need to be intensified.

27.3 ISSUES AND CHALLENGES

Notwithstanding the positive achievements by the industrial sector under the Seventh Development Plan, several challenges would need to be addressed under the Eighth Development Plan; foremost among which are the following.

27.3.1 Business Environment

Continual steps were taken over the years to improve the administrative and institutional environment for creating a suitable investment and growth climate and to enhance competitiveness of the national economy. These efforts will continue, with the aim of removing constraints on business

activity, and enhancing efficiency of dispute settlement mechanisms and judicial proceedings; benefiting from international experiences in this regard.

27.3.2 The Structure of Saudi Industry

The current structure of industry is characterized by dominance of basic industries, which produce petrochemicals, plastics and base metals; and medium-tech consumer goods industries, such as beverages, textiles, paper products and electric devices. In contrast, technology-intensive capital goods industries, which produce things like machinery, equipment, and electric and telecommunication apparatus, are still in infancy, notwithstanding the progress made in recent years.

Thus, the forward and backward linkages of Saudi manufacturing industry need to be enhanced, since most machinery, equipment and apparatus are currently imported. In addition, except from basic industries, there are few examples that show integration of Saudi industry with the global industries. It is also important to stimulate industrial investment, encourage integration of Saudi industry with the international value chain, and shift resources away from traditional low-productivity sectors towards high-productivity, high-value-added, advanced technology sectors.

27.3.3 Technological Capability and Comparative Advantage

Structural transformation of the Saudi industry and growth of technology-intensive advanced industries require the development of the internal technological capacities resulting from domestic R&D and complementary activities. Since technology is the main determinant of performance and productivity, competitiveness of national industries will increasingly depend on success in developing in-house R&D capabilities. However, R&D capabilities of industrial companies are still limited, with the exception of the growing capabilities of ARAMCO and SABIC.

Hence, industrial policy needs to be directed towards enhancing technological capabilities of the national industry and acquiring competitive advantages through productivity gains, in order to complement the comparative advantage accruing from abundance of natural resources and other factors of production.

27.3.4 National Employment and Indigenization of Technology

Saudization has been a strategic objective and a national priority in all development plans. However, this objective is additionally urgent in the industrial sector, where most technical labor is expatriate, while Saudi nationals mainly carry out administrative and support functions. Since technical manpower is the primary means of technology transfer, indigenization and development, and in view of instability of the expatriate labor force, development of high-tech national industry is contingent upon expediting and giving priority to the policy of Saudization of industrial technical manpower.

27.4 FUTURE VISION

The future vision envisages that the national industry will:

- Play a fundamental role in the national economy and would be a cornerstone of sustainable development, with an enhanced contribution to the GDP.
- Be dynamic, capable of self-restructuring in response to technological advances and the domestic, regional, and world economic and social development.
- Have multiple linkages and be integrated nationally and internationally.
- Play a major role in R&D activities, complementing the R&D efforts of higher education and government and have strong linkages with international R&D centers.
- Enjoy a higher level of competitiveness based primarily on experience acquired from improved productivity and efficiency.
- Have the private sector playing the major role, with the role of government being limited to ensuring competition, providing an enabling environment, supporting R&D activities, and assisting infant industries.
- Be clean, environment-friendly, contributing to the protection of the environment and conservation of natural resources.

To achieve this vision, the Eighth Plan has the following strategic goals:

27.4.1 Strengthening and Enhancing the Industrial Base

- Continuing to enhance vertical integration of the oil industry through expansion of oil refining capacities.
- Providing industrial estates with natural gas, wherever feasible.
- Increasing production capacity of the petrochemical industry and diversifying its products.
- Enhancing forward linkages of the petrochemical industries, through encouraging the manufacture of intermediate and final plastic products.
- Developing pharmaceutical industries, diversifying licensed medicines, and establishing partnerships with international pharmaceutical companies.
- Utilizing the comparative advantage of the Kingdom in energy-intensive industries by encouraging base metal industries, particularly steel industry and its products.
- Upgrading production capacity of the machinery, equipment and metal products industries and increasing and diversifying production of high-tech, high-value-added products, such as devices used as inputs in the telecommunication and information technology industry.
- Achieving import substitution of auto spare parts and tires by upgrading production capacity quantitatively and qualitatively, making use of the comparative advantage the Kingdom has in this domain.
- Encouraging investment in production of high-value-added building materials, such as tiles, ornamental ceramics, and ceramics for industrial uses, in order to meet growing demand for these products.
- Encouraging food processing and agro-industries, including baby food and canned food, and enhancing linkages between these industries and the packaging, plastics and paper industries.

27.4.2 Enhancing the Competitive Advantage

Competitive advantage of Saudi industry is influenced by a number of factors, such as level of prices and product quality resulting from technological content, and performance efficiency. Hence, when providing incentives, priority will be given to projects with a technology content, projects with direct foreign investments that contribute

effectively to transfer and indigenization of advanced technology, and projects that contribute to R&D.

27.4.3 Development of Infrastructure and Provision of Support Services

- Continuing to establish industrial estates in all regions and to expand existing ones.
- Developing the national railroad network.
- Considering the possibility of establishing in the North and South integrated development centers, similar to the industrial cities of Jubail and Yanbu.
- Encouraging establishment of technology incubators and parks, as well as special exports zones.
- Developing various types of business services, such as statistical information, marketing, investment and market studies, and training services, particularly for SMEs, through cooperation between government agencies and private-sector institutions.

27.5 DEVELOPMENT STRATEGY

In order to enhance the process of comprehensive and sustainable development, the Eighth Development Plan envisages substantially increasing the role of the industrial sector in economic activity, through adoption of the following objectives and policies.

27.5.1 Objectives

The main development objectives of the industrial sector are:

- Strengthening the industrial base of the country.
- Upgrading technological efficiency, productivity and competitiveness.
- Developing the infrastructure and providing support services to industry.
- Increasing private-sector participation and supporting the SMEs.
- Supporting and encouraging industrial exports.
- Upgrading the skills of Saudi manpower in the industry sector.

27.5.2 Policies

Achieving the objectives set for the industrial sector in the Eighth Development Plan relies on implementation of the following policies:

- Expanding and further integrating high value-added manufacturing industries.
- Linking incentives and licensing policies to the technology content of industrial projects, their export objectives and measures of protection against environment pollution.
- Encouraging industries based on modern technology, advanced knowledge, and high productivity.
- Establishing technology incubators to support small industrial projects.
- Developing the national standards system, with the aim of improving the quality of Saudi industrial products and enhancing their competitiveness in world markets.
- Expanding existing industrial estates and establishing new ones.
- Reducing state ownership of industrial companies.
- Developing a specialized mechanism to meet the financial requirements of SMEs.
- Conducting more market research and providing consultation and industrial business sector development services.
- Establishing an advisory committee comprising representatives from the Ministry of Higher Education, the Ministry of Education, the Ministry of Commerce and Industry, GOTEVT and the Chambers of Commerce and Industry to ensure that outputs of training programs are consistent with industrial labor market requirements.

27.5.3 Targets

During the Eighth Development Plan, the industrial sector is expected to grow at constant 1999 prices at an average annual rate of 6.2%, with petrochemical industries growing at 7.3%, other manufacturing industries at 6.7% and the oil refining industry at 4.4% (Table 27.5).

The following targets are envisaged by the Eighth Development Plan:

- Some 670 factories would commence production, with investments of about SR15 billion; thereby raising the total number of productive

factories, by the end of the Plan, to 4410 factories, with investments totaling almost SR275 billion.

- Increasing industrial employment at an average annual rate of 3.8%.
- Increasing foreign investment in the industrial sector at an average annual rate of 10%.
- Granting new industrial loans, with a value of about SR11.3 billion.

Table 27.5
Industrial Sector Indicators
Eighth Development Plan
Constant 1999 Prices *

Indicator	2003	2004	2009 (Planned)
Value Added of industry sector (SR billion)	75.7	79.5	107.2
Share of GDP (%)	11.09	11.1	12.0
Average Annual Growth Rate (AAGR) of Industry	4.8	4.8	6.2
AAGR –Non-Oil GDP (%)	3.9	3.9	5.2
AAGR of GDP (%)	3.4	3.4	4.6
Industrial Exports (SR billion)	49.5	52.2	73.5
Value Added — Oil Refining Industry (SR billion)	19.5	20.5	25.4
Value Added — Petrochemical Industry (SR billion)	7.0	7.4	10.5
Value Added — Other Manufacturing Industry (SR billion)	49.2	51.6	71.3
Share of Oil Refining in Total Industry (%)	25.8	25.8	23.7
Share of Petrochemicals in Total Industry (%)	9.2	9.3	9.8
Share of Other Manufacturing in Total Industry (%)	65.0	64.9	66.5
AAGR of Oil Refining Industry (%)	2.6	2.6	4.4
AAGR of Petrochemicals Industry (%)	4.1	4.1	7.3
AAGR of Other Manufacturing Industry (%)	5.9	5.9	6.7
Share of Industrial Employment in Total Employment (%)	7.8	7.9	8.5
AAGR of Industrial Employment (%)	0.4	0.4	3.8

* Figures are rounded to one decimal point

Source: Ministry of Economy and Planning

27.6 FINANCIAL REQUIREMENTS

The total financial requirements for the industry sector (Ministry of Commerce and Industry — Industry Division, Royal Commission of Jubail and Yanbu) in the Eighth Development Plan will be about SR13,720 million, used primarily for enhancing competitiveness of the industrial sector, providing more industrial infrastructure, upgrading the skills of Saudi manpower, and supporting small-scale and nascent industries.

CHAPTER TWENTY EIGHT

ELECTRICITY

28. ELECTRICITY SECTOR

28.1 INTRODUCTION

Restructuring of the electricity sector is proceeding steadily towards allowing entry of independent producers into the power generation market, in addition to considering opening the sector for private investment in various activities, including electricity transmission and distribution and other related services. Simultaneously, efforts to achieve the main strategic objective of the sector, which is to attain full coverage of electricity services of the whole country by the end of the Eighth Development Plan period, are continuing.

This chapter presents the current conditions of the electricity sector and the major achievements made during the Seventh Development Plan. It also deals with the key issues and challenges facing the sector and the policies and mechanisms needed to address them and to meet the growing demand for electricity. Finally, it presents the features of the continuing restructuring of the sector and its envisaged future vision.

28.2 CURRENT CONDITIONS

The increase in electricity consumption is determined primarily by economic and population growth on the one hand and development of electricity prices on the other. Per capita consumption of electricity grew at an average annual rate of 1.7% during the first four years of the Seventh Development Plan, exceeding the target of 1.2%. Reducing tariffs during the first year of the Plan and keeping them constant subsequently was a key factor of the growth of consumption (Table 28.1).

Table 28.1
Electricity Sector Indicators

	1999	2003	Average Annual Growth Rate (%)	Seventh Plan Growth Target (%)
Per Capita Consumption (KWH)	٥,٤٤٤.0	٥,٨٣٣.0	1.7	1.2
Number of Customers (000)	٣,٣٧١.٦	٤,٢٣١.٦	5.8	4.2
Number of Residential Customers (000)	٢,٧٩٢.٠	٣,٤٩٧.١	5.8	3.9
Service Coverage (%)	٧٩.١	٩٠.٠	3.3	0.9
Electricity Consumption (billion KWH)	١٠٥.٦	١٤١.٥	7.6	5.2
Peak Load (MW)	٢١,١٠١.٠	٢٦,٢٧٢.٠	5.6	5.1
Actual Generation Capacity (MW)	٢٠,٦٤٧.٠	٢٧,٠١٨.٠	7.0	5.7
Generation Capacity of Desalination Plants (MW)	٢,٦٧٥.٢	٢,٨٦٦.٠	1.7	–
Total Number of Employees	٢٨,٧٨٥.0	٢٩,١٨٩.٠	0.3	2.2
Share of Saudis (%)	٦٩.١	٧٩.٤	3.5	2.7
Average Number of Customers Per Employee (Customer)	١١٧.٠	١٤٥.٠	5.5	2.0
Average Sold Electricity Per Employee (MWH)	٣,٦٦٨.٦	٤,٨٤٧.٧	7.2	2.9

Source: Ministry of Water and Electricity

28.2.1 Service Coverage

Aided by its improved financial position, the Saudi Electricity Company, an exclusive concessionaire, has been instrumental in accelerating electrification; adding during the first four years of the Seventh Development Plan about 860,000 customers, including about 705,100 residential customers, compared to the target set by the Plan of 793,000 customers.

By the end of 2003, the total number of customers reached 4,231,660, or 90% of the total number of potential customers. In that year, electricity was provided to 10,059 villages and hamlets, or 90% of the total number of villages and hamlets.

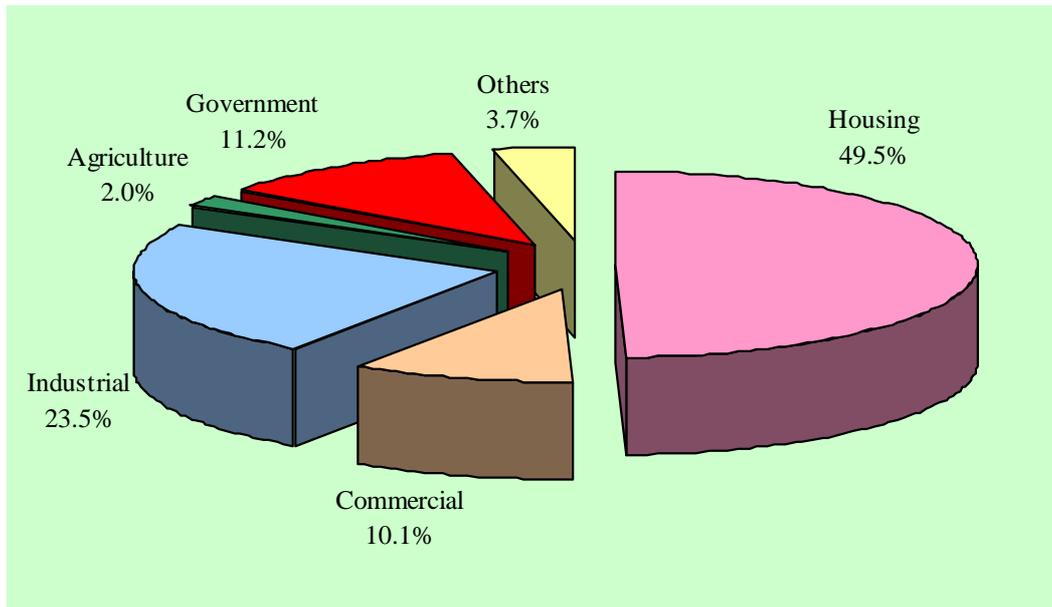
28.2.2 Electricity Consumption and Loads

During the first four years of the Plan, as a result of a substantial increase in the number of customers, as well as growth in non-residential

consumption, electricity consumption increased at an annual average rate of 7.6% to 141.5 billion KWH in 2003. As shown in Figure 28.1, residential consumption accounted for almost half of the total, while industrial consumption accounted for 24%, commercial consumption for 10%, and government sector consumption for 11%.

Asynchronous peak load increased at an average annual rate of 5.6%, from 21,101 MW in 1999 to 26,272 MW in 2003.

Figure 28.1
Electricity by Consumption Category, 2003



28.2.3 Generation Capacity

Generation capacity increased from 20,647 MW in 1999 to 27,018 MW in 2003, excluding available capacity from dual purpose desalination plants, which increased from 2,675.2 MW to 2,866.0 MW.

As shown in Table 28.2, generation capacity is distributed as follows: steam turbine plants; 33.8% of total capacity; combined cycle plants, 8.2%; and gas turbine plants and diesel generators, 47.8%. The high share of gas turbines and diesel generators is due to several reasons, including existence in isolated population centers of many small sub-systems that lack cooling water needed for steam and combined cycle plants, the relatively low load factor due to the seasonal nature of loads, which requires flexible, small and medium generation capacities to meet peak demand. The share of

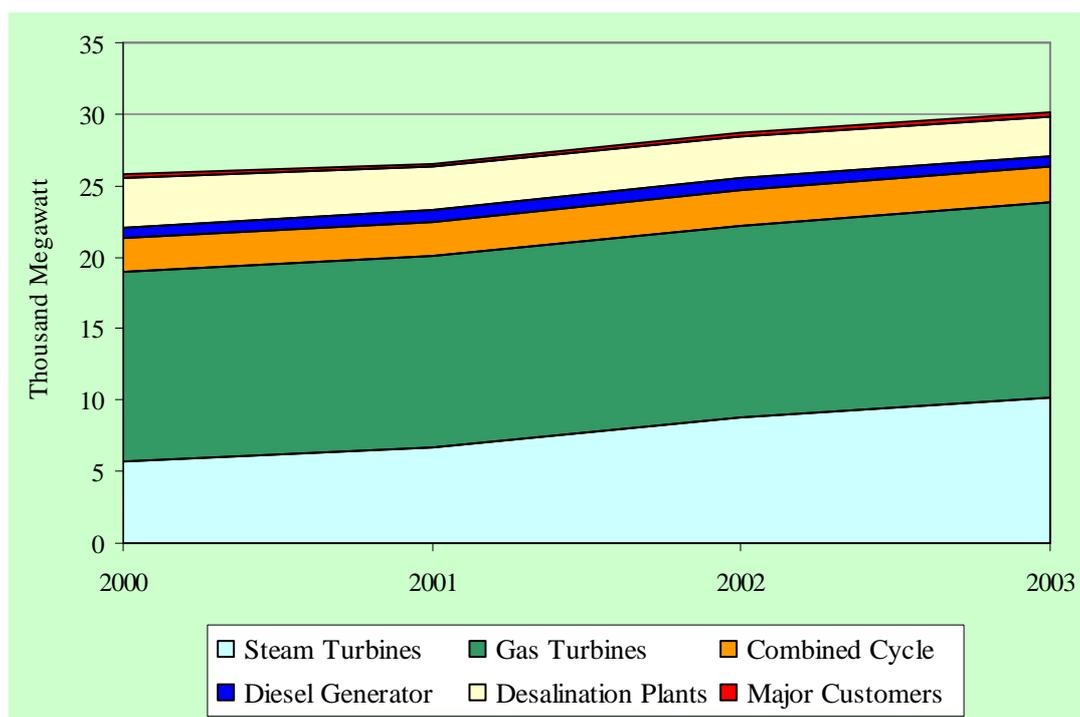
small gas and diesel plants in total generation capacity is expected to decrease with the continuous expansion of the electricity grid among and within the regions, as well as with neighboring countries. Figure 28.2 shows the trends in generation capacity from 2000 to 2003.

Table 28.2
Capacities of Domestic Generation Plants

Type of Generation Plant	2000 (MW)	2003 (MW)	Average Annual Growth Rate (%)	Share of Total Generation Capacity	
				2000 (%)	2003 (%)
Steam Turbines	٥,٦٧٢	١٠,١٦٥	٢١.٥	٢٢.٠	٣٣.٨
Gas Turbines	١٣,٢٢٩	١٣,٦٨٤	١.١	٥١.٣	٤٥.٥
Combined Cycle Generators	٢,٣٨٧	٢٤٨٤	١.٣	٩.٣	٨.٢
Diesel Generators	٧٧٢	٦٨٥	-٣.٩	٣.٠	٢.٣
Total (Saudi Electricity Company)	٢٢,٠٦٠	٢٧,٠١٨	٧.٠	٨٥.٥	٨٩.٨
Desalination Plants	٣,٤٣٦	٢,٨٦٦	-٥.٩	١٣.٣	٩.٥
Major Customers	٢٩٤	٢٠٧	-١١.٠	١.١	٠.٧
Total (Electricity Sector)	٢٥,٧٩٠	٣٠,٠٩١	٥.٣	١٠٠.٠	١٠٠.٠

Source: Ministry of Water and Electricity.

Figure 28.2
Development of Generation Capacity
Seventh Development Plan



28.2.4 Production of Electricity

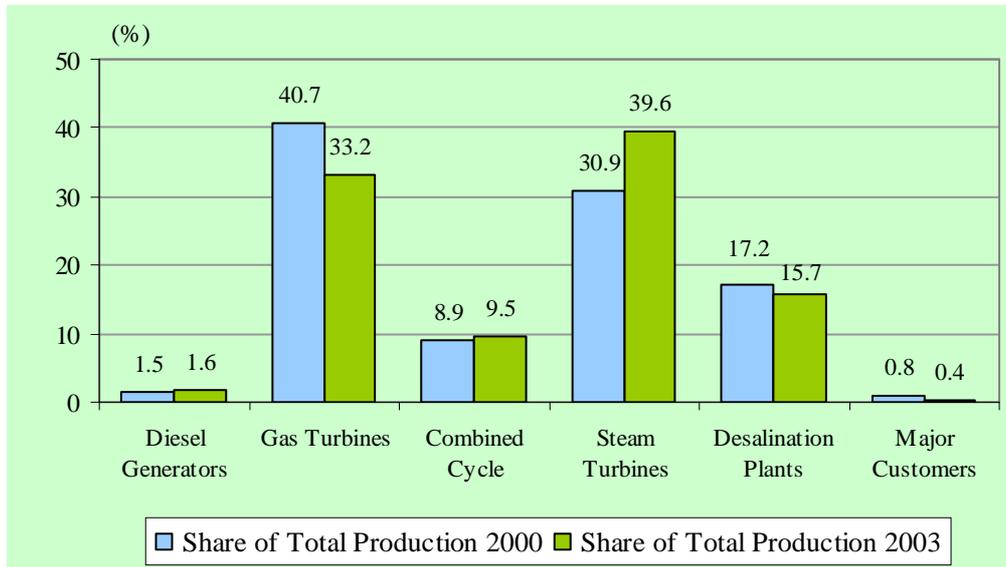
Total produced electricity increased at an average annual growth rate of 6.6%, to 153.0 billion KWH in 2003 from 126.2 billion KWH in 2000 (Table 28.3). During this period, generation efficiency improved with the shares of the relatively more efficient steam and combined cycle plants increasing at the expense of the less efficient gas turbine and diesel plants (Figure 28.3).

Table 28.3
Electricity Production by Source

Type of generation plant	2000 (GWH)	2003 (GWH)	Average Annual Growth Rate (%)	Gw/h	
				Share of Total Production	
				2000 (%)	2003 (%)
Diesel Generators	1,882	2,424	8.8	1.0	1.6
Gas Turbines	51,393	50,733	-0.4	40.7	33.2
Combined Cycle Generators	11,261	14,070	9.0	8.9	9.0
Steam Turbines	39,012	60,644	10.8	30.9	39.6
Total (Saudi Electricity Company)	103,048	128,371	7.4	82.1	83.9
Desalination Plants	21,602	24,018	3.0	17.2	10.7
Power Imported From Major Customers	993	711	-14.9	0.8	0.4
Total Production	126,193	153,000	6.6	100.0	100.0

Source: Ministry of Water and Electricity.

Figure 28.3
Electricity Production by Source
2000 and 2003



28.2.5 Fuel Consumption

Total consumption of fuel (crude oil, natural gas and diesel) in the electricity sector amounted to 33.3 million metric tons of oil equivalent in 2002, compared to 30.3 million tons in 2000. In line with the Seventh Development Plan strategy of reducing the use of crude oil and diesel in favor of natural gas and heavy fuel oil, the share of natural gas increased during the period from 36.9% of total fuel consumption to 50%, and the share of heavy fuel oil from 7.4% to 7.7%, while the share of crude oil decreased from 30.9% to 19.6% and the share of diesel from 24.8% to 22.7% (Figure 28.4).

28.2.6 Electricity Network

Total length of network lines increased from 256,300 km in 2000 to 305,700 km in 2003. As shown in Table 28.4, the increase comprised 3,500 km of 110–380 KV transmission lines, 21,400 km of 13.8–69 KV distribution lines and 24,600 km of LV lines (service voltage).

Figure 28.4
Shares of Fuels in Consumption in the Electricity Sector

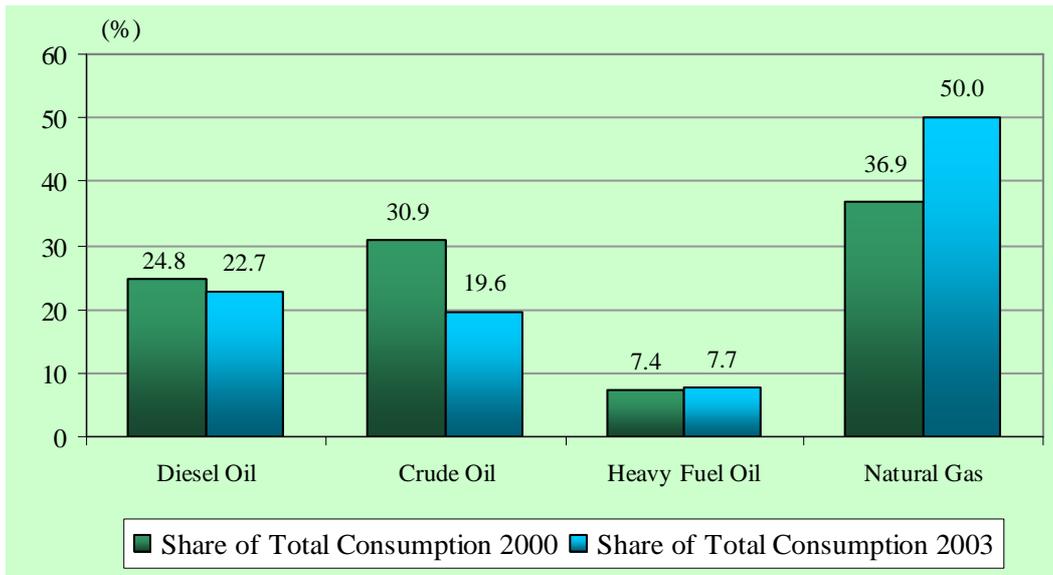


Table 28.4
Growth of the Electricity Network
2000–2003

	(Km)			
Year	Transmission Voltage	Distribution Voltage	Low Voltage	Total
2000	29,631	111,129	115,535	256,295
2001	30,335	117,780	123,123	271,238
2002	31,701	125,038	131,728	288,467
2003	33,111	132,538	140,098	305,747
Average Annual Growth Rate (%)	3.8	6.0	6.6	6.1
Additions 2001–2004	3,480	21,409	24,563	49,452

Source: Ministry of Water and Electricity.

28.2.7 Employment in Electricity Sector

During the first four years of the Seventh Development Plan, total employment in the electricity sector, excluding workers under operation, maintenance and support contracts, grew at an average annual rate of 0.3%, reaching 29,189 employees in 2003. The sector also maintained a steady pace of Saudization, with the share of Saudis in total employment standing at 79.4% in 2003, which is higher than the planned target of 75%. The Saudization trend was supported by various training programs provided by the Saudi Electricity Company.

The growth rate of employment of 0.3% was far below the growth rate of electricity consumption of 7.6%, reflecting a notable improvement in labor productivity. Average number of customers per employee increased at an annual growth rate of 5.5%, from 117 in 1999 to 145 in 2003, while average consumption per employee increased at an average annual rate of 7.9%. As a result, the average cost of service decreased from 12.05 Hallalah per KWH in 2000 to 11.40 in 2003.

28.2.8 Restructuring and Privatization

Restructuring efforts continued under the Seventh Development Plan, with the aim of privatizing the sector in line with the overarching privatization strategy. The following steps were taken:

- Establishing the Saudi Electricity Company in 1998, and incorporating all public electricity utilities within it, as an initial step towards privatization.
- Reviewing electricity tariffs in 1999 to make them in line with actual service costs, as part of a process aimed at operating the electricity sector commercially. Tariffs were adjusted by Council of Ministers Resolution 170 of 8/11/2000.
- Establishing the Electricity Service Regulatory Authority in 2001 to regulate the sector and to assure provision of reliable, high quality services at reasonable prices.
- Commencing the process leading to separation of generation from transmission from distribution (Box 28.1).

Box 28.1: The Role of the Electricity Service Regulatory Authority and its Plans for Restructuring Electricity and Desalination Industries

A. Role and Tasks:

The Electricity Service Regulatory Authority was established by Council of Ministers Resolution 236 of 12/11/2001 as a corporate body enjoying financial and administrative autonomy. The Authority is entrusted with assuring the provision of reliable, high-quality services at affordable prices. It undertakes, in the framework of the set policies and plans, the tasks of regulating the sector, proposing regulatory rules, review of costs and tariffs periodically, and enhancing competition in order to encourage private investments in electricity-sector projects. The authority has also been entrusted with the task of regulating the desalination industry and dual purpose electricity generation projects.

B. The Initial Program for Restructuring the Electricity Industry:

This program, being implemented by the Regulatory Authority, aims at decentralizing the electricity industry, making it subject to market forces, increasing the role of the private sector in it, and creating a competitive environment. The process of regulation and restructuring is expected to lead to the creation of an adequate institutional and operational framework. The major planned steps include the following:

1. Developing a proper organization framework.
2. Restructuring the facilities of electricity industry.
3. Organizing the transmission and distribution networks.
4. Establishing a proper tariff system characterized by high economic and social efficiency.
5. Creating a competitive wholesale market in electricity generation.

- Establishing in 2003 the joint-stock Water and Electricity Company for buying electric power and desalinated water produced by independent producers for sale to distribution companies and major consumers.
- Separating the Electricity Affairs Division from the Ministry of Industry and attaching it to the Ministry of Water and Electricity. This step, which was taken in the context of the administrative reform and development of government agencies, aims at improving the quality of electricity and water policies and raising the economic and social efficiency of these two utilities.

28.2.9 Role of Private Sector

The role of the private sector was enhanced considerably under the Seventh Development Plan. In addition to restructuring the electricity sector as a step towards privatization, a private company, the National Energy Company, started in 2002 building at the Jubail Industrial City, on a build-operate-own (BOO) basis, the first private steam plant for electricity generation, with a capacity of 240 MW, to be operational in 2005. Moreover, a contract was concluded in 2004 between ARAMCO and a private company to build four generating plants, on a build-own-operate basis, with a total capacity of 1074 MW, in Ras Tanura, Juaimah, Shudghum and Uthmaniah. These companies can sell surplus production to the Saudi Electricity Company.

28.3 ISSUES AND CHALLENGES

28.3.1 Full Service Coverage

Provision of a reliable, efficient electricity service at minimum cost in all regions is a strategic objective for the electricity sector. However, in view of the vast land area, which exceeds two million km², with 11,185 cities, villages and hamlets, and the steady growth of population at a relatively high rate, it is also a great economic and social development challenge. Accomplishing this objective is expected to be one of the most important achievements of the Eighth Development Plan.

28.3.2 National Electricity Grid

Establishing a market for electricity production and creation of a flexible,

adequate environment to ensure competition in this market require a unified high-voltage national network interconnecting generation centers with main load centers. At present, the network covers the Eastern, Central and Western regions and links the Eastern region with the Central region. Completion of this network will require expanding it to cover the main load centers in the Southern and Northern regions and to link the Central region with the Western region.

28.3.3 Regional Electricity Interconnection

The Gulf interconnection network, which will be linked later with the Arab network currently under construction, is expected to be established in the next few years. Connecting the Saudi grid with neighboring and distant electricity markets, via this interconnection network, would facilitate electricity exports, which are expected to become more important in the future .

28.3.4 Restructuring and Privatization

The current restructuring process, which is aimed at achieving the targeted model of the sector, involves the following major steps:

- Merging the transmission facilities (National Grid) into a consolidated, autonomous entity.
- Allowing a suitable number of investors in electricity production to operate in a well-regulated competitive environment.
- Organizing and restructuring electricity distribution tasks to enhance the efficiency of providing electricity services on a commercial basis throughout the country.
- Increasing participation of the private sector in all aspects of the electricity service.

28.3.5 Manufacturing of Electricity Related Equipment and Devices and Indigenization of Relevant Technology

For the last two decades, manufacturing electricity transmission and distribution equipment, such as various types of cables, towers, switchboards, fuses, and low- and medium-voltage transformers, has

prospered. Due to the expected growth of electricity locally and regionally, expansion of this industry, particularly for the manufacture of high-voltage and ultra high-voltage equipment and control systems, is highly compatible with the strategy of establishing a strong, advanced industrial base.

However, indigenization of advanced technology requires upgrading the capabilities and skills of the national manpower in engineering design and consulting services. It is, therefore, proposed to conduct a feasibility study of establishing, as a private company or as a private–public partnership, an engineering and consulting firm specializing in the design and engineering of electricity projects, desalination plants, and similar facilities.

28.4 FORECASTS OF THE EIGHTH DEVELOPMENT PLAN

Table 28.5 presents the Eighth Development Plan forecasts of major developments of the electricity sector. The following main objectives are expected to be achieved under the Eighth Development Plan:

- Achieving full electricity service coverage by providing service to 1,126 villages and hamlets and serving 1,163,280 new customers.
- Increasing the power generation capacity by 10,996 MW, in addition to 1,330 MW from desalination plants. Private investors will be allowed to provide the additional generation capacity by establishing new power generation plants on a build-operate-own basis.
- Increasing the rate of Saudization to 89.2% by the end of the Plan and raising labor productivity by 6.5% per year.
- Linking the electricity network of the Central region with the network of the Western region and linking the latter with the Southern region.
- Proceeding with restructuring and privatization and creating an independent company to own and operate the national transmission network.
- Linking the electricity networks of the Kingdom with the networks of the GCC countries to support exchange of electricity and load sharing.
- Studying the feasibility of exporting electricity on a commercial basis.
- Studying the feasibility of establishing an electrical engineering and

consulting firm, as a private company or a private-public partnership.

Table 28.5
Main Indicators of the Electricity Sector
Eighth Development Plan

	Actual 2003	Expected 2004	Planned 2009	Average Annual Rate of Growth (%)
Per capita Consumption (KWH/Year)	5,833	5,829	6,415	1.9
Number of Customers (thousand)	4,231.66	4,431.11	5,594.39	4.8
Number of Residential Customers (thousand)	3,497.1	3,662.8	4,629.4	4.8
Service Coverage (%)	90.0	91.7	100.0	1.8
Electricity Consumption (billion KWH)	141.5	145.5	184.4	4.9
Peak Load (MW)	26,272	28,546	38,288	6.0
Actual Generation Capacity (MW)	27,018	27,021	38,017	7.1
Generation Capacity of Desalination Plants (MW)	2,866	3,391	4,721	6.8
Total Number of Employees	29,189	28,991	26,406	-1.9
Share of Saudis (%)	79.4	80.8	89.2	2.0
Average Number of Customers Per Employee (Customer)	145	160	218	6.5
Average Sold Electricity Per Employee(MWH)	4,847.7	5,247.8	7,196.1	6.5

Source: Ministry of Water and Electricity.

28.5 FUTURE VISION

The program of developing the electricity sector towards the targeted model consists of three stages:

- ***Transitional Stage***

It will take two years to complete this stage, which includes the organization framework, identifying licensing methods and procedures, setting service standards, studying the feasibility of separating transmission facilities from generation facilities, transforming the former into an autonomous company, operating distribution and generation facilities on a commercial basis, and establishing a framework that allows involvement of the private sector in power generation as independent producers of both water and power.

- ***Intermediate Stage***

This stage, which will take 3–5 years, and during which the separation of transmission facilities will have been completed,

covers distribution of the generation activities of the Saudi Electricity Company among a number of independent companies; thereby enhancing competition and facilitating entry of private companies into the field of generation. The stage also covers provision of an operator for the transmission system, who will also be the sole buyer of the electricity power produced and transmitted by the main network.

- ***Final Stage (Competition)***

At this stage, which will be reached after completion of the two previous stages; i.e. more than five years, generation, transmission and distribution companies of the electricity sector will be operating normally, with electricity prices set on an economic basis to cover service costs and provide a reasonable return on investment. Moreover, industrial and other major customers will have the opportunity to choose a service supplier, in the context of an advanced wholesale competitive market based on transparent rules and regulations.

28.6 DEVELOPMENT STRATEGY

28.6.1 Objectives

The objectives set for development of the electricity sector are as follows:

- Providing electricity at an adequate technical level to all population settlements and economic facilities.
- Providing electricity at minimum economic, social and environmental costs.
- Continuing to encourage conservation of energy and rationalization of electricity consumption.

28.6.2 Policies

Achieving the main objectives set for the electricity sector is contingent upon implementation of the following policies:

- Providing electricity service at a high level of quality and reliability and achieving full service coverage.
- Allowing competition in electricity generation.

- Rationalizing electricity tariffs, with due consideration to the social dimension of pricing.
- Studying utilization of the electricity industry as one of the means for maximizing the value added of the oil resources and enhancing regional and international integration.
- Transferring, indigenizing and developing electrical technologies.

28.6.3 Targets

Full electricity service coverage is expected to be achieved under the Eighth Development Plan (Table 28.6), and about 1.16 million additional customers are expected to be served (Table 28.7). Moreover, it is expected that the national network will be completed and linked with the Gulf and Arab networks as a regional grid.

Table 28.6
Electricity Service Coverage by Region
Eighth Development Plan

Region	Percentage Coverage						Average Annual Rate of Growth (%)	
	Actual 2003	Estimate 2004	2005	2006	2007	2008		2009
Riyadh	90.9	97.7	97.3	98.0	98.7	99.3	100.0	0.7
Makkah	92.1	93.0	94.8	97.1	97.4	98.7	100.0	1.4
Al Madinah	97.3	97.8	98.2	98.7	99.1	99.7	100.0	0.0
Qassim	97.0	97.0	98.0	98.0	99.0	99.0	100.0	0.0
Eastern Region	99.3	99.4	99.7	99.7	99.9	100.0	100.0	0.1
Assir	76.1	80.1	84.1	88.1	92.0	97.0	100.0	4.0
Tabuk	74.2	87.0	82.8	87.1	91.4	90.7	100.0	2.7
Hail	71.9	77.7	81.3	87.0	90.7	90.3	100.0	0.0
Northern Borders	79.7	83.0	87.4	89.8	93.2	97.7	100.0	3.8
Jizan	78.8	74.0	79.2	84.4	89.7	94.8	100.0	7.2
Najran	73.1	77.7	82.1	87.7	91.0	90.0	100.0	0.2
Baha	97.0	83.9	87.3	89.9	93.2	97.7	100.0	3.7
Jouf	78.0	82.1	80.7	89.2	92.8	97.4	100.0	4.0

Total	٩٠.٠	٩١.٧	٩٣.٤	٩٥.٠	٩٦.٧	٩٨.٣	١٠٠.٠	١.٨
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Source: Ministry of Water and Electricity.

Table 28.7
Number of Electricity Customers by Region (thousand)
Eighth Development Plan

Region	Actual 2003	Estimate 2004	2005	2006	2007	2008	2009	Average Annual Rate of Growth (%)	Change During Plan
Riyadh	1,071.98	1,119.13	1,170.03	1,220.81	1,282.42	1,340.21	1,408.00	4.7	288.87
Makkah	1,233.00	1,290.98	1,303.02	1,417.90	1,484.06	1,504.91	1,620.26	4.7	334.28
Al Madinah	287.36	300.86	310.32	330.46	340.98	362.38	378.77	4.7	77.91
Qassim	216.92	226.46	236.76	248.00	209.00	272.21	284.92	4.7	08.46
Eastern Region	620.68	602.24	678.39	700.86	730.16	763.00	791.84	4.0	139.60
Assir	243.07	208.28	270.68	292.30	311.06	330.03	349.01	7.2	90.73
Tabuk	107.26	112.29	117.69	123.34	129.13	130.20	141.37	4.7	29.08
Hail	83.60	87.28	91.20	90.60	100.02	104.91	109.81	4.7	22.03
Northern Borders	38.26	39.89	41.49	43.17	44.96	46.69	48.42	4.0	8.03
Jizan	130.29	138.44	147.76	106.70	166.73	176.90	187.07	7.2	48.63
Najran	07.48	61.07	60.19	69.13	73.00	78.04	82.63	7.2	21.06
Baha	83.97	89.22	90.23	100.99	107.40	114.01	120.06	7.2	31.34
Jouf	02.74	04.97	07.17	09.48	61.90	64.34	66.73	4.0	11.76
Total	231.66	243.11	244.98	268.89	2,102.47	2,348.38	2,509.39	4.8	1,163.28

Source: Ministry of Water and Electricity.

CHAPTER TWENTY NINE

TRANSPORT SECTOR

29. TRANSPORT SECTOR

29.1 INTRODUCTION

Being a basic element of the infrastructure needed for the socioeconomic development, the transport sector enjoyed great attention under past development plans and, hence, succeeded in linking all regions together, as well as linking the Kingdom with the other countries. The Eighth Development Plan will continue to focus on developing transport infrastructural facilities; improving operational efficiency and competitiveness of transport modes; strengthening linkages among various urban centers, cities and villages; and enhancing the role of the private sector in providing transportation services.

This chapter reviews the development of the transport sector under the Seventh Development Plan, presents the key issues and challenges that face it, estimates the expected demand for transport services, and addresses the objectives and policies set for it under the Eighth Development Plan.

29.2 CURRENT CONDITIONS

29.2.1 Road Transport

In the first four years of the Seventh Development Plan, total length of the paved road network increased by about 9.3%, from 45,300 km in 1999 to 49,500 km in 2003 (Figure 29.1). Similarly, total length of the unpaved road network increased by 10.3%, to 117,200 km (Table 29.1).

Table 29.2 shows the distribution of the road network by region. This network has contributed to linking together the various regions, linking the main urban centers and the rural areas, and facilitating transport of passengers and freight within the country and with other countries.

Table 29.1
Development of Road Network
Seventh Development Plan

(Thousand km)

Year	Paved Roads				Unpaved Roads
	Main	Secondary	Branch/Feeder	Total	
1999	15.1	8.4	21.8	45.3	106.3
2003	14.2 *	8.7	26.6	49.5	117.2
Change (%)				9.3	10.3

* Due to reclassification of roads.

Source: Ministry of Transport

Figure 29.1
Paved Roads Network
Seventh Development Plan

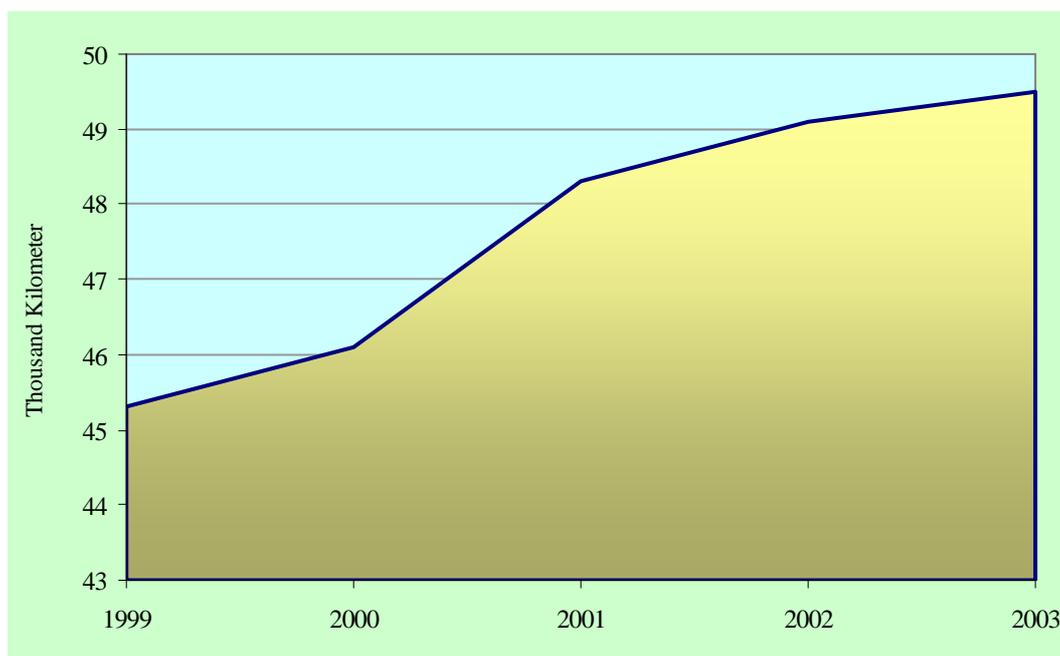


Table 29.2
Road Network by Region*
2003

Region	Type of Paved Roads				Unpaved Roads
	Total	Main	Secondary	Feeder	
Riyadh	11,040	2,247	2,113	6,680	10,214
Makkah	4,740	1,635	990	2,115	15,969
Medinah	3,250	1,032	810	1,408	15,681
Qassim	4,276	450	873	2,953	14,692
Eastern Region	5,081	2,218	1,133	1,730	3,210
Assir	3,770	905	880	1,985	20,133
Tabuk	2,062	1,405	156	501	8,525
Hail	2,631	410	372	1,849	10,710
Northern Borders	1,326	896	–	430	903
Jizan	949	205	130	614	4,207
Najran	1,478	455	525	498	2,868
Baha	1,162	119	280	763	5,772
Jouf	1,175	713	–	462	4,353
Total	42,940	12,690	8,262	21,988	117,237

* The Network covered by maintenance contracts only.

Source: Ministry of Transport.

Total number of vehicles grew by about 3.1% per year to about 3.84 million in 2002; of which 2.29 million were private cars, 1.45 million commercial vehicles, and the rest other types of vehicles.

Freight transport operations on roads are undertaken mainly by private companies. Severe competition has led to stability of transport prices for a relatively long time. A large number of transport companies of various sizes operate in the market. About 36% of them have 5 trucks or less and only 3% have more than 50 trucks.

The Saudi Arabian Public Transport Company (SAPTCO) is the largest provider of public transport. The company enjoys exclusive rights to operating a countrywide intercity bus service. It also provides intra-city bus services alongside a number of private companies, SAPTCO provides international passenger services (Table 29.3).

Table 29.3
Number of Passengers Transported by SAPTCO

	(Million)				
Service	1999	2000	2001	2002	2003
Local (intra-city)	17.00	11.33	11.00	11.20	9.71
Intercity	4.85	5.43	6.28	6.28	6.30
International	0.50	0.51	0.52	0.54	0.57

Source: Saudi Arabia Public Transport Company.

29.2.2 Rail Transport

The rail network did not change during the period of the Seventh Development Plan. The network is composed of two main lines connecting Dammam on the Eastern coast with the capital city of Riyadh; the passenger transport line (449 km) provides a direct daily service in each direction, while the freight transport line (556 km) connects the port of Dammam with the dry port of Riyadh. The latter line provides efficient freight transport services, particularly in the presence of customs clearance facilities, which facilitate handling and reduce transportation costs.

A study is under way of expansion of the rail network to include the following:

- Connecting phosphate and bauxite sites in the north with the Jubail industrial city on the eastern coast, via the Hail, Qassim and Riyadh regions, by a 1,683 km line.
- Constructing a rail line with a length of 946 km to connect the port of Dammam in the east with Jeddah port in the west.
- Linking Makkah with Al Madinah via Jeddah governorate, with a spur to Yanbu.

The private sector is expected to participate in the construction and operation of new rail lines.

Figure 29.2 and Figure 29.3 show the number of passengers and volume of freight transported by rail during the period of the Seventh Development Plan.

Figure 29.2
Number of Passengers Transported by Rail
Seventh Development Plan

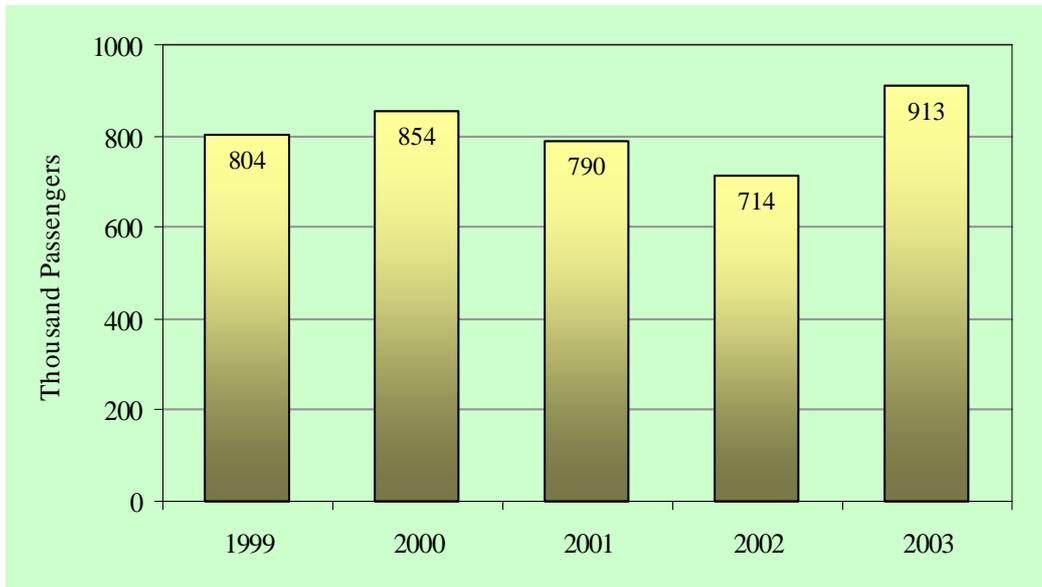
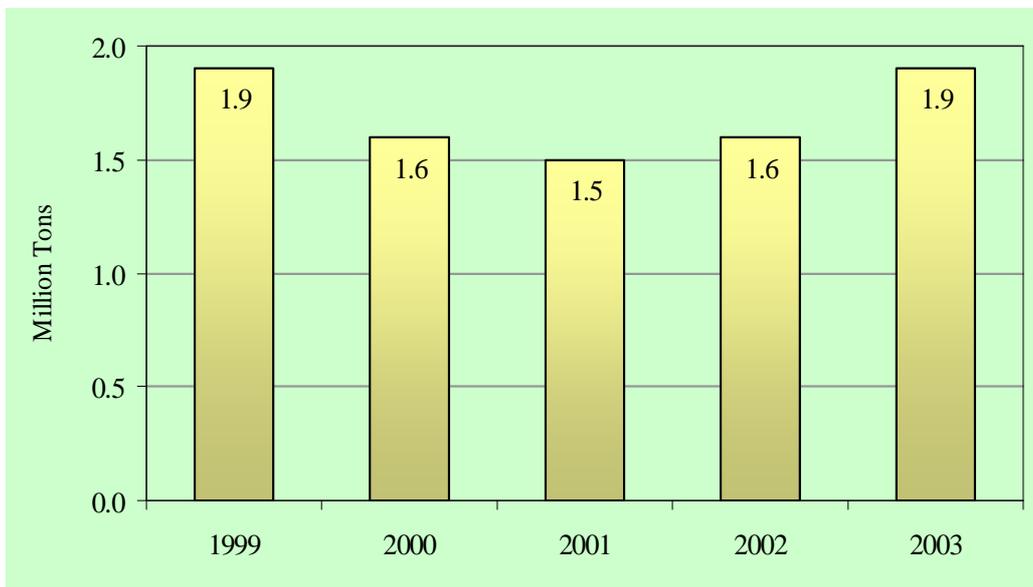


Figure 29.3
Volume of Freight Transported by Rail
Seventh Development Plan



29.2.3 Air Transport

The air transport network comprises 26 airports, including 3 international, 7 regional and 16 domestic airports; all operated and managed by the General Authority of Civil Aviation (GACA). SAUDIA and 44 other airlines serve the international airports, while the domestic airports are served only by SAUDIA.

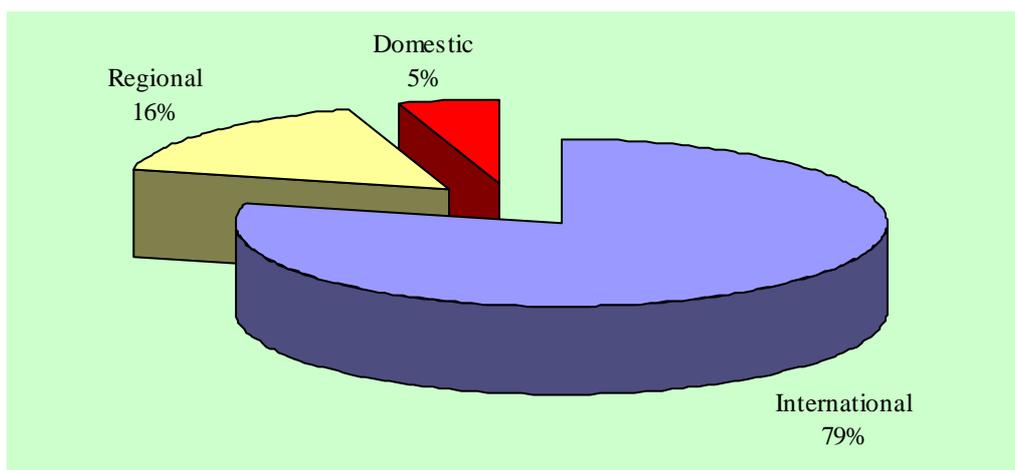
The airports handled 31.85 million passengers and 461,500 tons of air cargo in 2003 (Table 29.4). The share of the three international airports (Riyadh, Jeddah and Dammam) amounted to about 79% of the total number of passengers handled and 93% of total air cargo (Figure 29.4).

Table 29.4
Air Transport Traffic (Passengers and Cargo)

Volume	1999	2000	2001	2002	2003
Passengers (000)	28,741	29,532	29,821	31,070	31,845
(Change %)		2.75	0.97	4.2	2.49
Cargo (000 tons)	470.2	473.5	446.5	472.6	461.5
(Change %)		0.70	-5.70	5.85	-2.35

Source: General Authority of Civil Aviation.

Figure 29.4
Distribution of Passengers by
Category of Airport, 2003*



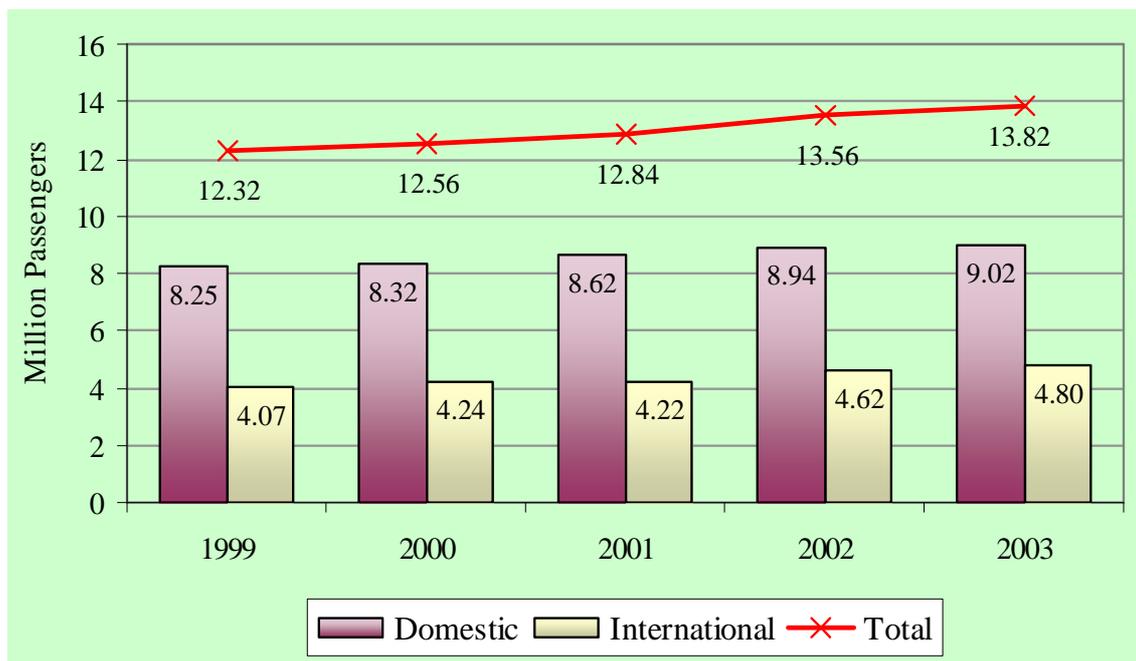
* 3 international, 7 regional and 16 domestic airports.

As part of the efforts aimed at developing airports, Prince Salman Bin Abdul Aziz Airport in Dawadmi was inaugurated under the Seventh Plan. Work also started on a project to expand and upgrade King Abdul Aziz International Airport in Jeddah to increase its passenger handling capacity to 21 million passengers per year. This airport is ranked first among Saudi international airport in terms of air traffic, with a share of 41% of the total number of passengers (31.85 million) handled at all international airports in 2003.

29.2.4 Saudi Arabian Airlines (SAUDIA)

SAUDIA operates a domestic network serving 26 airports, in addition to providing services to 57 international destinations. In 2003, SAUDIA carried 13.82 million passengers; 9.02 million on domestic flights and 4.8 million on international flights (Figure 29.5), and transported 253,000 tons of cargo on all flights.

Figure 29.5
Passengers Carried on Scheduled Flights of SAUDIA



SAUDIA has the largest fleet in the Middle East in terms of capacity and number of aircraft; in 2003, it had a fleet of 90 aircrafts; 85 for passenger transport and 5 for cargo.

In a move to introduce competition into domestic air transport, Council of Ministers Resolution 90 of 2003 adopted an "Open Sky" policy, by granting licences to private airlines to provide domestic air transport services. Rules are currently being prepared for implementation of this resolution, and preparatory work on privatization of SAUDIA is under way.

29.2.5 Seaports and Marine Transport

Excluding oil export facilities, the seaport infrastructure comprises eight main ports, with 183 berths and a total design capacity of 252 million tons per year. Five of these ports are located along the western coast, in Jeddah, Jizan, Dhuba and Yanbu (commercial and industrial), and the other three along the eastern coast in Dammam and Jubail (commercial and industrial).

The Saudi Ports Authority (SPA) is responsible for development of the Saudi ports and their management. Through leasing contracts, the private sector plays a major role in the management, operation and maintenance of ports facilities, with the Authority undertaking supervision of privatization contracts and setting the general policies and future plans for improving performance.

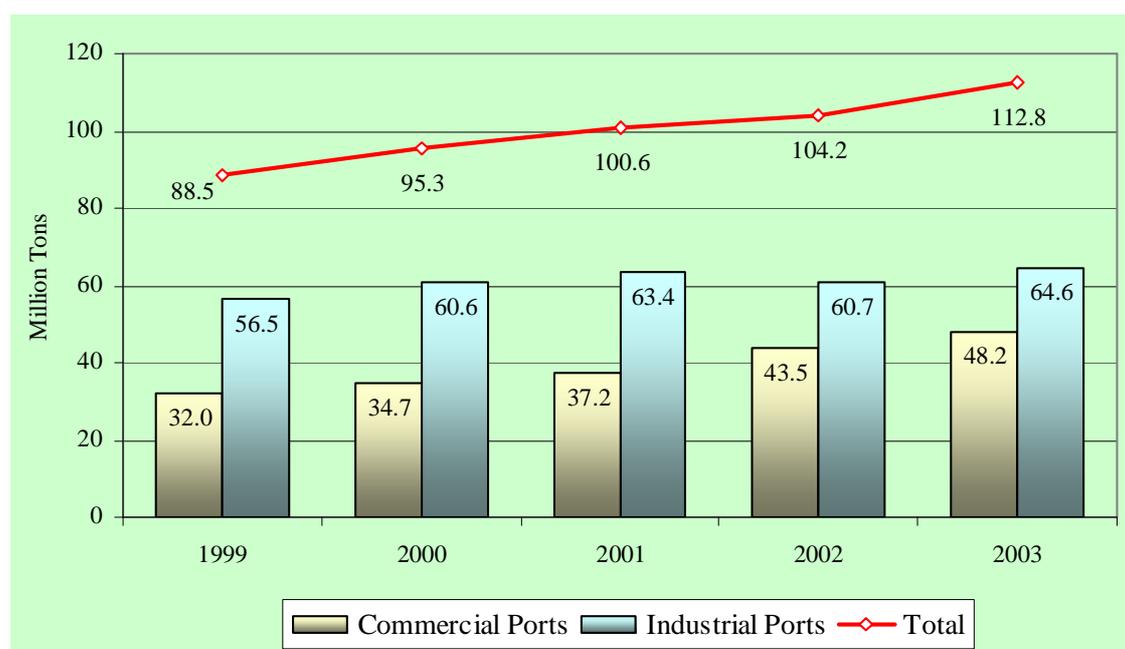
Growth in port operations under the Seventh Development Plan was notable, with the total volume of goods handled by ports increasing from 88.5 million tons in 1999 to 112.8 million tons in 2003, 57% of which via the industrial ports (Figure 29.6), and the number of containers handled increasing from about 1.4 million to about 2.4 million (Table 29.5).

Table 29.5
Cargo Handled in Saudi Ports

Year	1999	2000	2001	2002	(2003)
Number of containers (Units)	1448338	1510244	1697601	1955767	2440327
Change (%)		4.3	12.4	15.2	24.8
Total Cargo (Million tons)	88.5	95.3	100.6	104.2	112.8
Change (%)		7.7	5.5	3.6	8.3

Source: Saudi Ports Authority.

Figure 29.6
Cargo handled in Commercial and Industrial Ports



By the end of 2003, 27 support contracts had been concluded with the private sector. Total investments amounted to about SR2.6 billion, with the size of investment varying from one contract to another depending on the nature of the facility privatized.

This development has contributed to improvements in port productivity, with the time needed for unloading and reloading a ship of a capacity of 5,000 tons being decreased from 3–4 days to about 30–36 hours. Such improvements have enabled the SPA to secure positive cash flows from its operations.

The sea passenger transport network comprises three main ports; namely, Jeddah Islamic Port, Dhuba Port and Yanbu Commercial Port. The total number of departures and arrivals through these ports amounted to 2.05 million passengers during 2004, with a 10.4% increase over the previous year.

29.2.6 Budget Allocations

Total budget allocations for the transport sector (Ministry of Transport, Saudi Ports Authority, Saudi Railways Organization and The General Authority of Civil Aviation) under the Seventh Plan amounted to SR 28,595.5 million; thus exceeding planned allocations by 6%.

29.2.7 Institutional and Organizational Development

Under the Seventh Development Plan, the transport sector underwent a number of organizational developments. Royal Decree A/2 of 30/4/2003 changed the name of the Ministry of Communications to the Ministry of Transport, and Council of Ministers Resolution 149 of 4/8/2003 entrusted the Ministry of Transport with comprehensive planning of land, sea and railroad transport activity and coordinating it with the air transport plan as per Article 20 of the Public Transport Act. The Resolution also appointed the Minister of Transport to the position of Chairman of Board of Directors of the Saudi ports Authority, with the President of the Authority (who occupies a premier grade assuming the Deputy Chairmanship).

Council of Ministers Resolution 13 of 8/3/2004 transformed the Presidency of Civil Aviation (PCA) into a financially and administratively autonomous corporation (Box 29.1).

Box 29.1: Main Features of Council of Ministers Resolution 13 of 8/3/2004 on Civil Aviation.

- Transforming Presidency of Civil Aviation (PCA) into a financially and administratively autonomous corporation.
- The Corporation shall operate on a commercial basis with due consideration to:
 - Progressive reliance on revenues generated by its own authorized, including commercial, activities.
 - Coordinating with the Ministry of Finance to ensure that government and other agencies that use the services of the Corporation pay due rents and financial charges. In accordance with principles of successful management of civil aviation facilities on a commercial basis, the Corporation shall collect all due revenues without favoring one any carrier over another.
 - Balancing annual total revenues of the Corporation with operational and investment expenditures. Should total annual revenues be in excess of total expenditures, then fees and air traffic charges would be reviewed to ensure competitiveness and attract more air traffic to the Kingdom.
 - All employees of the Corporation shall be subject to labor and social insurance laws, in coordination with the Ministry of Civil Service and the Ministry of Finance.
- A Board of Directors of the Corporation shall be formed, comprising representatives of competent government agencies and the private sector.
- The Corporation shall spend its revenues directly to meet its operational and investment expenditures.
- The Corporation shall develop its revenues and achieve self-financing of all operational and investment expenditures. State budget allocations will be phased out by the end of the tenth fiscal year, from the base year, at the latest.
- Revenues in excess of the Corporation's operational and investment expenditures shall be deposited in the State Treasury Account annually as from the end of the tenth fiscal year at most starting from the base year.
- Revenues in excess of operational and investment expenditures shall be transferred to the State Treasury, after keeping in reserve not more than 20% of such a surplus to meet any contingent future needs and to avoid burdening the budget of the Corporation.
- Three years after its formation, the Corporation shall report to the Ministerial Committee of Administrative Organization on progress made in operating on a commercial basis, the problems encountered, and any proposed solutions.
- The Board of Directors shall prepare the organizational chart and manual in line with the new goals of the Corporation.

29.3 ISSUES AND CHALLENGES

Notwithstanding the steady progress achieved by the transport sector, multiplicity of transportation modes and advances in means and technology, pose issues and challenges that would be addressed under the Eighth Development Plan.

29.3.1 Coordination

Due to multiplicity of transportation modes and the competitive nature of relationships among them, fashioning a comprehensive integrated strategy for the sector is a basic prerequisite for economic and social efficiency. Available capacities in most of the infrastructure, such as airports, seaports and main roads, can meet expected increases in demand in the foreseeable future. However, optimal utilization of the available resources, rationalized expansion of infrastructure, and optimal allocation of resources require a high level of coordination among activities, and coordination with the sectoral agencies whose activities are interrelated with transport activities, as well as coordination between transport strategy and other strategies.

Moreover, comprehensive planning of the transport sector and coordination of the various transport modes require a reliable, consistent database of levels of performance and detailed costs, which are the major inputs for setting tariffs and fees and designing appropriate privatization contracts.

In coordination with a number of government agencies, the Ministry of Transport is currently preparing the National Transport Strategy, which would enhance integration among various transportation modes, as well as with other economic sectors. The first phase of the formulation of this strategy has been finalized and the second phase is under way.

29.3.2 Transport and the Environment

Transport is a major source of pollution, particularly in urban centers; a situation further aggravated by the relatively high rates of ownership of private cars and rapid growth of urban centers, which cause traffic congestion inside the cities and on the major interconnecting roads.

Increasingly adverse impacts on the urban environment of rising traffic volumes should be addressed through reducing traffic congestion,

increasing efficiency of public transport, reducing the level of pollutants in fuel, improving efficiency of vehicle inspections, and generally operating and developing various transport modes and facilities in an environmentally friendly way.

29.3.3 Economic Efficiency and Finance

Development of the transport sector, and all the sub-activities involved, requires involvement of the private sector in providing transport services and support operations, with the government providing adequate resources for continued development and maintenance of transport infrastructure. Hence, reviewing the structure of transport fees and charges, improving productivity and competitiveness of facilities, and enhancing self-management of facilities while improving regulation and performance control mechanisms, are all essential. Moreover, the Saudi transport network should be provided with the necessary conditions for competing successfully in the region, particularly with respect to free trade zones, transit trade, tourism and business services. It is also equally important to review fees for transport services, with the aim of narrowing the gap between government revenues generated by such fees and the funds needed for development and maintenance of transport infrastructure.

29.3.4 Traffic Safety

The increasing number of traffic accidents on the roads and the resulting fatalities and physical damage make improvement of traffic safety an urgent national issue that should be adequately addressed. Available data indicate that in 2003, there were about 261,900 traffic accidents on roads, causing over 30,000 injuries and about 4,300 fatalities.

This issue should be addressed along its main dimensions: the social, related to behavior of drivers and pedestrians; the regulatory, related to effectiveness of traffic regulations and their enforcement; the technical and technological, related to road design, conditions and equipment, as well as to vehicle conditions and use.

29.4 EXPECTED DEMAND

Projections of expected demand on the services of various modes of transport under the Eighth Development Plan, which are based on likely

future economic and social developments, institutional changes, and other influential factors, indicate the following trends.

a) Road Transport

During the period of the Eighth Development Plan, the total number of private vehicles is expected to grow at an average annual rate of 2.6%, while the total number of intercity passenger trips is expected to increase by an average rate of about 3.9% per year, and the total number of passengers by about 3.7% per year (Table 29.6).

Table 29.6
Expected Passenger Transport Traffic on Roads
Eighth Development Plan

Year	Number of Private Cars (Million)	Number of Intercity Trips (Million)	Number of Intercity Bus Passengers (Million)
2002	3.35	89.9	11.5
2005	3.64	102.8	14.6
2009	4.03	119.5	16.2
Average Annual Rate of Growth (%)	2.6	3.9	3.7

Source: Saudi Arabian National Transportation Plan (SANTRAPLAN3), Ministry of Economy and Planning.

In the same period, the number of truck trips is expected to grow at an average annual rate of 3.5% and the volume of total freight transported at a similar rate (Table 29.7).

Table 29.7
Expected Freight Traffic on Roads
Eighth Development Plan

Year	Demand Indicator			
	Number of Heavy and Medium Trucks (Thousand)	Intercity Truck mileage (Thousand km)	Total Number of Intercity Truck Trips (Million)	Total Volume of Freight Transported (Million Tons)
2002	133.0	67.7	24.0	192.6
2005	141.8	71.6	27.0	217.2
2009	154.3	75.5	31.0	249.1
Average Annual Rate of Growth (%)	2.1	1.3	3.5	3.5

Source: Saudi Arabian National Transportation Plan, Ministry of Economy and Planning.

b) Railway Transport

The number of railway passengers is expected to increase at an average annual rate of 4.5% while total volume of freight transported by railway is expected to increase at an average annual rate of 2.0% during the Eighth Development Plan. With respect to container traffic, it is expected to increase at a marked rate of 6.5% per year during the same period. All these projections are based on the assumption that none of the railway expansion projects will be operational during the Eighth Development Plan period.

c) Air Transport

By the end of the Eighth Development Plan, the number of arrivals and departures through the airports is expected to grow to about 35 million passengers, including about 23.5 million on domestic flights. These projections do not take into account the likely impacts of allowing competition in the domestic air transport market.

d) Marine Transport

The forecast of the volume of sea transport traffic is based on the assumptions that improvements to ports infrastructure and handling equipment would continue, and that the relative shares of Saudi ports in external trade and passenger traffic would remain stable at the present levels. Accordingly, during the period of the Eighth Development Plan, the total volume of cargo traffic is expected to grow at an average annual rate of 4.0%, mainly due to an increase of imports and exports at average annual rates of 4.7% and 3.6%, respectively.

29.5 FUTURE VISION

The future vision for the transport sector envisages providing an integrated transport sector comprising all transport modes that would meet future needs, be characterized by safety, efficiency and technological advancement, and contribute to economic development and global competitiveness; all in a healthy, safe environment for all members of society.

Realization of this vision requires dealing with a number of local and global issues and challenges; the most important of which are the

following: population and urban growth in the various regions and maintaining regional balance, safety measures and environmental impacts, requirements of national security and defence, implications of globalization and accession to the WTO, making the transport network a transport hub of the region, and making use of the strategic location of the Kingdom.

The main objectives of the long-term strategy of the transport sector are:

- 1) Improving efficiency and performance of the agencies providing transport services in the public and private sectors.
- 2) Enhancing economic and social development and facilitating transportation of people and freight throughout the country.
- 3) Meeting safety requirements and applying to all transport modes a set of measures designed to reduce losses resulting from traffic accidents.
- 4) Reducing adverse impacts on the environment and enhancing environmental awareness.
- 5) Providing a transport system capable of meeting the requirements of national security and defence and of dealing with disasters and emergencies.
- 6) Creating an integrated, multi-modal transport system to serve the pilgrims.

The final picture of the long-term future vision of the transport sector should become clear upon finalization of the National Transport Strategy.

29.6 DEVELOPMENT STRATEGY

Recognizing the vital role of transport in achieving sustainable development, the Eighth Development Plan aims at improving the efficiency of the transport sector, through adoption of the following objectives and policies.

26.6.1 Objectives

The main objectives of the transport sector in the Eighth Development Plan are the following:

- Contributing to balanced economic and social development.
- Improving efficiency and performance of the various modes of transport.
- Improving traffic safety.
- Conserving the environment and protecting it from pollution.
- Providing efficient, safe transport services for pilgrims and Umrah performers.

29.6.2 Policies

Achieving the above objectives relies on implementation of the following policies:

- Increasing private-sector participation in transport activities.
- Proceeding with improving the structure and organization of the transport sector.
- Achieving competition in domestic air transport as per Council of Ministers Resolution 90 of 17/7/2003.
- Developing the road network, with emphasis on feeder roads in the least developed regions.
- Improving standards of traffic safety.
- Continuing with application of financial, economic and social assessment criteria when evaluating infrastructural projects.
- Protecting the environment and taking environmental impacts into consideration in planning, designing and implementing transport facilities.
- Taking national security requirements into consideration in planning and designing transport facilities.
- Enhancing integration among various modes of transport and furthering coordination among transport agencies.
- Providing public transport services to the regions in need.

29.6.3 Targets

The following targets are expected to be achieved under the Eighth Development Plan:

- Finalizing privatization of SAUDIA.
- Finalizing transformation of The General Authority of Civil Aviation into a business-oriented public corporation.
- Upgrading and developing King Abdulaziz International Airport in Jeddah.
- Starting implementation of the railroad network expansion program.
- Finalizing preparation of a National Transport Strategy.
- Implementing the open-sky policy.
- Preparing and implementing National Safety Strategy.
- Establishing a road-accident database and providing access to it.
- Studying feasibility of constructing a railroad to link Jeddah, Makkah and Medinah.

29.7 FINANCIAL REQUIREMENTS

Under the Eighth Plan, the total financial requirements of the transport sector (Ministry of Transport, Saudi Ports Authority, SRO and General Authority of Civil Aviation) will be about SR35,641 million, to be used mainly to finance expansion of infrastructure, maintenance and operation of the existing facilities, development of manpower, provision of supplies and equipment, and studies and research for development and improvement of the sector.

CHAPTER THIRTY

MUNICIPAL AND RURAL AFFAIRS

30. MUNICIPAL AND RURAL AFFAIRS

30.1 INTRODUCTION

This chapter reviews the current conditions of the municipal sector and the achievements made under the Seventh Development Plan, and presents the key issues and challenges to be addressed under the Eighth Development Plan. It also discusses municipal services and the role of the private sector, and highlights the future vision, policies and targets set for the municipal sector by the Eighth Development Plan.

30.2 CURRENT CONDITIONS

30.2.1 Developments

Under the Seventh Development Plan, the municipal sector made wide-ranging achievements, with about 120,000 building permits and 428,000 store licenses granted, about 244,000 land grants in the various regions of the country made, about 1960 government and private land plans laid, about 10 million square meters of swamps refilled, about 6 million liters of pesticides sprayed, and 244 million cubic meters of waste removed. In addition, naming streets and squares in about 38 municipalities was completed and work is under way on 177 structural plans for several municipalities and village clusters in various regions of the country. Moreover, notable achievements were made vis-à-vis the Seventh Development Plan targets (Table 30.1), with these exceeded in public markets, public parks, slaughter houses and municipal buildings and about 54.8% and 80% achieved in protection against storm water and municipal streets, respectively (Figure 30.1)

Studies of spatial development priorities were carried out on eight administrative regions, and work is currently underway on studying the rest. These studies inform spatial development, and help setting priorities for public services and facilities.

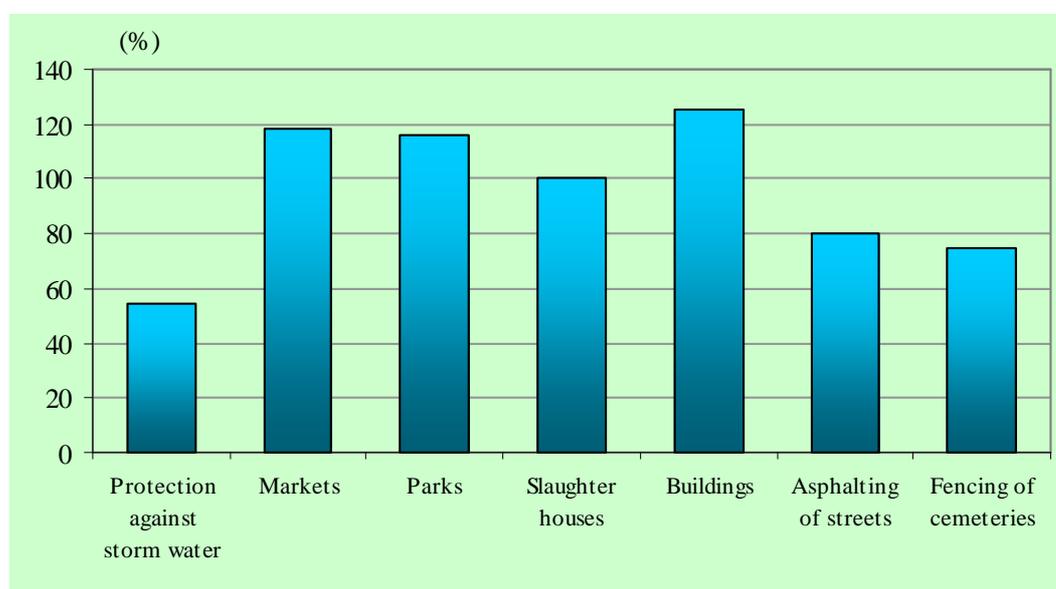
During the period of the Seventh Development Plan, Council of Ministers Resolution 42 of 22/4/2002 approved the Real-Estate Cadastral Registration Law, which aims at regulating authentication of public and private properties. The National Spatial Strategy was also approved by Council of Ministers Resolution 127 of 26/8/2000 (see Chapter 10) on Regional Development.

Table 30.1
Municipal Achievements
Seventh Development Plan

Program	Measurement unit	Actual Achievements	Seventh Plan Target	Achievement to Target (%)	Cumulative Achievement to date
Drains for protection from floods	km	95	175	54.3	1,508
Public markets	no.	71	60	118	1,556
Parks	no.	203	175	116	3,647
Slaughter houses	no.	25	25	100	240
Municipal buildings	no.	75	60	125	1,319
Street asphalting	km	10,052	12,600	80	97,456
Fencing of cemeteries	no.	255	340	75	4,292

Source: Ministry of Municipal and Rural Affairs.

Figure 30.1
Percent of Achievement to Target in Municipal Sector
Seventh Development Plan



30.2.2 Institutional and Organizational Development

As part of government restructuring, Council of Ministers Resolution 125 of 16/7/2001, which established a Ministry for Water, transferred responsibility for water and sewage services from the Ministry of Municipal and Rural Affairs (MOMRA) to the Ministry of Water and Electricity. Royal Decree A/2 of 30/4/2003 abolished the Ministry of Public Works and Housing and transferred its tasks to MOMRA and other government agencies. Council of Ministers Resolution 225 of 13/10/2003 defined the tasks transferred to MOMRA to include classification of contractors, preparation of a construction-sector database, the Mina Development Project, and the laboratories of the Deputy Ministry for Public Works.

During the Seventh Development Plan, many municipalities were upgraded to higher categories, most village clusters were upgraded to category D municipalities, and new village clusters were created (Table 30.2). As part of the efforts aimed at developing and enhancing the efficiency of municipal work by a gradual shift towards decentralization, Council of Ministers Resolution 224 of 13/10/2003 expanded, through elections, participation of citizens in management of local affairs. The Resolution also established 14 principalities (Amanat) throughout the regions, with municipalities in each region directly reporting to the Amanat and village clusters reporting to the municipalities. Royal Decree A/204 of 1/2/2004 formed the Makkah, Al Madinah and Holy Sites Development Authority to develop long-term comprehensive plans for development of Makkah, Al Madinah and the holy sites (Table 30.2)

In the context of persistent efforts to develop e-Government, an electronic network and a website have been implemented at MOMRA's headquarters. Work is underway on electronically linking the headquarters with the municipalities throughout the country, with the first phase of this project covering 23 municipalities.

Table 30.2
Principalities (Amanat), Municipalities and
Village Clusters by Region
2004

Region	No. of Amanat	No. of Municipalities and their Categories				No. of Village Clusters and their Categories			Total Municipal Agencies
		A	B	C	D	B	C	D	
Riyadh	1	1	8	15	11	0	0	1	37
Makkah	2	1	1	6	4	0	0	2	16
Al Madinah	1	1	2	2	3	1	1	0	11
Qassim	1	1	3	4	7	1	1	0	18
Eastern Region	1	2	3	2	4	0	0	3	15
Assir	1	1	4	5	6	1	0	1	19
Tabuk	1	0	1	4	1	0	0	1	8
Hail	1	0	0	2	8	0	0	2	13
Northern Borders	1	0	0	2	1	0	0	1	5
Jizan	1	0	2	3	7	0	0	2	15
Najran	1	0	0	1	3	0	0	1	6
Baha	1	0	1	2	3	0	1	0	8
Jouf	1	0	1	2	1	0	0	1	6
Total	14	7	26	50	59	3	3	15	177

Source: Ministry of Municipal and Rural Affairs.

30.2.3 Privatization

The facilities, activities and services to be privatized as per Council of Ministers Resolution 219 of 11/11/2002 include the following:

- Building, operation and maintenance of slaughter houses, public markets and parks.
- Transport services.
- Collection of municipal revenues.
- Cleaning and waste disposal services.

Under the Seventh Development Plan, private-sector participation was confined to time-limited services and minor operation and maintenance contracts, such as street cleaning, waste collection and operation of public parks, slaughter houses and car parking lots. Nevertheless, this provided the private sector with further administrative and technical experience in these fields.

MOMRA is currently developing privatization mechanisms, including preparation of a municipal services privatization manual offering guidelines to municipalities on preparation and implementation of

privatization programs and selection of appropriate activities to be privatized. Steps have already been taken to assign to the private sector such activities as inventory and collection of municipal revenues, transport operations and cleaning.

30.2.4 Budget Allocations

Under the Seventh Development Plan, total budget allocations to the municipal sector (MOMRA) amounted to SR38.3 billion, which amount to 96.9% of total planned allocations.

30.3 ISSUES AND CHALLENGES

Notwithstanding the notable development of municipal services under the Seventh Development Plan, continuing economic and social changes pose challenges and issues that would need to be addressed in the coming period; foremost among which are the following.

30.3.1 Meeting Growing Demand for Municipal Services

As a result of population growth, expansion of cities, and economic development, demand for municipal services, infrastructure and facilities increases exponentially, particularly in urban centers. Meeting the growing demand requires capacity building, as well as speeding up implementation of adequate alternatives for funding various programs, such as: expanding private-sector participation in provision of services; requiring builders of residential and commercial complexes to establish facilities and services to approved specifications and standards; and increasing municipal revenues through strict control of collection processes and continuous evaluation of municipal services fees to achieve break-even between costs and revenues.

30.3.2 Municipal Services in Rural Areas

Municipal services cover about 10,270 villages. Hence, maintaining, developing and spreading these services is a substantial challenge. Village clusters provide a means for providing basic services to a maximum number of rural population; thus narrowing disparities between urban and rural areas, and reducing internal migration to urban areas. However, successfully developing this system requires expanding the scope of municipal services in existing municipalities and village clusters, and

creating according to a specific schedule new village clusters in the growth centers envisaged by the National Spatial Strategy.

30.3.3 Municipal Statistical Data and Information

Notwithstanding the substantial improvement achieved in compiling municipal data and information, absence of comprehensive, up-to-date regional information on the demand for and utilization rates of municipal services, the current conditions of buildings and infrastructures and their economic and operational efficiency, and the number of users of these services, has made it difficult to determine the actual needs and to respond to them efficiently. Hence, there is a need for developing databases and information banks on urban functions and services and for providing regional computerized information systems. These will link MOMRA with its affiliated agencies and lead to unification of terminologies, specifications measures, and forms for data collection, tabulation and entry.

30.3.4 Coordination and overlap of responsibilities

Rationalization of spatial development requires comprehensive coordination among all relevant governmental and non-governmental agencies, at all stages from planning to implementation and monitoring. Continuous extension of the scope of coordination between MOMRA and other government agencies would lead to fuller integration, elimination of wasteful duplication, and better utilization of services.

30.3.5 Environmental Health Services

Social welfare is closely linked with provision of a healthy and clean environment. Over the past two decades, population has doubled and has become increasingly concentrated in metropolitan areas, which has, in turn, adverse effects on the environment and public health, such as rising levels of ground water tables and excessive generation of urban solid waste. Per capita generation of waste is among the highest in the region, creating additional collection, treatment and disposal burdens, particularly as only 35% of the waste collected countrywide is recycled. Moreover, it is necessary to enhance public health control of markets and restaurants, and build the capacity of the technical cadres and specialist laboratories. In addition, environmental awareness needs to be heightened to help

eliminate excessive generation and haphazard disposal of waste, learning from international experience and best practice.

30.3.6 Horizontal Expansion of Cities and Efficient Utilization of Urban Land

Since their issuance in 1989, application of urban boundary rules has resulted in greater cohesion in urban zonal planning in large and small cities and eliminated uncontrolled expansion of urban areas. However, vacant lands, particularly in major cities, contribute to the dispersion of residential quarters over larger areas, thus compounding the difficulty of providing them with basic facilities and services, impeding optimal utilization of existing facilities and services, and increasing construction and operational costs. Hence, it would be necessary to continue to apply urban boundary rules and zoning regulations; develop adequate mechanisms for efficient utilization of vacant lands in cities; uphold land ownership, prevent land encroachments, and take remedial measures to remove any such encroachments.

30.3.7 Collection of Municipal Revenues

Municipal revenues, which are a financing resource, grew substantially under the Seventh Development Plan, as a result of expansion in leasing of municipal properties and raising efficiency of collection. Nevertheless, municipal revenues are still below the required level, with annual revenues constituting only 15% of the average annual budget of a municipality or village cluster, due to several reasons, including economic assets remaining untapped, low level of municipal fees, low collection rates, and provision of several services free of charge. Hence, it is essential to manage municipal facilities and services on a commercial basis by raising service fees to cover provision costs and rationalize usage, enhancing collection efficiency, expanding leasing of lands owned by municipalities, and accelerating privatization of selected services.

30.4 DEMAND FOR MUNICIPAL SERVICES

Demand for municipal services has been estimated by considering unsatisfied demand; new demand resulting from population increases, urban growth and economic expansion; replacement of facilities upon expiry of their operational age, and services needed in the least developed

regions to help achieve balanced regional development. Total estimates of needs under the Eighth Development Plan are summarized in Table 30.3 and described below:

Table 30.3
Demand for Municipal Services by Administrative Region
Eighth Development Plan

Region	No. of Projects											
	Planning studies	Storm water drainage	Street asphaltting	Public Parks	Slaughter houses	Public markets	Municipal buildings	Fencing of cemeteries	Environmental health	Improvement of performance	Expropriation of properties	Total Projects
Riyadh	36	104	491	48	15	30	50	57	115	14	33	993
Makkah	39	54	255	28	4	6	19	43	44	4	14	510
Al Madinah	25	38	177	19	3	4	15	17	24	6	5	333
Qassim	3	43	208	20	4	8	29	20	41	2	7	385
Eastern Region	11	26	198	32	7	8	23	23	38	4	4	374
Assir	8	40	278	17	5	7	18	52	36	2	8	471
Tabuk	3	15	106	8	2	2	11	17	23	2	3	192
Hail	2	19	155	11	3	10	13	22	32	2	1	270
Northern Borders	0	15	57	9	1	2	10	7	15	3	0	119
Jizan	5	40	203	11	17	11	16	40	40	7	7	397
Najran	0	14	67	9	0	5	7	10	18	0	1	131
Baha	2	19	88	7	3	5	9	21	28	3	3	188
Jouf	6	7	78	7	1	2	10	12	15	3	1	142
Various regions (Ministry HQ)	150	17	10	0	0	0	0	5	4	8	2	196
Total	290	451	2371	226	65	100	230	346	473	60	89	4701

Source: Ministry of Municipal and Rural Affairs.

- 451 projects for drainage of rain water and protection from floods.
- 2371 projects for asphaltting, paving and lighting municipal streets and roads and constructing bridges and tunnels.
- 226 projects for establishing parks, children playgrounds and developing coastal areas.
- 100 projects for vegetable, fruit, fish and livestock markets.
- 230 projects for constructing municipal main and branch buildings and public squares.

- 65 projects for establishing manual and automatic slaughter houses.
- 473 environmental health projects for waste disposal, swamp drainage and establishment of laboratories.
- 346 projects for fencing cemeteries, establishing facilities for washing and shrouding the deceased and building car parking lots.
- 60 projects for improving municipal performance through procurement of computers and information systems.
- 89 projects for expropriation of properties in the public interest.
- 290 projects for conducting planning, environmental and technical studies and structural plans.

30.5 FUTURE VISION

The following is a summary of the future vision for the Municipal Sector by 2024:

- Transferring most powers from central government to Principalities (Amanat), Municipalities and Village Clusters.
- Giving the private sector a major role in the provision of municipal services, with municipalities assigning services or facilities to the private sector in accordance with transparent rules and regulations.
- Linking all municipal agencies within the e-Government system along with the development of a comprehensive database covering administrative, financial and technical affairs.
- Establishing a country-wide land registry to help reduce confusion of property titles, facilitate procedures for settlement of property disputes and expropriation of properties, and eliminate encroachments on government owned lands, in addition to helping municipalities manage the lands that lie within the scope of their responsibilities.
- Establishing the legal framework for regional and national spatial planning, through a comprehensive standardized system of urban planning that clearly defines the powers and responsibilities of all concerned agencies, as well as development directions and growth centers. Such a framework would be based on comprehensive criteria for urban and rural spatial planning, as well as for land use and development in the context of structural plans for cities and local action plans.

- Placing environmental health at the center of municipal work by defining effective environmental criteria, subject to strict, easily enforceable regulatory rules covering protection of air, water, soil, fauna and flora, as well as protection of the environment through proper planning of land use, municipal streets and roads, and adequate regulation of commercial and industrial activities; all in order to reduce noise and air pollution, and achieve full utilization of urban solid waste and wastewater by treatment and recycling.

30.6 DEVELOPMENT STRATEGY

The Eighth Development Plan aims at developing the municipal sector in line with demographic, spatial and economic developments, through the adoption of the following set of objectives and policies.

30.6.1 Objectives

The following are the main objectives for the municipal sector set by the Eighth Development Plan:

- Improving living and environmental conditions of the population and achieving balanced regional development.
- Upgrading operational efficiency of the municipal facilities and services and ensuring their optimal utilization.
- Enhancing the role of the private sector in the provision of municipal facilities and services.
- Protecting the environment and enhancing sustainable urban development.

30.6.2 Policies

Achieving the main objectives set for the municipal sector relies on implementing the following policies:

- Continued restructuring of the sector to enable provision of more efficient, advanced municipal services.
- Privatization of suitable activities.
- Implementation of the National Spatial Strategy, with due emphasis on the development corridors and growth centers identified by it.
- Expansion of municipal services in accordance with the National

Spatial Strategy.

- Expansion of environmental health services and development of waste disposal methods.
- Development of municipal revenues to enable municipalities to develop their services and maintain their facilities.
- Enhancing the role of municipal councils in all regions.
- Saudization of manpower and improvement manpower efficiency.

30.6.3 Targets

The following targets are expected to be achieved by the municipal sector under the Eighth Development Plan:

- Formation of municipal councils in the various regions.
- Establishment of a comprehensive municipal database covering all regions.
- Completion of 177 structural plans for municipalities and village clusters and creation of 40 village clusters throughout the country, as shown in Table 30.4.

Table 30.4
Targets of Municipal and Rural Plans and
Creation of Village Clusters by Administrative Regions
Eighth Development Plan

Region	No. of Structural Plans	New Village Clusters
Riyadh	37	4
Makkah	16	0
Al Madinah	11	3
Qassim	18	3
Eastern Region	10	2
Assir	19	0
Tabuk	8	2
Hail	13	2
Northern Borders	0	2
Jizan	10	0
Najran	6	2
Baha	8	3
Jouf	6	2
Total	177	40

Source: Ministry of Municipal and Rural Affairs.

- Implementation of about 3790 projects for various municipal services, as indicated in Table 30.5.
- Improvement of collection of municipal revenues and revision of municipal service fees.
- Increasing manpower Saudization to about 80% by the end of the period of the plan.

Table 30.5
Targets of Municipal Services by Administrative Regions
Eighth Development Plan

Region	No. of Projects											
	Planning studies	Storm water drainage	Street asphaltting	Public parks	Manual and automatic slaughter houses	Public markets	Municipal buildings	Fencing of cemeteries	Environmental health	Improvement of performance	Property expropriation	Total Projects
Riyadh	20	81	408	18	0	10	29	34	72	0	33	780
Makkah	36	49	230	10	2	2	17	36	30	2	14	433
Al Madinah	18	30	168	8	0	0	9	9	14	1	0	262
Qassim	2	38	194	8	2	0	20	17	33	0	7	331
Eastern Region	7	24	181	17	4	2	21	18	30	0	4	308
Assir	4	31	262	3	4	2	11	48	27	0	8	400
Tabuk	2	12	93	3	1	0	9	11	12	1	3	147
Hail	1	10	143	4	0	3	7	18	22	1	1	210
Northern Borders	0	13	01	1	1	0	6	6	9	0	0	87
Jizan	2	36	169	0	12	1	9	31	29	2	7	304
Najran	0	11	07	6	2	1	6	9	8	0	1	101
Baha	0	13	80	1	1	1	0	19	16	0	3	139
Jouf	2	7	70	3	0	1	8	8	8	0	1	108
Various regions (Ministry H.Q)	120	17	9	0	0	0	0	0	4	8	2	170
Total	220	377	217	87	34	33	172	269	314	20	89	3790

Source: Ministry of Municipal and Rural Affairs.

30.7 FINANCIAL REQUIREMENTS

The proposed total financial requirements of the municipal sector (MOMRA) under the Eighth Development Plan amount to SR39.6 billion for financing programs of management and operation, maintenance, manpower development, studies, improvement of municipal performance, protection from storm water, environmental health, municipal roads, buildings, markets, public facilities, public parks, property expropriation and environmental health.

CHAPTER THIRTY ONE

**CULTURE, INFORMATION,
AND YOUTH SERVICES**

31. CULTURE, INFORMATION AND YOUTH SERVICES

31.1 CULTURE AND INFORMATION

31.1.1 INTRODUCTION

Saudi Arabia's culture derives its strength and uniqueness from its deep-rooted Arab and Islamic heritage and traditions. Throughout history, Arab and Islamic culture has greatly influenced world cultures, and has been, in its turn, influenced by them. Moreover, the rapid social, economic, and technological developments experienced over the last few decades have further enriched the contemporary culture of Saudi Arabia.

Nowadays, culture is no longer confined to conventional literary and artistic forms, but has become a significant factor of national economic and social development, as well as an important element in furthering development of interrelationships between the national community and other world communities. However, in order for national culture to perform its role, both domestically and internationally, it needs to be disseminated through various media. Hence, cultural and information development have been accorded a prominent position in the Eighth Development Plan, with the objectives and policies aimed at dealing with cultural globalization; promoting intellectual, artistic and literary production; and making knowledge available to citizens.

Two events, possibly the most remarkable in the recent history of cultural development in the country, marked the cultural scene in 2004. The first was the establishment of the National Dialogue Center, a gathering of elite intellectuals, thinkers and literary figures, which has since hosted three forums to discuss pressing national unity and development issues. The second was holding First Cultural Forum under the auspices of the Ministry of Culture and Information, in which several leading men and women intellectuals took part. Launched as part of cultural awareness endeavors, the Forum also had institutional significance; it was the first instance of cultural affairs being entrusted to one single institution, rather than being within the purview of several institutions and departments.

Having developed over the past few years qualitatively, in both form and

content, Saudi information services have come to occupy an outstanding position among Arab and international media. They are now an effective means for disseminating information on the development endeavors and achievements of the country to local and international public opinion, in addition to rising citizens awareness of global developments and strengthening interaction with other cultures.

The following sections of this chapter address cultural and information services developments under the Seventh Development Plan, and discusses the key issues and challenges facing them. It also presents future vision and development strategy envisaged for this sector by the Eighth Development Plan.

31.1.2 CURRENT CONDITIONS

31.1.2.1 Culture

Under the past development plans, responsibility for cultural activities was shared by many government institutions and private agencies. Among these were the General Presidency for Youth Welfare, which supervised literary clubs, and the various branches of the Culture and Arts Society, which organized cultural weeks and similar activities. Other institutions involved included the Ministry of Education, the Ministry of Higher Education, the Universities, and several other government agencies.

As part of administrative and organizational improvement, some ministries and government agencies were abolished, while the functions of others were modified or transferred to other agencies. The Ministry of Culture and Information, which replaced the Ministry of Information, was assigned a wider role covering information and cultural activities, both within and outside the country.

The National Guard Command plays an outstanding role in enriching cultural life by sponsoring the National Heritage and Folk Culture Festival, which is among the most outstanding cultural events in the Arab world. Held every year, the Festival brings together leading Arab intellectuals and thinkers to take part in discussions of significant Arab, Islamic and international intellectual and cultural topics. Through traditional performances and exhibitions of ancient handcrafts, the Festival also contributes to the revival of folkloric arts and offers participants a good

opportunity to obtain firsthand knowledge of the Kingdom's treasure of folk heritage.

The Supreme Commission for Tourism has the mandate of looking after archeological treasures and museums, and increasing public awareness of them. In addition, the government undertakes the development of national public libraries; key among which are the King Abdul Aziz Library, the King Fahd National Library, and the King Abdul Aziz Research Center. The latter houses books and documents and disseminates knowledge about them, in addition to documenting the history, intellectual output and heritage of the Kingdom, and organizing symposia and lectures.

Several other agencies play a role. The Ministry of Social Affairs offers cultural services through Social Development and Services Centers, which participate in combating illiteracy, providing adult education programs, and organizing cultural competitions in various regions. The Ministry also takes part in preparing TV shows, conducting seminars and lectures, and preparing pamphlets and posters designed to promote public awareness. The Ministry of Health, undertakes the promotion of preventive health culture through the primary health care program. Activities under this program include publishing pamphlets and booklets, organizing seminars and lectures, and producing audiovisual programs. Religious agencies promote a culture of tolerance and righteous conduct.

The private sector has also been actively involved in cultural and intellectual activities, through literary clubs, art societies, publishing houses, research and study centers and institutions, and civil and charitable societies, in addition to offering cultural and scientific prizes for creative achievements.

The large volume and diversity of cultural, intellectual, artistic and scientific production rule out monitoring cultural output through a unified national database. However, the following indicators reflect the achievements under the Seventh Development Plan:

- Publishing houses totaled 358, including 231 in the private sector and 127 government owned. Total cultural output amounted to some 7,000 national publications. There are over 2,000 libraries, including 194 specialized, 100 public, and 60 university libraries. Acquisitions by these libraries totaled 4.6 million book titles and other material. In addition, major libraries possess outstanding acquisitions, such as King

Fahd National Library, which possesses some 704,469 items, including 9,725 rare items of Saudi newspapers, magazines and periodicals. King Abdul Aziz Library has 182,015 acquisitions, while the National Library and the King Abdul Aziz Research Center have 860,884 acquisitions.

- Twelve literary clubs published some 1,000 books and performed over 3,300 activities. The Saudi Culture and Arts Society carried out some 1,800 activities, including lectures, seminars, conventions, exhibitions, and publications. In addition, the Society carried out some 125 theatre performances.
- Over the years, the annual National Heritage and Folk Culture Festival has received considerable acclaim in Arab and international circles. It continues to stage quality events, including discussion forums; folk village displays; seminars; working papers; and live readings and discussions of poetry, novels and short stories. Some 250 such events have been organized. In addition, the Festival released some 200 books on various subjects.
- Some 27 registered museums were in operation by the end of the Seventh Development Plan, including 5 in the Riyadh region, 5 in the Makkah region, 3 in the Al Madinah region, 4 in the Eastern region, 3 in Asir, 2 in Tabuk, 2 in Hail, 1 in Jizan, 1 in Najran and 1 in Al-Jouf. The Riyadh-based National Museum at King Abdul Aziz Historical Center is the most outstanding and is a major cultural landmark.
- Intensive efforts were made over the past years to explore the archeological heritage. Some 4,000 archeological sites were identified, and over 1,000 ancient monuments were discovered. Discoveries included natural archeological monuments, such as fossil forests, the world's largest Sakaka rockweed, the Qassim fossil forest in Onayza, and glacial rocks in the Hail and Qassim regions and the Wadi Addwasir Governorate. Moreover, protection of the natural heritage is provided through 16 natural reserves that cover some 3.6% of the total area of the country.
- Over 300 books authored by Saudis have been published and some 286 competitions were held in poetry, novel, short story writing. In addition, 39 cultural weeks and 75 scientific activities were organized, 173 plastic art competitions were held, and 30 folkloric art activities were organized. Forty four theatrical performance competitions were also held.

31.1.2.2 Information

Under the Seventh Development Plan, print, audio, and electronic media developed significantly in form and content. This is clearly evident in the improved quality of television and radio, as well as of the Saudi Press Agency (SPA), which now provides direct coverage of domestic and international events and developments.

Other services provided by radio and television, such as entertainment, cultural, education and public awareness programs, have also made significant progress, as did newspapers, magazines and information agencies both within the Kingdom and abroad; all of which operate within a system that aims at providing information on the Kingdom and its multifarious achievements, as well as on the constructive role it plays in Arab and international affairs.

In addition, information media play an active part in addressing issues arising in the course of economic, social and cultural development; promote awareness of new generations of society's values and heritage; familiarize people with world events, and political, economic, security, scientific, and environmental issues; and enhance people's sense of national belonging and humanitarian partnership.

Key among the achievements made under the Seventh Development Plan are:

- One broadcasting station was added, which represents 25% of the approved plan target, and three more are being built. Thus the total number of operating stations is 26. These transmit the main radio programs, including the Glorious Quran, the Call of Islam, the Riyadh-based General Program, and the Jeddah-based Radio Two. There is also the overseas broadcasting station, which transmits programs in 12 languages. In addition, there are 35 FM stations, including 12 that were added under the Seventh Development Plan, representing 71% of the Plan target. Radio broadcasting over the medium wave reaches all parts of the world through satellites, and land transmission coverage amounts to some 96% (Table 31.1.1).
- A total of 130 television centers are in operation, including 7 added under the Seventh Development Plan, which constitute 70% of the Plan target. Channel 2 and the Sports Channel cover 70 Centers, including 11 additional centers accounting for 44% of the Plan

target. Television coverage by terrestrial transmission is higher than 92% for Channel 1 and over 71% for Channel 2. The Sports Channel began transmission in 2003, while the all news Al-Ekhbaria Channel came on air a year later to become the fourth television channel of the Saudi television services.

- The Saudi Press Agency (SPA) now operates 21 offices and 17 correspondent offices within the country and abroad. There are currently 8 information centers within the Kingdom and 3 abroad. In addition, there are 3 leased satellite channels; 2 of which digital.

Table 31.1.1
Information Facilities at the end of the
Seventh Development Plan

Service Units	No.
Channel 1 TV Centers	130
Channel 2 TV Centers	70
Sports Channel TV Centers	70
Al-Ekhbaria Channel TV Centers	70
Radio Transmission Stations	26
FM Radio Stations	35
In-Kingdom Information Centers	8
Overseas Information Centers	3
Saudi Press Agency Offices	21
Publication Offices	37
TV and Radio Transmission Channels via Satellites	3

Source: Ministry of Culture and Information.

31.1.2.3 Organizational and Institutional Development

The new organizational structure of the Ministry of Culture and Information is expected to help achieve overall economic efficiency. The Ministry has completed automation of all its sectors, particularly radio and television transmissions, which were converted to digital satellite transmission to all parts of the world.

Under Royal Decree A/2 of 2003, the Ministry of Information was renamed the Ministry of Culture and Information, and a Deputy Ministry for Culture was established. Activities of the following agencies have been

transferred to the Ministry of Culture and Information:

1. King Fahd Cultural Center,
2. Folkloric Art Administration,
3. The Saudi Arabian Society for Culture and Arts and its branches,
4. The General Administration for Cultural Activities,
5. Literary clubs and the General Administration of Literary Clubs,
6. The General Administration of Public Libraries, the public libraries, and the libraries of education departments in the regions,
7. The Arab Magazine, published by the Ministry of Higher Education.

The Royal Decree also converted the Radio and TV and the Saudi Press Agency into two public corporations, to be run by a Board of Directors, chaired by the Minister of Culture and Information.

31.1.2.4 The Private Sector

The private sector is playing an active role in cultural and information services through press companies and establishments, which issue 12 dailies and 165 scientific and specialized magazines, as well as through over 231 bookshops and publishing houses, advertising companies and establishments, and other media outlets. The sector is expected to play an even bigger role in the future, especially after conversion of the radio and television services and the Saudi Press Agency into public corporations.

31.1.2.5 Budget Allocations

Under the Seventh Development Plan, budget allocations for development programs in the culture and information sector totaled SR7,055 million, which exceeded the total amount envisaged by the Plan by 8%.

31.1.3 ISSUES AND CHALLENGES

31.1.3.1 Culture and Globalization

Globalization is no longer confined to economic developments, particularly foreign trade liberalization and increased flow of foreign investments, but has come to include also social, cultural and technological

developments. Furthermore, cultural indicators, such as literary, intellectual and artistic output; number and readership of newspapers; number of libraries, museums and symposia; and number of websites and Internet users are now established as part of the criteria by which living standards and quality of life, as well as ability to adjust to globalization and to benefit from its positive impacts, are measured.

In order to perform its positive role vis-à-vis globalization, national culture needs to be strengthened through providing both the necessary information and telecommunication technology infrastructure and support for high-quality cultural products capable of competition, both domestically and abroad.

Success is, however, contingent upon developing effective partnerships between the government on one hand and the private sector and intellectuals on the other, as well as on cultural exchange with other cultures through various means, such as joint cultural seminars and cultural agreements.

31.1.3.2 Information and Modern Transmission Technologies

Thanks to modern information and telecommunication technology, information is readily available to citizens across national boundaries. Moreover, as a result of expansion of satellite transmission and the Internet, it is no longer possible to control flow of information, or to limit the spread of varied patterns of thought, behavior, customs and traditions. Indeed, media globalization has greatly enhanced exchange among nations and cultures

Globalized media is, in principle, an arena open to all nations. Nevertheless, control of news and analysis, and intellectual, cultural, and political content is primarily in the hands of those who own and control media production. Developing countries and communities, therefore, face the considerable challenge of having to develop powerful and convincing information and cultural agendas that are firmly based on national identity and effectuated through modern transmission technologies. Hence, the following deserve attention:

- Formulating a modern information strategy, along with practical mechanisms and clearly identified implementable tasks.

- Developing information technology infrastructure, including physical facilities, manpower, and information production materials.
- Forming specialized committees to enhance media promotion of literary, scientific and intellectual activities. Among other tasks, these committees would develop plans for producing media-based creative cultural material and outstanding books in various fields, and translating selected books into foreign languages.
- Establishing means for cooperation and exchange of expertise in training of information and cultural cadres, as well as in designing and preparing information and entertainment programs. It is also important to organize conferences, festivals and meetings, and to use programs of regional and international organizations and associations to strengthen media capabilities.
- Strengthening relations with private-sector institutions to help them offer high-quality output capable of promoting national culture and of competing with foreign cultural products.

31.1.4 DEMAND FOR CULTURAL AND MEDIA SERVICES

Spurred by interaction with the tremendous information revolution engulfing the world and the huge advances being made by both print and electronic media, Saudi cultural and media movement is approaching a new phase. Hence, the state is making strenuous efforts to meet the demand for cultural and information services and satisfy the needs for knowledge, in line with the changes and developments throughout the world, but also in conformity with the religious and social values of the country. Table 31.1.2 lists these services by region.

In addition to the construction of the SPA headquarters in Riyadh, it is proposed to open three offices in Al-Jouf, Islamabad and Damascus. It is also proposed to open three external information offices in Morocco, Australia, and Scandinavia, and to set up an information center in Al-Jouf; literary clubs in the Eastern, and Northern Border regions and Najran; and a culture and art society in Al-Jouf region.

Table 31.1.2
Demand for Cultural and Information Services by
Administrative Region
Eighth Development Plan

Region	TV Production Centers	TV Centers	Radio Stations		Ministry Branches		Public Libraries	
			AM	FM	Construction	Opening	Construction	Opening
Riyadh	–	1	–	4	–	–	–	–
Makkah	–	2	–	2	–	–	1	–
Al Madinah	–	4	2	4	1	–	1	–
Qassim	–	1	–	1	–	–	–	–
Eastern Region	–	1	–	1	1	–	–	–
Asir	–	3	–	–	–	–	–	–
Tabuk	–	–	–	–	1	–	–	–
Hail	1	1	–	–	–	–	–	1
Northern Borders	1	–	–	–	–	1	–	–
Jizan	1	–	–	–	–	–	–	–
Najran	1	–	–	–	–	–	–	1
Baha	–	1	–	–	–	–	–	–
Al-Jouf	1	1	–	–	–	1	–	1
Total	5	15	2	12	3	2	2	3

Source: Ministry of Culture and Information.

31.1.5 FUTURE VISION

The national cultural identity will be maintained, further developed, and its products more widely disseminated through museums and libraries; cultural forums, symposia and conferences; seminars and conventions; books, newspapers and publications; art; traditional heritage; research programs; and creative intellectual, literary, artistic and aesthetic works. Within the framework of a balanced relationship between comprehensive economic and social development on the one hand, and culture and information on the other, the future vision for cultural and information development centers on the following:

First: Expanding the campaign against illiteracy beyond mere provision of reading and writing skills to encompass striving for cultural literacy nationwide, through:

1. Establishing a comprehensive nationwide “Reading for All” program, implemented collaboratively by the Ministry of Education

and the Ministry of Culture and Information.

2. Collaboration between the Ministry of Culture and Information and artistic production establishments to produce a variety of TV and radio programs combining drama, theatre, public awareness, entertainment shows, cultural shows, and intellectual competitions.

Second: Developing a national culture plan based on the needs and aspirations of the country, through:

1. Expanding active participation in thought, culture, information, and art to cover all fields of cultural work, in line with the Arab League “Comprehensive Plan of Arab Culture”, which was approved by Arab Ministers of Culture some 15 years ago.
2. Benefiting from international experience in funding the culture industry and design of strategic programs.

Third: Promoting the use of Arabic on the Internet, through developing automatic translation software from and into Arabic, and inventing new software capable of attracting the attention of Internet users.

31.1.6 DEVELOPMENT STRATEGY

The development strategy for the culture and information sector aims at developing the scientific and social content of cultural and information activities.

31.1.6.1 Objectives

- Emphasizing and developing the Arab and Islamic identity of the national culture.
- Developing the intellectual and cultural structures that constitute a cornerstone of civilization.
- Supporting authoring, translation and cultural activities.
- Dealing positively with the impact of globalization, with the aim of enhancing national culture and consolidating its standing among world cultures.
- Improving media efficiency and strengthening its links with various economic, social, scientific, cultural, educational and recreational activities.
- Producing competitive, influential, and attractive programs and

- materials.
- Encouraging the private sector to participate actively in offering cultural and information services.

31.1.6.2 Policies

- Supporting studies of and research into Arab and Islamic thought.
- Participating in international cultural exhibitions, conferences and festivals.
- Enhancing and supporting Arabic translation activities.
- Developing cultural, artistic and literary events and activities.
- Focusing on cultural education of children.
- Developing and enhancing cultural information.
- Developing a database on national culture.
- Promoting cultural and artistic exchange among GCC and Arab countries, as well as internationally.
- Expanding media coverage domestically and internationally.

31.1.6.3 Targets

- Expanding TV coverage of Channel 1 to about 97%, through terrestrial TV centers.
- Expanding TV coverage of Channel 2 to about 80%.
- Increasing radio broadcast coverage to 98% in daytime, through terrestrial stations.
- Expanding coverage of FM radio stations on highways, through building 12 new stations.
- Constructing and launching 5 public libraries, one cultural center, and 3 literary clubs.

31.1.7 FINANCIAL REQUIREMENTS

Financial requirements for the culture and information sector under the Eighth Development Plan amount to SR7576.4 million, to finance management and operation programs, maintenance, manpower development, cultural and information activities, as well as development and upgrading of facilities.

31.2 YOUTH AND SPORTS SERVICES

31.2.1 INTRODUCTION

Youth are the future. They will assume responsibility for the country, defend its achievements and promote the standing of the nation; hence the utmost care accorded to youth affairs by the state. The General Presidency for Youth Welfare (GPYW) is the government agency responsible for supervising all youth related activities, as well as for designing policies to meet aspirations of the youth, through sports and recreational activities covering all parts of the country.

The following sections address youth and sports services and their development under past plans, the issues and challenges facing the sector and the means for resolving them, and the development strategy for the sector under the Eighth Development Plan.

31.2.2 CURRENT CONDITIONS

The state has been making great efforts to satisfy the recreational, sports and social needs of youth, as evidenced by the financial allocations to the sector in the successive annual state budgets, which have over the years financed building 18 sports and recreational centers, 6 sports stadia, 6 sports pavilions, 24 sports club premises, 20 youth hostels, 2 permanent youth camps, 13 main and 9 branch offices of GPYW, 3 GPYW office buildings, one institute for preparing sports leaders, one building for the Saudi Olympic Committee and sports federations, and a specialized hospital for treatment of sports-related injuries. In addition, the country boasts several other youth and sports facilities and activities at universities, and various education, military and security establishments. Several sports and youth competitions are actively pursued, both within and outside the country, including in soccer, basketball, volleyball, handball, gymnastics, swimming, equestrianism, and shooting.

These efforts succeeded in making Saudi Arabia a world-class sports competitor. It now enjoys a commanding position at GCC, Arab, Asian and international levels, particularly in soccer. Having taken part in all Asian soccer tournaments since 1984, it won the Asia Football Championship title three times, in 1984, 1988 and 1996, and came second in 1992. It also maintained its international presence in the World Football

Cup, having taken part in 1994, 1998 and 2002. In addition, Saudi Arabia won the World Youth Cup in football in 1989 and Saudi teams make a strong presence in the Olympic Games in individual and collective sports, such as gymnastics, basketball, volleyball and equestrian sports, where Saudi equestrians won world-acclaimed positions and medals.

Under the Seventh Development Plan, GPYW efforts led to the Kingdom taking part in 686 international competitions, and holding a total of 9,702 competitions within the Kingdom; 541 of them under the Sports for All programs. In addition, 11,301 young men were trained in various youth and sports activities.

During the period of the Seventh Development Plan, cultural activities were supervised by GPYW, which organized 286 competitions in poetry, novel and short-story writing, and cultural themes; 39 cultural weeks; 75 scientific activities; 173 competitions in arts; 30 folkloric art activities; and 44 competitions in theatre arts.

Table 31.2.1
Youth and Sports Centers, Societies, Associations and Clubs
Seventh Development Plan

Service Units	Number of Units
Sports and Cultural Centers	18
Private Sports clubs	153
Club Premises	24
Youth Hostels and Permanent Camps	22
Sports Stadia and Pavilions	12
Open Sports Arenas	5
Sports Leaders Preparation Institute	1
Saudi Olympic Committee	1
Sports Medicine Hospital	1
Cultural Centers	1
Main and Branch GPYW offices	23
Sports Federations	24
Literary Clubs	12
Culture and Arts Society	12
Stamp Collectors Society	4

Source: General Presidency of Youth Welfare.

GPYW also organized social activities, including 601 recreational camps, which amount to 120% of the Plan target, and 15 work camps, which represent 100% of the Plan target.

For their part, civil society institutions have been assuming an increasingly important role in providing youth activities and programs, with the help of GPYW. These institutions include the Saudi Olympic Committee, 24 sports federations, and 153 private sports clubs that undertake all kinds of sports, social, cultural and scientific activities in all parts of the Kingdom. In addition, the Saudi Arabian Society for Youth Hostels runs 20 hostels and plays an active role in social sporting and cultural activities. Furthermore, there are the activities of the Saudi Society of Stamp Collectors, which has 4 branches; 12 literary clubs; and the Saudi Arabian Culture and Arts Society, which has 12 branches; all of which have now come under the responsibility of the Ministry of Culture and Information (Table 31.2.1).

31.2.2.1 Organizational and Institutional Development

Royal Decree A/2 of 30/4/2003 assigned cultural activities and relevant supervisory agencies to the Ministry of Culture and Information. GPYW will, therefore, focus on supervising social and sports activities, clubs and associations, and is currently developing an appropriate organizational structure. It has also continued to introduce modern technology into its work methods to attain greater economic efficiency.

31.2.2.2 The Private Sector

The private sector plays an active role in developing the youth sector, through the support given by companies, establishments, and businessmen to sports clubs, purchase of rights to transmission of TV matches, and support of professional players in clubs. In addition, it undertakes construction, maintenance, expansion and operation of sports facilities and youth and sports centers in all parts of the Kingdom.

Club privatizations are expected to lead to enhancement of the role of the private sector. Major clubs are due to be privatized, as an initial stage, with subsidies to clubs being gradually phased out.

31.2.2.3 Budget Allocations

Under the Seventh Development Plan, total allocations for development programs in the youth and sports sector amounted to SR5926.7 millions, which exceeded planned allocations by 9%.

31.2.3 ISSUES AND CHALLENGES

31.2.3.1 Utilization of Leisure Time

Utilization of leisure time, particularly for youth, in a proper and meaningful way is a key challenge to all contemporary societies. This is especially the case for societies, like Saudi society, where the youth constitute a significant segment of the population. Given the need to protect this most sensitive and highly susceptible category of the population from negative influences, this issue should receive greater attention. In this regard, the following measures are proposed

- Developing a clear vision of how youth could utilize leisure time positively and determining suitable implementation mechanisms.
- Encouraging young men and women to develop hobbies and talents, become regular visitors to public libraries and libraries of sports and literary clubs.
- Ensuring that services of sports centers and clubs cover all parts of the country, especially densely populated areas.
- Introducing new and modern means of recreation similar to those common in neighboring and modern societies.
- Expanding programs for exchange of visits among Arab youth and with youth from friendly countries.
- Putting more emphasis on creating job opportunities for new graduates, and encouraging and helping youth to obtain jobs during official holidays.
- Increasing the absorptive capacity of universities, and technical and training institutes, in order to accommodate the increasing numbers of secondary school graduates.

31.2.3.2 Underutilized Youth Facilities

Saudi Arabia has a large array of outstanding youth, sports and cultural facilities provided by the General Presidency of Youth Welfare, the Ministry of Culture and Information, the Ministry of Social Affairs, the Ministry of Education, military and security organizations, and other agencies. Under GPYW, more than 84 facilities are in operation in over 107 cities and governorates, where some 29 sports are played under the supervision of 24 sports federations. There are also the cultural facilities that have recently been transferred to the Ministry of Culture and Information, including 12 literary clubs, 100 public libraries, 27 museums, and other facilities. However, enthusiasm for the use of these facilities is relatively low. Of 2.6 million male youth in the 15–30 years age bracket, only 0.3 million or 11.5% are regular users of these facilities. This issue should, therefore, be examined carefully and a study conducted to investigate the reasons that lie behind such a low utilization rate.

31.2.4 DEMAND FOR YOUTH AND SPORTS SERVICES

Demand for youth services is estimated on the basis of forecast population growth rates and the expected need for youth services and activities that must be designed to develop the intellectual and physical talents and refine the skills of youth.

With young men and women in the 0–34 years age group amounting to 65.4% of total population, Saudi society is overwhelmingly young. This places on the government the heavy responsibility of catering to the needs of youth, including provision of playgrounds, open spaces for popular sports activities, gardens, parks, and pavilions equipped with recreation facilities.

However, the General Presidency of Youth Welfare is primarily responsible for male youth in the 15–29 years age bracket, who constitute 28.5% of the population and need to be provided with the various youth and sports facilities and activities. Table 31.2.2 lists the needs for sports facilities by region under the Eighth Development Plan, while Table 31.2.3 lists demand for youth and sports activities.

Table 31.2.2
Demand for Youth and Sports Facilities by Region
Eighth Development Plan

Region	Youth Club	Sports Center	Permanent Camp	Club Premises	Cycling Race Track
Riyadh	1	1	1	–	–
Makkah	2	–	–	1	1
Al Madinah	2	–	–	2	–
Qassim	1	–	–	–	–
Eastern Region	1	–	–	–	–
Asir	2	–	1	–	–
Tabuk	1	–	–	–	–
Hail	1	–	–	–	–
Northern Borders	1	–	–	–	–
Jizan	1	–	–	–	–
Najran	1	–	–	–	–
Baha	–	–	–	–	–
Al-Jouf	1	1	–	1	–
Total	15	2	2	4	1

Source: Ministry of Economy and Planning.

Table 31.2.3
Demand for Youth and Sports Activities
Eighth Development Plan

Facilities	2005	2006	2007	2008	2009
External Competitions	688	691	694	697	700
Domestic Competitions	9,760	9,820	9,880	9,940	10,000
Sports for All	546	552	557	563	568
Sports training	11,414	11,528	11,643	11,760	11,877
Recreational camps	606	611	616	621	626
Work camps	17	18	19	20	21
Trips and visits	505	509	513	517	521
Community service	556	562	568	574	580

Source: Ministry of Economy and Planning.

31.2.5 FUTURE VISION

Youth activities are among the most significant elements of social development, for they provide constructive and meaningful hobbies, and

advance the intellectual, artistic and physical skills of young people. They, therefore, have received significant attention from the state, which endeavored to make them available throughout the country. The future vision for this sector may be defined by the following:

1. Developing a nationwide program for raising athletic standards in all sports, promoting the exercise of these sports, creating a thriving athletic environment, promoting the spirit of competition, and improving representation of the Kingdom in international arenas.
2. Developing, promoting and encouraging youth activities, through strengthening cooperation between sports institutions, including national federations, societies and committees, and government agencies involved in youth and sports activities.
3. Developing athletic professionalism to include all sports.
4. Encouraging participation of the private sector in youth activities and privatizing sports clubs to make them self-financing and reduce their dependence on government subsidies.

31.2.6 DEVELOPMENT STRATEGY

The development strategy aims at refining youth talents and interests and helping youth acquire the necessary physical and intellectual capabilities and skills.

31.2.6.1 Objectives

- Developing youth activities, facilities and events and extending them to wider population segments in all parts of the country.
- Intensifying efforts to base raising of youth on sound principles leading to balanced intellectual and physical development, as well as efforts to refine the hobbies of youth and promote their skills.
- Encouraging the private sector to participate in providing youth and sports activities.
- Working towards achieving excellence and attaining world-class levels in all youth activities.
- Developing and upgrading capabilities of sports cadres.

31.2.6.2 Policies

- Providing youth welfare programs in all regions of the Kingdom.
- Developing the Saudi manpower of the General Presidency of Youth Welfare.
- Encouraging the private sector to participate in youth welfare programs.

31.2.6.3 Targets

- Increasing the number of domestic and external sports competitions as well as Sports for All events by 3%, compared to the level achieved under the Seventh Development Plan.
- Increasing the number of youth camps, community service, visits and work camps by 5%, compared to what was achieved under the Seventh Development Plan.
- Establishing 15 youth clubs in small villages and towns.

31.2.7 FINANCIAL REQUIREMENTS

Under the Eighth Development Plan, the financial requirements for youth and sport services sectors will total SR 5114.9 million to provide funds for management, operation costs, programs, maintenance, manpower development, youth welfare activities, and development and upgrading of facilities.

CHAPTER THIRTY TWO

**RELIGIOUS, JUDICIAL, HAJJ
AND UMRAH SERVICES**

32. RELIGIOUS, JUDICIAL, HAJJ AND UMRAH SERVICES

32.1 RELIGIOUS SERVICES

32.1.1 Introduction

The Kingdom of Saudi Arabia is the cradle of Revelation and Islam. The two Holy Cities of Makkah and Al Madinah are destinations of pilgrims who assemble from all over the world to perform Hajj and Umrah. Ever since its inception, the Kingdom has been guided by Islamic teachings and principles. This commitment is emphasized in the first objective of the Eighth Development Plan: “To safeguard Islamic teachings and values, enhance national unity, security and social stability, and to firmly establish the Arab and Islamic identity of the Kingdom”.

Religious services in the Kingdom are provided by several agencies; each responsible for a specific religious service that meets the needs and interests of the people or guides them towards the right Islamic conduct. The Ministry of Islamic Affairs, Endowments, Call and Guidance cares for mosques, manages endowments, and promotes the investment and development of their assets. In addition, it undertakes the propagation of Islam, promotion of learning and reciting the Holy Quran by heart, supervision of the King Fahd Complex for Printing the Holy Quran, and the organization of domestic and international contests for the recital of the Holy Quran by heart. The General Presidency of the Two Holy Mosques Affairs cares for the two Holy Mosques, while the General Presidency of Morality Committees urges people to adhere to good conduct and uphold Islamic morals. The Department of Religious Research and Ifta is responsible for issuing and disseminating fatwas (religious edicts and judgments), in addition to undertaking and publishing Islamic studies and research.

32.1.2 Current Conditions

The two Holy Mosques in Makkah and Al Madinah have been expanded to 366,000 m² and 400,000 m², respectively. Over 45,000 mosques are being supervised by the Ministry of Islamic Affairs. The King Fahd Complex for Printing the Holy Quran produced 83 publications, which included copies of the Holy Quran, translations and books on the Prophet's Sunna

(tradition). More than 165 million copies of publications were produced between inauguration of the Complex in 1985 and 2004.

The number of endowments assets reached 22,471 units. In order to increase the returns on these assets, a number of residential and commercial compounds and market places were built. In addition there are 201 Arbitah and 6 libraries supervised by the Ministry of Islamic Affairs, Endowment, Call and Guidance.

32.1.2.1 Institutional and Organizational Development

Agencies directly responsible for religious services experienced significant structural and organizational development since 1970 when the Kingdom's development process was initiated. Administrative structures were improved, technological tools developed, and regulations continuously reviewed and updated. Moreover, advanced databases were established and systems of electronic government introduced. A program of training and research was implemented to promote efficiency and improve productivity.

32.1.2.2 The Private Sector

The private sector is participating effectively in the work of the religious sector through building facilities, and undertaking their operation and maintenance.

32.1.2.3 Budget Allocations

Under the Seventh Development Plan, total budget allocations assigned to the development programs of the religious services sector amounted to SR12,442.5 Million.

32.1.3 ISSUES AND CHALLENGES

The Islamic world is facing a number of issues and challenges; some long standing, others quite new.

32.1.3.1 Religious Extremism

In recent years, religious extremism, based on an erroneous understanding and a narrow interpretation of Islamic principles and teachings, appeared in some Islamic countries. False calls for Jihad, advocating confrontation instead of wise dialogue, and fatwas (religious edicts) branding others as

infidels have been the main manifestations. These developments have had a negative impact on youth, as well as on civil peace and stability. They also distorted the sublime message of Islam, occasioning unfair campaigns against Islam and its traditional call for peaceful coexistence of religions in harmony, love and cooperation. These campaigns have targeted Islamic countries in general and the Kingdom of Saudi Arabia in particular. Hence, efforts must continue to be exerted to fight and refute religious extremism by presenting the noble values and ideals of Islam, which advocate peace and security for all human beings. This indeed is the approach adopted, and will continue to be adopted, by the Kingdom at all levels.

32.1.3.2 Development and Administration of Islamic Endowments

From the perspective of Islam, endowments are continuous alms; an ongoing source of revenue and growth that constitutes a major component of the social sector of the economy. However, they currently face challenges that limit their ability to perform their developmental role and restrict them from using many investment mechanisms; hence limiting the number of beneficiaries from them. Other challenges include difficulties of determining, listing, regulating and maintaining these endowments, securing the interests of their beneficiaries and increasing the returns on them. There is thus a need to develop the monitoring and management of endowments, through a comprehensive treatment of all the issues involved.

32.1.4 DEMAND FOR RELIGIOUS SERVICES

Increases in population and expansion of urban boundaries are expected to increase the demand for religious services steadily. Table 32.1.1 shows the expected demand for religious services under the Eighth Development Plan.

**Table 32.1.1
Demand for Religious Services by
Administrative Regions
Eighth Development Plan**

Regions	Mosque Building	Mosque Renovation	Endowment Building
Riyadh	120	350	1

Makkah	80	350	1
Al Madinah	50	200	1
Qasim	60	200	1
Eastern Region	50	200	1
Assir	60	200	1
Tabuk	20	100	1
Hail	50	200	1
Northern Borders	20	100	1
Jizan	50	200	1
Najran	20	100	1
Baha	50	200	1
Jouf	20	100	1
Total	650	2,500	13

Source: Ministry of Economy and Planning.

32.1.5 FUTURE VISION

Religious affairs services are directly linked to spiritual values and principles; hence the inappropriateness of applying to them the same future vision criteria applied to productive and service sectors.

Religious services in the Kingdom aim at safeguarding the noble heritage and values of Islam, relying on three factors. The first is human beings entrusted with the message of God armed with consciousness and insight, wisdom and tolerance, and virtuous conduct; treating other people in a civilized manner in keeping with the nature of the Age and free of excess and extremism. The second is to establish rapport between religious authorities and people through speeches, lectures, symposia, conferences, radio and television programs, publications, field tours and electronic production means; an endeavor that requires adoption of specific clear strategies. The third is establishing facilities such as mosques, places of prayer and call (Daawa) centers; future demand for which may be forecast on the basis of anticipated population and urban growth.

32.1.6 DEVELOPMENT STRATEGY

32.1.6.1 Objectives

The Eighth Development Plan has set the following objectives for religious services:

- Caring for the recital and learning by heart of the Holy Quran.
- Caring for, repairing and maintaining mosques.
- Keeping records of, listing and caring for endowments assets and Arbitah.
- Developing and investing the endowments and endeavoring to meet the conditions set by donors.
- Urging people to behave virtuously and adhere to the fine morals of Islam.

32.1.6.2 Policies

Realization of the major objectives relies upon implementation of the following policies:

- Continuing with issuing the publications of the King Fahd Complex for Printing Holy Quran and continuing to promote Quran and Sunna education.
- Encouraging young Muslims to recite and learn the Holy Quran by heart.
- Organizing annual domestic and international Quran recital contests.
- Carefully selecting qualified Islamic preachers well versed in Islamic culture and religious teachings.
- Issuing Islamic books that present the high ideals and lofty values of Islam, aimed at deepening love among all people and achieving justice and peace in the world.
- Organizing seminars and delivering lectures and making use of media, information and communications technology to introduce Islam and celebrate its moral excellence.
- Maintaining mosques and Islamic centers and prayer facilities.
- Taking inventory of and listing endowment assets and producing their legal deeds and tracing those missing, as well as entering all

- information related to endowment deeds and assets in digital banks.
- Repairing, maintaining, preserving and developing endowment assets.
 - Caring for endowment libraries, developing them and providing them with information systems.

32.1.6.3 Targets

- Issuing around 12 million copies of the Holy Quran, recordings and translations, each year.
- Constructing 650 mosques during the period; on average 50 in each of the 13 regions of the Kingdom.
- Repairing 2,500 mosques, at the rate of 500 a year.
- Registering and numbering 1,500 endowment assets and preparing some 2,000 endowment survey submissions.
- Establishing 2 endowment libraries.

32.1.7 FINANCIAL REQUIREMENTS

Under the Eighth Development Plan, financial requirements of the religious services sector are estimated at SR14,877 million to fund management, operation, maintenance, manpower, and facilities development.

32.2 JUDICIAL SERVICES

32.2.1 INTRODUCTION

Two legal agencies are responsible for providing the judicial services. The Ministry of Justice provides all services related to judicial matters and documentation of deeds and proxies, through general and specialized courts and notaries public; while the Court of Grievances is responsible for complaints, administrative and commercial disputes, law suits, cases of violation of regulations, and forgery and bribery involving government agencies and other autonomous public agencies.

32.2.2 CURRENT CONDITIONS

Judicial services comprise 305 general and specialized courts, 124 notaries public, and 5 monitoring units, along with 11 branches of the Ministry of Justice distributed over the various regions, leading to enhanced performance.

In addition, there are 5 branches of the Court of Grievance in the regions, apart from the 89 departments at the Riyadh base, which has contributed to increasing the rates of cases reviewed.

32.2.2.1 Institutional and Organizational Development

As part of a major drive to provide and promote judicial services and procedures, the Ministry of Justice issued several new regulations, including the Sharia procedures regulations, the legal profession regulations, the real-estate registration regulations and the penal procedures regulations. The aim has been to facilitate litigation procedures and accelerate judgment on law suits and disputes, as well as to accommodate and deal with the social changes, especially in view of the steady growth of population, which resulted in increased demand for judicial services.

32.2.2.2 The Private Sector

The private sector is contributing effectively to the sector through construction of facilities, as well as through maintenance and operation works.

32.2.2.3 Budget Allocations

Under the Seventh Development Plan, financial allocations for judicial services development amounted to SR4823.4 million, which exceed planned allocations by 5%.

32.2.3 ISSUES AND CHALLENGES

32.2.3.1 The Judicial System

The immense economic and social progress achieved by the Kingdom, and

the concomitant expansion of areas of activity and resulting complexities, have led to increased demand for judicial services; hence the urgent need for diversifying judicial specialties, expanding judicial system services, and raising efficiency of the judicial system.

32.2.4 DEMAND FOR JUDICIAL SERVICES

In view of the steady growth of population and the economic and social changes brought about by the processes of development, it is expected that demand for judicial services will increase, as will the number of cases submitted to courts.

The Eighth Development Plan aims to respond to the envisaged increase in demand by opening 75 specialized courts for marriage deeds, and commercial, traffic, labor and juveniles issues, 75 general courts, 25 public notaries and 13 new buildings for Sharia departments.

32.2.5 FUTURE VISION

Accelerating global economic and social developments, economic and social changes within the Kingdom resulting from development, and the structural changes brought about by administrative reform necessitate developing the judicial system. Most importantly, there is need for accelerating the rate of establishing various kinds of specialized courts; and developing an adequate judicial environment capable of coping effectively and efficiently with new developments, while being supportive of investment and privatization policies, particularly on account of the forthcoming accession of the Kingdom to the World Trade Organization.

32.2.6 DEVELOPMENT STRATEGY

32.2.6.1 Objectives

The Eighth Development Plan has set the following objectives for the promotion of judicial services:

- To provide and develop judicial services and procedures.
- To facilitate channels of litigation and speed up adjudication on disputes.

- To develop national manpower, raise their efficiency and improve their performance.

32.2.6.2 Policies

Achieving the objectives set for the sector is contingent upon implementing the following policies:

- Increasing the number of Sharia and specialized courts.
- Increasing the number of notaries public
- Streamlining procedures to speed up adjudication on disputes and judicial transactions.
- Utilizing modern technology to save documents (archiving) and facilitate administrative and technical work in all departments and branches of the Ministry of Justice.
- Establishing premises for Sharia panels and courts.
- Increasing the number of judges, notaries public and registrars in order to satisfy the increasing demand for judicial services.
- Expanding training.

32.2.6.3 Targets

- Launching 75 specialized courts (marriage deeds, commercial, traffic, labor and juveniles) and 75 general courts.
- Opening 25 public notaries.
- Completing computerization of the work of courts and notaries public.
- Establishing 13 premises for Sharia panels.

32.2.7 FINANCIAL REQUIREMENTS

Under the Eighth Development Plan, financial requirements for judicial services are estimated at around SR6,789.5 million to fund management, operation, maintenance, manpower development and facilities development.

32.3 HAJJ AND UMRAH SERVICES

32.3.1 INTRODUCTION

Saudi Arabia regards the services and facilities it provides to pilgrims and Umrah performers as an honor entrusted to it by Allah. The service and care for the two Holy Mosques in Makkah and Al Madinah are viewed as the highest honor. Expansion of the Two Holy Mosques is a monumental achievement and evidence of immense care for Hajj and Umrah.

The Ministry of Hajj cares for pilgrimage and Umrah, through drawing up policies, plans and programs for services provided to pilgrims, Umrah performers and visitors of the Prophet's Holy Mosque; all within the framework of an integrated system involving all agencies related to Hajj; foremost among which are the Hajj Supreme Commission and the Hajj Central Committee. The Ministry also coordinates with officials in Islamic states and states with Muslim minorities and with Hajj missions to ensure that performers and visitors conduct their rituals comfortably and smoothly.

32.3.2 CURRENT CONDITIONS

During the period of the Seventh Development Plan, the Ministry of Hajj supervised services provided to over 9 million pilgrims, i.e., at a rate of 1.8 million pilgrims per year, as well as to more than 11 million Umrah performers, i.e., at a rate of 2.2 million per year. In addition, it supervised activities of the pilgrim guide institutions in Makkah and Al Madinah; the organizations registering pilgrims at the Kingdom's entry points; the General Automobile Association; the pilgrim services establishments; the Umrah services companies; the accommodations inspection committee; and the committees monitoring the activities of all organizations serving pilgrims both from within the Kingdom and without.

There were 60 centers for pilgrim reception, guidance, monitoring and support, in addition to 15 committees supervising around 678 establishments serving internal and external pilgrims, and 11 pilgrim transport companies.

As part of efforts to improve services to pilgrims and Umrah performers,

there were under the Seventh Development Plan several achievements. The most significant were establishing the Hajj and Umrah information network, issuing the new Umrah regulations, completing Umrah service centers that link the computers of Saudi Umrah companies and their agents abroad with the Hajj and Umrah information network, and qualifying 212 Umrah companies and establishments.

In addition, all facilities for receiving pilgrim international flights at Prince Mohammed Bin Abdul Aziz airport in Al Madinah were completed; a terminal exclusively for pilgrims and an emergency information unit were established at Al-Hijrah station in Al Madinah; and a number of centers to receive pilgrim complaints were established near Makkah Holy Mosque, along with centers to guide lost pilgrims in Makkah, Al Madinah and the other holy sites.

Moreover, construction of the premises of the Hajj Ministry at the Mina ritual place was completed, as was construction of gates and signs for the shuttle transport system^(*); registration of Saudi and resident expatriate pilgrims continued to be through licensed domestic establishments; and bus fleets of some Hajj transportation companies were refurbished. Furthermore, arrangements for the shuttle transportation system were set up, and a study was undertaken to ascertain the feasibility of expanding it gradually to cover all Tawaf establishments, so that it would by the end of the period of the Plan carry around 70% of all pilgrims from abroad.

The Ministry continued to organize symposia, conferences and workshops for Hajj and Umrah agencies and to coordinate with the official Hajj missions, emphasizing the importance of the effective participation of these missions in raising the awareness of pilgrims while they were preparing to leave for Hajj. Several educational programs were prepared using various media, and books, pamphlets and cassette tapes were distributed to pilgrims.

32.3.2.1 National Manpower Training

By the end of the Seventh Development Plan, employees of the Ministry of Hajj, all Saudis, numbered 728. The Hajj and Umrah Employees Training Center of the Ministry offered training courses and symposia to 11,335

^(*) The shuttle transport system carries pilgrims directly from Arafat to Mina via Muzdalfa on a closed circular route.

employees, Tawaf guides, agents and zamazimahs.

32.3.2.2. Institutional and Organizational Development

In order to provide the greatest possible number of services and facilities to the steadily increasing number of local and international Hajj and Umrah performers, the Ministry of Hajj undertakes continuous structural and organizational development and review of rules and regulations. The Institute of the Custodian of the Two Holy Mosques for Hajj Research, which is part of the Um Al-Qura University, conducts valuable research and studies into ways of raising efficiency and effectiveness.

The Ministry has been successful in improving its internal organization, as well as its relations with the other concerned agencies. Under the Eighth Development Plan, it will make further efforts to develop and organize its departments, and intensify coordination with Islamic organizations and official Hajj missions, in order to improve the services provided to local and international Hajj and Umrah performers.

Efforts will also be made to encourage the private sector to invest in accommodation, transport, catering, and other services extended to Umrah performers. The Ministry had in 2001 started implementing the ambitious Umrah Electronic Services Provider (USEP) program, which is aimed at maintaining continuous contact with private-sector agencies providing Umrah services.

32.3.3 ISSUES AND CHALLENGES

Notwithstanding the remarkable success in serving pilgrims, Umrah performers and visitors of the Holy Mosque of the Prophet, certain challenges need to be addressed.

32.3.3.1 Culture and Language Differences

Pilgrims and Umrah performers come from all over the world. They hail from varied cultures; speak various languages; and some lack correct understanding of rituals of worship.

Dealing with this issue requires obligating establishments responsible for international pilgrims to render guidance to them, explain correct rituals of worship, provide them with maps of the various religious locations and

facilities, and keep track of them to ensure that they return to their assigned accommodation. The Ministry needs to enhance coordination with the Hajj missions to ensure that before they leave their countries pilgrims are familiarized with the correct religious rites, as well as with the rules and regulations of the Kingdom.

32.3.3.2 Transport of Pilgrims

Efficient transport and movement of pilgrims are vitally important for effectiveness of Hajj services. Steady increases in numbers of pilgrims are exacerbating the problem of congestion, which, in turn, delays arrival at religious sites. The difficulty of the problem stems from movement being confined to a small area and tied to specific hours for each ritual over few days.

There is thus a need for reviewing the transport plan during the Hajj period, coordinating more closely with the other agencies involved, and obligating pilgrim transport companies to maintain large enough transport fleets. A study of the shuttle transport initiative should be carried out in order to enhance its usefulness.

Current policies may indeed succeed in dealing with the two issues of cultural differences and transport, provided that the following measures are taken:

- Enhancing coordination among the relevant government agencies and Hajj official missions.
- Providing adequate space at the Mina holy site to accommodate the increasing number of pilgrims.
- Expanding the shuttle transport system to reduce both bus movement and the time needed for the Nafrah.

In addition, there is the problem of some pilgrims becoming detached from their contingents and others not being under the care of Tawaf establishments, which complicates transport of pilgrims, especially during the Nafrah, and the problem of some pilgrims sleeping in the open spaces surrounding the Kaaba and Mina. The Ministry continues to coordinate with all the agencies involved to contain such problems.

32.3.4 FUTURE NUMBERS OF PILGRIMS AND UMRAH PERFORMERS

The Ministry of Hajj expects annual increases in the number of pilgrims and Umrah performers, with consequent increases in demand for services.

The number of international pilgrims is forecast to reach 1.62 million in the last year of the Eighth Development Plan (2009), i.e., at an annual average increase of 30,000, compared to about 1.47 million pilgrims in the last year of the Seventh Plan. The total number of pilgrims from within the Kingdom (authorized, unauthorized and those from within Makkah) is expected to top 600,000 a year (Table 32.3.1).

Table 32.3.1
Forecast Number of Pilgrims
Eighth Development Plan

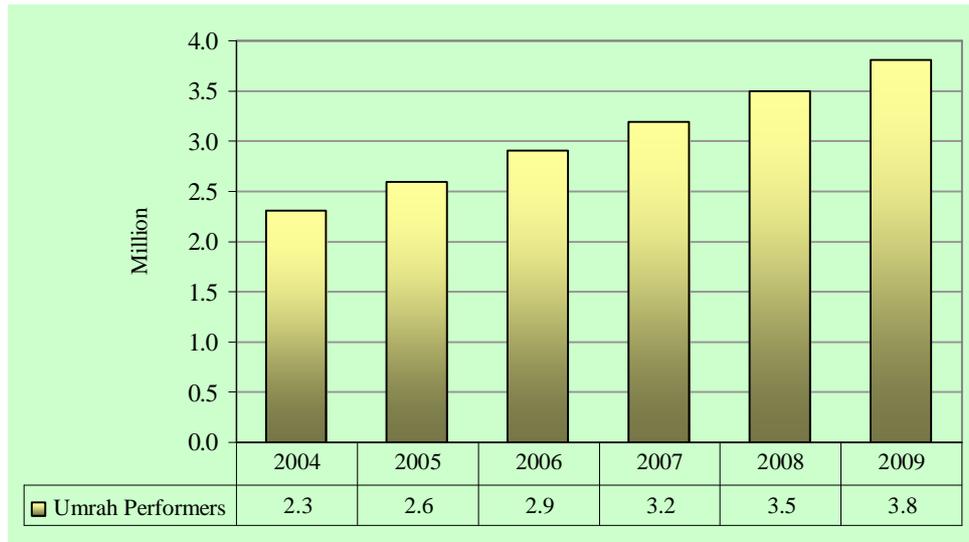
Year	Authorized Pilgrims from Within KSA*	Pilgrims from Abroad	Total
2004	170,000	1,465,000	1,635,000
2005	180,000	1,495,000	1,675,000
2006	190,000	1,525,000	1,715,000
2007	190,000	1,555,000	1,745,000
2008	200,000	1,585,000	1,785,000
2009	200,000	1,615,000	1,815,000

* The number of unauthorized pilgrims from within the Kingdom exceeds 300,000 a year, while the number of pilgrims from within Makkah exceeds 116,000 a year.

Source: Ministry of Hajj

The number of Umrah performers is forecast to reach around 3.8 millions in the last year of the Eighth Development Plan (2009), compared to around 2.3 millions by the end of the Seventh Development plan (Figure 32.3.1).

Figure 32.3.1
Forecast Number of Umrah Performers
Eighth Development Plan



Under the Eighth Development Plan, further efforts to improve the services and facilities provided to pilgrims and Umrah performers will cover developing pilgrim orientation centers; monitoring pilgrim contingents; helping lost pilgrims; receiving complaints at Makkah, Al Madinahh and the other holy sites; supervising and monitoring the activities of Tawaf and guide establishments; intensifying awareness programs; and coordinating with all agencies and Hajj missions. In addition, the General Automobile Association and pilgrims transport companies will be under continuous monitoring, supervision and inspection to ensure that they fulfill their obligations.

The Ministry will also continue to supervise performance of the establishments serving local pilgrims. Administrative procedures regulating relations with these establishments will be streamlined and efforts will be made to improve their performance.

In an effort to raise efficiency and enhance performance, training will be provided to Ministry personnel and employees of the Tawaf and Umrah establishments, including use of computers and other modern technology in carrying out the tasks of the Ministry and the agencies under its supervision.

32.3.5 FUTURE VISION

Notwithstanding the many achievements accomplished by the Hajj and Umrah services under successive development plans, the increasing

numbers of pilgrims, Umrah performers and visitors to the Holy Mosque of the Prophet represent a major challenge. Hence, the future vision for the development of these services is based upon continuously conducting studies and research to find solutions to existing problems; particularly those of awareness, guidance, transport, overstay, and serious accidents at Al-Jamrat caused by congestion.

The huge numbers of pilgrims and Umrah performers forecast by the Eighth Development Plan require commensurate expansion of services; improvement of performance of the various agencies involved; building more facilities; and providing qualified cadres and the necessary machinery and technology.

32.3.6 DEVELOPMENT STRATEGY

32.3.6.1 Objectives

The Eighth Development Plan has set the following objectives, aimed at promoting Hajj and Umrah services:

- Providing more services and facilities to pilgrims and Umrah performers.
- Improving performance of all relevant agencies and building more facilities.
- Developing manpower and promoting skills through education and training.
- Strengthening local-pilgrim establishments and Umrah companies and improving their performance.
- Encouraging the private sector to provide further high-quality services to pilgrims and Umrah performers.
- Enhancing coordination with Islamic states and communities to raise awareness of pilgrims prior to arrival at the holy places.

32.3.6.2 Policies

Achieving the above objectives is contingent upon implementation of the following policies:

- Continuing to develop pilgrim orientation centers, monitoring of pilgrims and Umrah services, increasing the number of centers giving advice to persons who have lost their way to their accommodation, increasing the number of complaints centers in Makkah and Al Madinahh and the other rites locations.
- Intensifying pilgrim pre-arrival awareness programs and conducting them in all Islamic states.
- Coordinating with the Hajj central committee, Islamic Hajj missions and other related government agencies, in order to provide pilgrims and Umrah performers with the best possible services.
- Continuing coordination with pilgrim transport agencies to facilitate transportation, especially during Taseed and Nafrah.
- Continuing supervision and monitoring of the activities of local and international pilgrim establishments and Umrah companies, in order to enable them to carry out their tasks optimally.
- Continuing supervision of the General Automobile Association and pilgrim transport companies to ensure efficiency of vehicle fleets.

32.3.6.3 Targets

- Establishing a new center for grouping pilgrims on the Makkah–Al Madinahh road, and establishing listing and computer centers at entry points.
- Preparing an awareness strategy in the various languages of the pilgrims.

32.3.7 FINANCIAL REQUIREMENTS

Under the Eighth Development Plan, financial requirements of the Hajj and Umrah services sector are estimated at SR1,129.6 million to enable pilgrims, Umrah performers and visitors of the Holy Mosque of the Prophet to perform the rites smoothly and comfortably.

CHAPTER THIRTY THREE

STATISTICAL DATA AND INFORMATION SERVICES

33. STATISTICAL DATA AND INFORMATION SERVICES

33.1 INTRODUCTION

Statistical data and information are critical inputs for economic, social and environmental development planning, as well as for improving efficiency of government decisions at all levels. They are also used by the private sector to make rational production and investment decisions and by scientific research centers, academic institutions and individual users for multiple purposes. In addition, statistics and information are important for monitoring the development process and evaluating its achievements. The Kingdom has made marked progress in this vital field; it now has a vast wealth of statistical data and information and possesses the infrastructure necessary for producing a wide range of important statistics and economic and social indicators.

Growing demand for more sophisticated data and information for development, coupled with accelerating technological advances in data collection, analysis and dissemination, call for continuous efforts to upgrade statistical services and products, in terms of comprehensiveness of coverage, accuracy and timeliness. Hence, the Eighth Development Plan envisages considerable development of databases and statistics, particularly short-term economic and social data, regional data, and social indicators of living standards and quality of life. The regulatory framework for data collection and dissemination will also be strengthened, to support external efficiency of the databases in the service of the needs of the private sector and other stakeholders in society.

This chapter discusses the current conditions of statistical data and information, the key issues and challenges faced by the Eighth Development Plan, and the objectives, policies and targets set by it.

33.2 CURRENT CONDITIONS

33.2.1 Statistical Data and Information

The Central Department of Statistics (CDS) undertakes providing the accurate data, information and statistics required for development planning, as well as providing official statistics to ministries, government agencies, various institutions, the private sector, and individuals. The

Central Department of Statistics Law (Statistics Act) entrusts the Department with compiling, analyzing and disseminating demographic, social, economic and other statistics on various aspects of life in the Kingdom; as well as compiling, tabulating and analyzing statistical data and information received from various government agencies for use in various statistical publications and the Statistical Yearbook. The Department is also entrusted with conducting studies and making proposals for developing statistical work in order to have a comprehensive and a uniform statistical system.

CDS has several main branches and offices in various parts of the country that link it with government and private agencies.

CDS produces a wide variety of statistical data and information, including population and social statistics and maps; in addition to statistics on the productive sectors of the economy, national income statistics, price statistics, cost of living index, wholesale price index, and foreign trade statistics. It also produces statistical publications on government services, manpower, and pilgrimage.

Furthermore, CDS publishes the Statistical Yearbook, which provides a series of official statistical data on education, health, social services, oil, industry, transport and telecommunications, trade, financial affairs, agriculture, private establishments and population; in addition to periodic statistical indicators covering most social and economic sectors.

As the official statistical authority, CDS derives statistical information and data from two major sources:

1. Field statistical censuses, surveys and research conducted by the Department itself.
2. Administrative data derived from statistical records, publications and reports issued by the statistical departments and data centers of government agencies and institutions, which are compiled and published by the Department in its periodic publications.

Technically, CDS adopts recommendations of the international organizations that constitute the main reference authority for statistical work and uses the most recent international classifications; key among which are:

1. International Standard Industrial Classifications (ISIC).
2. Saudi Standard Classification of Occupations, derived from the International Standard Classification of Occupations (ISCO).
3. International Standard Classification of Education (ISCED)
4. Nationality Classification and Coding Guide.
5. UN System of National Accounts (SNA).
6. Harmonized Commodity Description and Coding System (H.S).
7. International Principles and Recommendations on Population and Housing Censuses.

33.2.2 Developments

Under the Seventh Development Plan (2000–2004), CDS carried out several economic and social censuses, surveys, and research studies; thus providing accurate statistical data and information for development planning.

The following are the main achievements made by CDS over that period.

First: Population and Social Statistics

CDS carried out several population and manpower surveys and studies; thus providing data on population characteristics and demographic and social indicators at regional, governorate, center and settlement levels. It also made available vital indicators, such as the rates of fertility, mortality, growth, immigration, marriage and divorce. In addition, CDS provided the groundwork required for conducting population estimates and reviewing future population developments, and built a comprehensive population database for use by planners, researchers, and international and regional organizations.

The Department also issued a series of annual manpower surveys that provide detailed data on Saudi and expatriate manpower, both employed and unemployed, classified by occupation, economic activity and age structure. Studies were also completed on manpower sectoral and occupational distribution, and on the determination of unemployment rates, in accordance with internationally recognized concepts, recommendations and classifications.

In 2002, CDS produced the Directory of Government Services. Uniform and officially documented data is provided on health; social and educational services; utility services, such as electricity, water, telephone, and postal services; roads; and other administrative services. These data cover all population settlements, listed by administrative region, governorate, and center, on the basis of the administrative divisions issued by the Ministry of Interior, which serves as the underlying basis for tabulation and classification. Thus, the Directory, which is updated periodically, serves as a uniform reference for ministries and government agencies, and a reliable official document on planning and distribution of services.

CDS carries out a program for enumeration of local and international pilgrims. Conducted every year, the program is aimed at providing time-series data that can be used to prepare plans for provision of services to pilgrims and make estimates of the manpower required.

Most significant among CDS achievements under the Seventh Development Plan was the Census of Population and Housing, performed in 2004, which was the third such census carried out in the Kingdom.

Second: Economic Statistics

Under the Seventh Development Plan, CDS carried out the Census of Economic Establishments, which covers private sector businesses, such as factories, trading establishments, real estate offices, maintenance workshops, and hotels. This Census, which is carried out every five years, captures basic data on economic activities, and data on developments in the size of business establishments and their manpower, including wage and salary levels, and is aimed at providing the information necessary for studying several economic aspects, such as the structure of the economy, and the share of the private sector in economic activity and job creation.

CDS conducts an annual sample survey of the private sector and its contribution to economic development. It has also prepared estimates of the annual national accounts and has, in addition, continued to implement the new system of national accounts (SNA 93). Moreover, CDS completed development of the Cost of Living Index (CLI) and started publishing it monthly as of August 2003, and developed the quarterly wholesale price index, which is being published regularly.

CDS also continued to publish quarterly and annual import-export statistics and release a statistical publication on foreign trade.

Third: Technical Services and Infrastructure

Through its National Computer Center, CDS continues to offer technical services to 15 government agencies, along with their branches throughout the country; all linked to the Center via 110 data transmission lines connected to 3,712 terminals and workstations in 31 cities. These services include provision of data processing and storage.

CDS has also developed advanced statistical, administrative and financial systems and applications, to which government agencies have access.

Fourth: Manpower Development

Under the Seventh Development Plan, CDS has recruited qualified staff with appropriate academic background in statistics, mathematics, quantitative methods, economics and computer science, and has achieved an outstanding level of Saudization of 100%.

CDS has been implementing an annual training plan to develop capabilities of the manpower involved in statistics, computers, and technical support. It has sent its staff on training courses within the Kingdom and abroad, on social, population, and economic statistics; use of computers; and the English language. In addition, CDS takes part in meetings, symposia, workshops, seminars, and conferences, both within and outside the Kingdom, with the aim of keeping abreast of developments in statistical work and preparation of national statistical strategies. These endeavors have helped upgrade the quality of statistical work and contributed to the automation of statistical and administrative work.

33.2.3 Role of Private Sector

Households and business establishments are the primary sources of statistical data and information for censuses and surveys. They are also the key users of these data, either directly or indirectly. However, statistical data and information produced by the private sector community and institutions suffer quantitative and qualitative weaknesses; they are generally incomplete, and not published on a regular basis. Furthermore, private sector institutions respond poorly to field surveys and questionnaires carried out by CDS. In contrast, household surveys

conducted on a regular basis receive adequate response.

The Eighth Development Plan envisages an improvement in the contribution of private-sector institutions to the efforts made to improve quality and coverage of data, in addition to improved participation by the private sector in economic surveys and studies on the general economic situation.

33.2.4 Budget Allocations

Under the Seventh Development Plan, financial allocations earmarked for statistical sector programs totaled SR1,068 million, of which 84% were actually spent.

33.3 ISSUES AND CHALLENGES

Notwithstanding the remarkable progress achieved by the statistical services sector in making available accurate statistical data and information, some issues need to be addressed to effect further advancement.

33.3.1 Strengthening Organizational and Management Capacity

To keep abreast of the fast pace of technical developments in statistical data and information systems, strengthen the role of statistics in development planning, and enhance the ability of CDS to provide users in all sectors with reliable and timely data, it has become necessary to consider organizational restructuring of the sector. In addition, efforts should be made to develop the management and scientific capabilities of staff, and to attract qualified graduates of statistics, mathematics, quantitative methods, economics and computer science. Support to CDS, as the central statistical authority mandated to collect, analyze and publish statistical data and information, should also be continued.

33.3.2 Statistical Data and Information

Statistical data and information are of crucial importance in providing support to decision-making processes. However, due mainly to poor

coordination among the various constituents of the sector, current levels of utilization are relatively low. This calls for further consolidation of joint efforts between CDS and information centers and statistical departments at government agencies, in order to improve quality of statistical services and methods of compilation of statistics, standardize statistical concepts, and apply international statistical recommendations, standards, classifications and systems.

33.3.3 Relations between Data Producers and Users

Statistical data and information mirror social, economic and environmental realities, reflect the problems involved, and reveal weaknesses and variations. Hence, making them available enables decision makers and development planners to make the necessary adjustments. The need exists, therefore, not only for providing more statistical data and information, but also for improving their accuracy, timeliness and dissemination; hence the importance of continued development of relations between statistics producers and users in government agencies, the private sector and individuals.

Several government and private agencies and institutions are currently engaged in producing statistics. It has therefore become necessary to develop efficient mechanisms for coordination, in order to avoid duplication; rationalize costs; and standardize basic concepts, indicators and measurement methods in accordance with recognized international standards.

33.4 FUTURE VISION

The Kingdom continues to make efforts to develop its national statistical system and promote public awareness of the crucial importance of statistical data and information to the success of economic and social development.

In view of the rapid global technological developments in statistical data and information, the scope for modernizing and strengthening the infrastructure of statistical institutions is indeed wide. CDS occupies a key position in implementing this future vision, which involves the following:

- Formulating and implementing a national strategy for development of statistical data and information, tailored to the present and future needs of economic, social and environmental strategic development planning, monitoring and control; as well as to the needs of the private sector, and researchers in academic, economic, social and civil institutions.
- Upgrading and modernizing the organizational structure of CDS in order to meet increasing demand for statistical information and services and enhance their accuracy and timeliness.
- Redrawing public policy on and establishing uniform sources of statistical data and information.
- Spreading a “statistical culture” in society and public and private institutions.
- Intensifying training programs on state-of-the-art computerized techniques of producing and processing statistical data.
- Establishing improved methods for compiling and classifying statistical data, consistent with international systems and standards.

33.5 DEVELOPMENT STRATEGY

The development strategy for statistical services will be implemented through the following objectives, policies and targets:

33.5.1 Objectives

The following are the objectives set for statistical services by the Eight Development Plan:

- Achieving consistency of population, social and economic statistical data and information.
- Giving priority to producing accurate basic data, commensurate with the requirements of economic management and development.
- Disseminating timely, good-quality information.

33.5.2 Policies

The objectives set by the Eighth Development Plan for statistical services will be met through implementation of the following policies:

- Increasing coordination between CDS and statistical departments and information centers at government agencies.
- Achieving further coordination and integration in the dissemination of information to bolster credibility of published data and information.
- Standardizing the international systems for data compilation and classification in use by CDS and the statistical departments of government agencies.
- Giving further care and attention to methods of transfer of data and statistics produced by government agencies to CDS, as well as to data accuracy and methods of compilation.
- Removing constraints on conducting statistical field surveys and research work, such as the multiplicity of agencies responsible for issuing licenses for measuring and recording of economic activity using varied procedures, and the variations in accounting methods and commencement dates of balance sheets of businesses.
- Addressing reluctance of statistics, mathematics, quantitative methods and economics graduates to pursue careers in statistics, due to the fact that statistics jobs are classified as “administrative and financial”.
- Making efforts to allocate more financial resources to statistical research.

33.5.3 Targets

CDS envisages developing and upgrading statistical data and information and continuing to implement, update and expand statistical programs and projects according to set plans and time schedules. It will also implement several household surveys and studies based on the 2004 General Census of Population and Housing, and other programs of economic surveys and studies; and will continue to coordinate, upgrade and expand economic sector statistics. Several surveys and studies will be implemented in the following areas:

First: Population and Social Statistics

- Carrying out demographic surveys to identify economic and social

characteristics of the population, and provide information on population growth and other rates, including fertility, marriage, divorce, birth, death, and internal migration.

- Conducting social surveys, such as on manpower, consumer expenditure, education characteristics, and handicaps, with the aim of providing statistical data on and indicators of manpower, income and expenditure levels of households, population educational levels and illiteracy rates, dropout rates in education, and volume and types of handicaps.
- Continuing to implement regular statistical programs and release relevant statistical publications, including pilgrimage statistics and the survey of government services in cities and villages.

Second: Economic Statistics

- Continuing to carry out the Annual Economic Survey of Establishments, after updating the sample survey based on the 2004 General Census of Establishments by increasing sample size, widening its scope and improving its representation, in order to provide statistical indicators of all economic activities, including workers, wages, and costs. CDS will also implement several economic surveys covering manufacturing, finance and insurance, services, and tourism, in addition to calculating the manufacturing output index. These surveys should provide comprehensive statistical data and information on the inputs and outputs of individual sectors, classified by type of services, output, value added, manpower distribution, operating expenditure, wages, and revenues.
- Continuing to apply the new System of National Accounts (SNA 93) in accordance with the set time schedule, in addition to preparing annual and quarterly estimates and indicators of national accounts, and publishing national income statistics.
- Publishing annual and quarterly statistics on foreign trade (exports and imports), updating the Harmonized Commodity Description and Coding System (HS) and linking it with other economic classifications, and developing a database on export and import price indices and terms of trade.
- Publishing price statistics, the cost of living index and the wholesale price index. In addition, other programs, such as price averages and monitoring of quality of price data, will be implemented (Box 33.1).

Box 33.1: Major Publications of the Central Department of Statistics

Title	Frequency
1. Statistical Yearbook (with CD)	Annual
2. Statistical Indicator	Annual
3. Import Statistics (with CD)	Annual/Quarterly
4. Export Statistics (with CD)	Annual/Quarterly
5. National Income Statistics	Annual/Quarterly
6. Directory of Survey of Services in the Kingdom's cities and villages (with CD)	Every two years
7. Cost of living Index	Monthly
8. Wholesale Price Index	Monthly
9. General Census of the Population and Housing	Every ten years
10. General Economic Census	Every five years
11. Consumer Expenditure Survey	Every five years
12. Manpower Survey	Annual
13. Employment and Wages Survey	Every two years
14. Demographic Survey (population characteristics and household housing characteristics.	Annual
15. Pilgrimage Statistics	Annual
16. Survey of Establishments (Survey of Economic Trends)	Annual
17. Survey of Manufacturing Industries	Occasional
18. Survey of Establishments of Transport, Storage and Telecommunication Services.	Occasional
19. Survey of Banking and Insurance Establishments	Occasional

33.6 FINANCIAL REQUIREMENTS

Under the Eighth Development Plan, the financial requirements for the statistical services sector will total SR700 million to fund quality improvement of economic, demographic and social statistics; and undertaken surveys and censuses of government services, private sector institutions, and developing manpower capabilities.

CHAPTER THIRTY FOUR

**METHODOLOGY OF THE
EIGHTH DEVELOPMENT PLAN**

34. METHODOLOGY OF THE EIGHTH DEVELOPMENT PLAN

34.1 INTRODUCTION

Planning for development is a process that seeks to bring about phased and orderly economic and social transformation from an existing state to a new more desirable one. The planning process considers domestic and external conditions and challenges and the extent of their impact on economic and social development. However, in order to keep pace with changes and developments, the plan should have capacity for continuous renewal and adaptation; hence, the need for an efficient and comprehensive, yet flexible, planning methodology.

The Eighth Development Plan continues to adopt the basic methodology pursued by the Seventh Development Plan, in so far as circumstances and strategic goals are similar. However, in some aspects, the methodology of the Eighth Development Plan reflects new goals and circumstances corresponding to the current phase of development. It has also benefited from the experience accumulated over the previous plans, particularly the Seventh Development Plan.

This chapter describes the planning methodology, discusses the major themes, reviews monitoring and evaluation techniques, and addresses the future vision for the methodology of planning.

34.2 METHODOLOGICAL DIRECTIONS

34.2.1 Integrated Strategic Planning

Since a development plan has to be guided by a vision and a strategic perspective, the strategic dimension has been an essential element of the development planning process. Over the first five development plans, general objectives and strategic principles provided a framework for individual specific objectives, policies and programs. In a step forward, the Seventh Development Plan adopted in addition a long-term

perspective of the national economy, dedicating a separate chapter to long-term issues and strategic challenges, such as demographic challenges; competitiveness of the national economy; human resources development; and issues of management of limited resources.

The Eighth Development Plan went further by taking the fundamental step of adopting a long-term strategy for the next two decades up to 2025, with clear-cut vision, objectives and targets. Within that framework, the Eighth Development Plan is part of an overall comprehensive program, and constitutes the first of four 5-year development plans, with its objectives serving as the specific objectives of the first phase of the long-term strategy. The reasons underlying this methodological innovation are articulated in chapter three of this Plan document.

34.2.2 Indicative Role of the Plan

Starting with the Fifth Development Plan, indicative planning for the private sector was adopted to complement directive planning for the public sector. However, the role of the private sector has grown in importance over recent years and is expected to become even more significant over the coming years, prompted by privatization and stimulation of private investments. Hence, certain aspects of the methodology of the Eighth Development Plan have been further developed to enhance its indicative role, with:

- Increased emphasis on effective policies and on their transparency.
- Accompanying policies by appropriate implementation mechanisms, and setting specific quantitative and time-bound targets for monitoring and evaluation of performance and efficiency of policies by the agencies responsible for implementation.
- Listing strategic projects into a separate chapter of the Plan document, along with data on project size and investment requirements, to provide the business sector with a clear picture of the size and nature of the investment priorities of the Plan.

34.2.3 Directive Role of the Plan

Emphasizing policies and objectives, particularly those relating to activities and outputs, is aimed at strengthening the role of implementing agencies in achieving the objectives of the Plan, through selection of the

best possible programs, projects and activities. In addition, setting policy objectives and appropriate implementation mechanisms allows the agencies responsible for monitoring and supervision to improve their performance.

Moreover, emphasis on activities, output, measures of output, and output targets should contribute to improving efficiency, since performance criteria would be tied directly to objectives. For example, the objective of health activities is to improve health standards. Health sector inputs, including hospitals, physicians, health centers, are essential, however, they are not sufficient by themselves. Hence, output indicators are needed to provide direct measurement of service standards.

34.2.4 Regional Planning

In a measure designed to enhance efficiency in achieving balanced regional development, the Eighth Development Plan has, for the first time, included specific infrastructure and public service targets for the 13 regions. This measure allows for monitoring and supervision of performance on the regional level, is consistent with the move towards decentralized economic management, and enhances the role of regions and local administrations in economic and social development. The move is expected to improve distribution of economic resources to the various regions; thus serving the objective of comprehensive, balanced development.

34.3 ADVANCES MADE IN PLAN FORMULATION

Several advances were made in the process of formulating the Eighth Development Plan; key among which are the following.

34.3.1 Promoting National Participation

Several measures were taken by Ministry of Economy and Planning to promote community involvement in discussing economic and social issues, developing solutions, formulating policies, and setting development objectives. A major highlight in this regard has been the symposium on the Future Vision of the Saudi Economy, held in October 2002 under the auspices of HRH the Crown Prince. The symposium featured active participation by all government agencies; private sector; academic institutions; international political and economic leaders; and

experts from international organizations, such as the United Nations and the World Bank. Symposium papers and discussions served as a key reference for preparing the Eighth Development Plan policy papers.

Furthermore, the Eighth Development Plan benefited from proposals made by government agencies relevant to the issues highlighted by the Custodian of the Two Holy Mosques in his inaugural address to the Third Session of the Shura Council on 28/5/2002. Acting on instructions of the Council of Ministers, the Ministry of Economy and Planning undertook the coordination of proposals and feedback from government agencies, which were studied and included in the Eighth Plan.

34.3.2 Strengthening Participation of Ministries and Other Agencies

Sectoral working teams, made up of representatives of government agencies and the Ministry of Economy and Planning, were charged with coordinating the preparation of sectoral plans. In this way, government agencies contributed to identifying issues and development challenges, formulating policies, and setting objectives, through participation in preparation and review of policy papers.

34.3.3 Promoting Participation of National Expertise in Plan Preparation

The Ministry of Economy and Planning made intensive use of national experts from the Kingdom's universities in preparing studies, drafting of sectoral policy papers, and other support services.

34.3.4 Reducing the Period of Plan Preparation

Preparation of a new 5-year plan involves assessment of the performance of previous plans. The outcome of such an assessment serves as an input for the studies undertaken in initial preparation. As this process starts at the beginning of the third year of the current 5-year plan, actual data available cover only two years of that Plan. Acting in cooperation with ministries and other government agencies, the Ministry of Economy and Planning managed to reduce the period normally taken for the preparation process by almost one year. Preparatory work commenced at the beginning of the fourth year of the current plan. The Ministry, however, aims to reduce the period of preparation to just a year and a half, so that

actual data could be available for 3 years of the current plan. In order to achieve this objective, measures need to be taken to enhance the resources of the planning and budget departments in all agencies, and improve timeliness of data collection and statistical surveys.

34.3.5 Planning Tools

Planning tools include analytical software, statistical tools, and macroeconomic and sectoral models. The Ministry of Economy and Planning has developed a complete range of econometric models, for use in performance and policy evaluation and formulation. They can be used for forecasting and developing alternative economic scenarios over the short, medium and long terms, as well as for annual monitoring of plan implementation.

As an integral part of the process of preparing the Eighth Plan, databases of all economic models have been updated and upgraded.

34.3.6 Databases and Statistics

Accuracy and timeliness of data, comprehensiveness of databases, and reliability of data sources are key determinants of the quality and efficiency of the entire planning process. Efficiency of Plan preparation is, furthermore, influenced by the timely availability of input and output data from all agencies, and all social, economic and political stakeholders. The process of preparation of the Eighth Development Plan benefited from the remarkable quantitative and qualitative improvement in databases since 2000. In addition to the progress achieved by CDS publications, most government and private institutions now post their data on the Internet; thus furthering their transparency and quality. Moreover, “Achievements of the Development Plans: Facts & Figures”, an annual publication issued by the Ministry of Economy and Planning, which constitutes a comprehensive database with time series spanning the entire development planning period, has become a reference book of national statistical data, used locally and internationally.

34.3.7 Development Plan Reports

Reports of the Eighth Development Plan (the Plan document) reflect the developments that have been introduced into the methodology of the Plan .

A new report on long-term strategy, expected to be published in 2005, has been added. The array of Plan reports now includes:

- **The Plan Document:** a comprehensive report that includes a review of the Seventh Development Plan; major development issues; and objectives, policies and programs of the Eighth Development Plan.
- **Operational Plan:** a detailed plan for individual government agencies that defines for each objectives, policies, programs, targets, and financial and human resources requirements. Key elements of the operational plan are covered by the Plan Document.
- **Regional Reports:** separate reports for the individual regions, each including an evaluation of the economic and social conditions, and the objectives, policies, programs and projects of the sectoral operational plans for the region concerned.
- **Follow-up Report:** an annual report, prepared by Ministry of Economy and Planning in cooperation with all government agencies and private sector institutions, which assesses implementation of the five-year plan.

In addition, at the inception of preparing the Plan, the Ministry of Economy and Planning prepares a “Manual on Preparing the Five-year Plan”, intended to explain the methodology and offer guidelines to all government agencies on how to undertake the tasks required for preparing the five-year plan and the time schedule for the various phases involved. The manual also includes forms for the required data and information, and guidelines on how the forms should be filled.

Furthermore, the Ministry has been publishing an annual report on Achievements of the Development Plans dating as far back as the First Plan, which includes time series on all economic indicators.

34.4 MONITORING AND EVALUATION OF PLAN IMPLEMENTATION

34.4.1 Evaluation

Evaluation of the five-year plan performance is currently carried out within the framework of the annual follow-up report. Effectiveness of this evaluation is expected to be further strengthened due to improvements in

the methodology of the plan, particularly setting targets for policies and establishing quantitative indicators of performance. Further improvements are expected by the planned move to include the annual performance evaluation into the Economic Report that the Ministry of Economy and Planning intends to publish; thus enhancing the indicative role of the national development plans.

The Ministry continuously monitors the economic and social situation that serves as a basis for preparing the five-year plan. However, due to unforeseen domestic or international developments, several plan targets are likely to deviate from expected levels. Hence, there is a need for a Mid-Term Review (MTR) of the Plan, particularly in view of the strong linkages of the Saudi economy to regional and international economies, through the oil and basic industry markets, which make the likelihood of deviations from assumptions all the more likely. However, conducting a mid-term review would require increased efficiency and faster availability of data and statistics, as well as strengthening the technical and administrative capacity for planning and follow-up of all government agencies. Taking all these factors into consideration, the Ministry will study the possibility of conducting a mid-term review of the Eighth Development Plan.

34.4.2 Follow-up of Implementation

The twenty year time horizon of the Long-Term Strategy (until 2024) involves four 5-year plans, starting with the Eighth Development Plan. Thus, the process of preparing the successive five-year plans will include a comprehensive review of the strategy every 5 years to ensure that the successive five-year plans be fully consistent with the overall strategy.

34.4.3 Follow-up of Major Programs and Projects

Council of Ministers Resolution 1368 of 18/8/1976 directed the Ministry of Economy and Planning to monitor critical programs and projects, as part of monitoring implementation of the five-year plans. Hence, the Ministry prepares a separate annual report on these projects. However, a whole year is deemed too long a period to allow for identification and removal of constraints impeding implementation of all the projects envisaged by the plan, and not just the major ones. It is, therefore, essential to develop the monitoring process, using modern communication

and information technology tools. Information and data on the progress of the activities of projects could be stored in a database jointly accessible by both the implementing agencies and the Ministry of Economy and Planning. Field monitoring of projects, particularly major ones, should also be strengthened. The Ministry, in collaboration with the various relevant agencies, will study the best possible means for achieving these aims, making use of international best practice.

34.4.4 Future Vision of Planning Methodology

Planning methodology is conditioned by the specific characteristics of the particular development phase and the state of the economy and society. It may, therefore, be unrealistic to develop a future vision for planning methodology. Nevertheless, it is possible, in light of the objectives and policies of the Eighth Development Plan, to indicate certain features of future planning methodology.

Increased Importance of Geographical (Spatial) Dimension

The move towards continued delegation of power and authority to local and regional administrations would necessitate making planning methodology consistent with the division of authority between the central administration and the regional and local (municipalities and centers) administrations. This, in turn, requires building adequate databases and developing economic and social indicators, economic models, and planning tools at the level of regions.

Evolving Role of Strategic Planning

The strategic planning approach has significantly influenced the Eighth Development Plan, which, in fact, represents the first building block of a strategic edifice outlined by the Long-Term Strategy. The planning methodology should, therefore, accommodate this development by ensuring consistency between the sectoral strategies and the national strategy, as well as by ensuring closer integration and synchronization between the preparation of the five-year plans and the reviewing and updating the long-term strategy.

The GCC and Regional Dimensions

The coming years are expected to see increased levels of cooperation at

the GCC and regional levels, as well as the accession of the Kingdom to the World Trade Organization (WTO). Future methodology should reflect these regional and international developments and their likely impacts on the development process. This will be particularly important when the GCC monetary union and unified currency, targeted for 2010, come into force, along with the Greater Arab Free Trade Zone, and other agreements that are also due to come into effect over the coming years.

APPENDIX

OBJECTIVES AND STRATEGIC BASES OF THE EIGHTH DEVELOPMENT PLAN

2005 – 2009 AD

**KINGDOM OF SAUDI ARABIA
GENERAL SECRETARIAT OF
THE COUNCIL OF MINISTERS**

Decree 175 of 27/6/1424 AH

The Council of Ministers,

Having considered the communication received from the Presidency of the Council of Ministers under Royal Decree 3/B/28106 of 13/6/1424 A.H. containing the directive to put forth before the Council of Ministers, the Objectives and Strategic Bases proposed for the Eighth Development Plan (1425/1426-1429/1430) submitted through the telegrams of H.E the Minister of Economy and Planning No. 82/1 dated 8/1/1424 A.H. and No. 104/E/24 dated 8/6/1424 A.H., and Pursuant to Royal Decree A/97 of 17/3/1418 A.H., and

Having considered the Objectives and Strategic Bases proposed for the Eighth Development Plan (1425/1426-1429/1430 A.H.), and

Having considered Council of Ministers Resolutions 58 of 28/3/1420 A.H. and 126 of 28/5/1421 A.H., and

Having considered the recommendation of the General Committee of the Council of Ministers 306 of 20/6/1424 A.H.;

Hereby decrees:

Approval of the Objectives and Strategic Bases of the Eighth Development Plan (1425/1426 – 1429/1430 A.H.) as per the attached text.

**OBJECTIVES AND
STRATEGIC BASES OF
THE EIGHTH DEVELOPMENT PLAN
FOR THE KINGDOM OF SAUDI ARABIA
1425/1426 – 1429/1430 (2005-2009)**

FIRST: OBJECTIVES

1. To safeguard Islamic teachings and values, enhance national unity, uphold security and social stability and deepen the Arab and Islamic identity of the Kingdom.
2. To continue improving the services provided to Hajj and Umrah performers so as to facilitate performance of religious rites.
3. To raise the standard of living, improve the quality of life and provide job opportunities to citizens, by accelerating the development process, increasing the rates of economic growth, and ensuring enhancement of the quantity and quality of education, health and social services.
4. To develop human resources, upgrade their efficiency and increase the supply of manpower to meet the requirements of the national economy.
5. To diversify the economic base with due emphasis on promising areas such as manufacturing industries, particularly industries that make intensive use of energy, and its derivatives, as well as mining, tourism and information technology industries.
6. To improve productivity of the national economy, enhance its competitiveness and prepare it to adjust in a more flexible and efficient manner to economic changes and developments at the national, regional and international levels.
7. To increase private sector's participation in economic and social development.
8. To achieve balanced growth throughout all regions of the Kingdom and reduce the development gap between them.

9. To develop the science and technology system, pay attention to informatics, support and encourage scientific research and technology development, with a view to enhancing the efficiency of the Saudi economy, and keeping abreast of the knowledge economy.
10. To conserve and develop water resources and ensure their rational utilization.
11. To protect the environment and develop suitable systems in the context of sustainable development.
12. To continue to strengthen and promote the Kingdom's relations with Arab, Islamic and friendly countries.

SECOND: THE STRATEGIC BASES

First Strategic Basis

Increase the share of Saudi manpower in total employment in various sectors, pay attention to upgrading their efficiency and productivity through training and re-training, and continue to substitute Saudi manpower for non-Saudis.

Second Strategic Basis

Place emphasis on the welfare of women, upgrade their capabilities and remove the constraints that impede their participation in development activities, in line with the Islamic values and teachings.

Third Strategic Basis

Expand provision of health care and social welfare services to the entire population.

Fourth Strategic Basis

Take care of the needy groups of citizens and pay attention to management and reduction of poverty by concentrating on the economic policies and programs that lead to higher economic growth, along with achieving balanced development of all regions in the Kingdom.

Fifth Strategic Basis

Develop all relevant aspects of education and training systems. Upgrade

their output in conformity with the changing needs of society, the labor market and the requirements of the development process. In addition, keep abreast of advances in knowledge and technology, and pay attention to the promotion and dissemination of culture.

Sixth Strategic Basis

Improve the quality of public services and increase their supply in line with the growing needs of the population, along with improving performance of the responsible agencies.

Seventh Strategic Basis

Enhance utilization of economic resources with due emphasis on rationalization and improving performance of the responsible agencies.

Eighth Strategic Basis

Continue to provide infrastructural assets in line with growing demand, and improve their operation, with due emphasis on maintenance and replacement of depreciated assets.

Ninth Strategic Basis

Continue efforts to maintain a climate conducive to enhancing private-sector participation in economic and social development, while intensifying government initiatives to encourage private domestic and foreign investments and bolster competitiveness of domestic products.

Tenth Strategic Basis

Privatize additional public facilities, activities and services, while ensuring a rising share for citizens in asset ownership; all within a framework of competition and transparency.

Eleventh Strategic Basis

Develop tourism and improve associated services and facilities, while conserving the environment and national heritage.

Twelfth Strategic Basis

Adopt a population policy that takes into consideration quantitative and qualitative variables and geographical distribution and enhances correlation between population variables and the goals of sustainable development.

Thirteenth Strategic Basis

Distribute resources and services among the regions of the Kingdom to ensure reduction of development disparities among them and enhance their comparative and competitive advantages.

Fourteenth Strategic Basis

Create a strong foundation for national science and technology capable of innovating and inventing, expand ICT applications, and improve the databases in support of the national economy.

Fifteenth Strategic Basis

Continue with administrative development and the creation of a regulatory environment conducive to economic development and efficiency.

Sixteenth Strategic Basis

Adopt fiscal and monetary policies that contribute to accelerating economic growth, achieving higher employment, and enhancing economic stability.

Seventeenth Strategic Basis

Reduce public debt to a reasonable level and develop appropriate mechanisms for achieving financial stability in the long run.

Eighteenth Strategic Basis

Adopt integrated management of water resources and optimize their utilization, while emphasizing their rational usage and developing their sources and conservation techniques.

Nineteenth Strategic Basis

Encourage participation of private institutions and individuals in charitable and voluntary activities in social work, healthcare and education; improve such activities; and promote awareness of their importance.

Twentieth Strategic Basis

Sustain care for environmental protection, promote environmental regulations, protect and develop wildlife, and conserve natural resources and rationalize their utilization.

Twenty First Strategic Basis

Promote integration among the Gulf Cooperation Council (GCC) countries and strengthen relations with Arab, Islamic and friendly countries, as well as with international economic blocs.

**KINGDOM OF SAUDI ARABIA
MINISTRY OF ECONOMY & PLANNING**

THE EIGHTH DEVELOPMENT PLAN

**1425 – 1430 H
2005 – 2009**

Preface

The Eighth Development Plan marks a new phase in the development process of the Kingdom. Since it was founded and unified by the Late King Abdul Aziz, achievements of the Kingdom have been truly impressive in a wide variety of sectors. His great sons followed in his footsteps and went on to build on the strong foundations laid by him. As a result, the Kingdom has made remarkably wide-ranging economic, industrial and development advances; along with ever rising aspirations for continued improvement in living standards and quality of life of Saudi citizens in all regions of the country.

The achievements have been a result of joint government-private sector efforts. Indeed, public-private partnership has led to outstanding increases in output and expansion of production capacities in all economic sectors. Measured by any criterion, achievements in key areas of national welfare, including provision of infrastructure and public services and enhancement of living standards and quality of life, stand out as striking testimony to the success of the state role in development.

The private sector has also grown remarkably in size; expanded its range of activities; and improved its competitiveness and the effectiveness of its developmental role. In addition, institutional development, administrative reforms, sound government economic policies and economic and social stability have all helped create a favorable environment capable of enhancing and sustaining the achievements made.

Against the background of these achievements and the underlying challenges, the Eighth Development Plan has been prepared in the context of a long-term vision and economic and developmental strategy geared to achieving sustainable development. In its quest for greater national welfare, the Plan draws on the set of Objectives and Strategic Principles approved by Council of Ministers Resolution 175 of 27/6/1424. It is also inspired by the speech of the Custodian of the Two Holy Mosques at the inauguration of the third year of the third session of the Shourah Council, and the concept paper of the Custodian of the Two Holy Mosques King Abdullah Bin Abdul Aziz on

higher education. Furthermore, it draws on the conclusions and recommendations of the Symposium on the Future Vision, organized by the Ministry of Economy and Planning under the patronage of HRH the Crown Prince, as well as on Resolutions of the Shourah Council on development plans and its follow-up reports of plan implementation. The Plan has also been designed to be in line with approved strategies, such as the Strategy on Improving Living Conditions of All Citizens, the Privatization Strategy, the National Spatial Strategy, and the Manpower Development Strategy.

Emphasis is placed on several priorities; key among which are: improving living standards and quality of life and providing job opportunities to all Saudi citizens; expansion of education, training, health and social services, both quantitatively and qualitatively; expansion in applied and technological sciences; and furtherance of initiative and creativity in all spheres. In addition, the Plan lays stress on keeping pace with the fast momentum of global economic and technological developments, diversification of the economic base, and improving productivity and boosting competitiveness of the national economy. Considerable attention is given to promising areas, such as strategic and manufacturing industries, particularly energy-intensive industries; the natural gas industry; mining; tourism; and information technology.

Contribution of the private sector to economic and social development is another area of focus. Continued development of laws, rules and regulations on investment; accelerated implementation of the privatization strategy; continued improvement of the efficiency of financial services; and intensive provision of technical assistance to enhance competitiveness of domestic producers are all emphasized.

As key factors for increased output and productivity, and for further improving investment prospects, the Plan focuses on development of the science and technology system and of informatics, on support and promotion of scientific research, and on the drive for a knowledge-based economy. It also envisages that continued expansion and maintenance of infrastructure and services would be in response to demand, in such a way as to contribute to further growth and improved efficiency of all goods producing and services sectors.

Particular stress is placed on increased participation of women in the economy; providing greater employment opportunities for women; and strengthening the family role in society, through upgrading capabilities of Saudi women and removal of constraints on their increased participation in economic and development activities.

The Plan envisages that the Kingdom would continue to implement economic reforms, support the private sector, and maintain economic stability. Moreover, efforts to maintain prudent, balanced state budgets and sustainable balance of payments equilibrium and to keep inflation at its current low levels would continue.

The Plan foresees improved prospects for a successful outcome of the negotiations for the Kingdom's accession to the World Trade Organization. It also envisages that the Kingdom would pursue stronger cooperation with all regional blocs and with Arab and Islamic countries in general, along with closer integration with GCC states in particular.

Indeed, the Plan ushers in a new phase in the development process initiated over three decades ago. It constitutes the first link in a strategic path for the national economy, extending well into the next two decades and involving four successive five-year development plans. This approach marks a step forward for the strategic planning methodology adopted by the Kingdom.

The Plan is keen to combine development-oriented change with continuity. Thus, while continuing to underscore growth, diversification of the economic base, and balanced regional development, it seeks to speed up economic transformation and modernization. It also highlights the challenges that, faced with unrelenting globalization, the development process may encounter in the coming phase.

It should, however, be stressed that planning is in essence a continuous process, not a one-off, isolated event. Success of development plans is measured by achievements, not by good intentions; and is judged by results, not financial allocations. Thus, whether the intended impact of the Eighth Development Plan will materialize depends on the determination and resolve with which implementation is pursued.

The planning experience of the Kingdom has been one of continuous orderly advancement, within an overall temporal and spatial framework that brings together sectors and regions and links up efforts across successive years. Indeed, outstanding achievements over the full range of economic and social development have been many. Yet, further work and continuous efforts are needed to maintain momentum. The Eighth Development Plan is intended to support this endeavor, with public-private partnership playing an important and effective role.

Development is not only about building factories, dams, roads, and other infrastructure. It, rather, focuses on people, and has satisfaction of material, cultural and spiritual needs as its basic objective. In other words, the human element and the human dimension are the substance of development.

In conclusion, I would like to commend the fruitful cooperation of all Government and private sector agencies involved in Plan preparation, and the valuable, effective contribution made by all these agencies. My appreciation goes also to the devoted efforts made by the staff, advisors and experts of the Ministry of Economy and Planning.

I should also like to point out that the achievements of the development process would not have been possible without the prudent guidance and continuous support given by the wise leadership of our dearly cherished country.

KHALID M. AL GOSAIBI
MINISTER OF ECONOMY AND PLANNING

SAUDI FISCAL AND HIJRA YEAR DATES AND GREGORIAN EQUIVALENTS

SAUDI FISCAL YEAR	STARTS ON *	GREGORIAN YEAR
<u>Seventh Development Plan Period 1420/21 to 1424/25</u>		
1420/21	23 Ramadan 1420	2000
1421/22	5 Shawwal 1421	2001
1422/23	16 Shawwal 1422	2002
1423/24	27 Shawwal 1423	2003
1424/25	8 Dhul-Qi'dah 1424	2004
<u>Eighth Development Plan Period 1425/26 to 1429/30</u>		
1425/26	19 Dhul-Qi'dah 1425	2005
1426/27	29 Dhul-Qi'dah 1426	2006
1427/28	11 Dul Hijjah 1427	2007
1428/29	22 Dul Hijjah 1428	2008
1429/30	4 Muharram 1430	2009

Hijra Months

Muharram
Safar
Rabi I
Rabi II
Jumada I
Jumada II
Rajab
Sha'aban
Ramadan
Shawwal
Dhul-Qi'dah
Dhul-Hijjah

Gregorian Months

January
February
March
April
May
June
July
August
September
October
November
December

* Dates are approximate for future years.

GLOSSARY OF TERMS AND ABBREVIATIONS

Billion Thousand Million

Million Thousand Thousand

Glossary of Terms and Abbreviations

AMF Arab Monetary Fund

ASEAN Association of South East Asian Nations

ATM's Automated Teller Machines

BOO Build, Operate, Own

BOT Build, Operate and Transfer

CDS Central Department of Statistics

CDs Certificates of Deposit

MCIT Ministry of Communications and Information Technology

CITC Communications and Information Technology Commission

DMMR Deputy Ministry of Mineral Resources

DSL Digital Subscriber Lines

EU European Union

FDI Foreign Direct Investment

GCC Gulf Cooperation Council

GIS Geographic Information System

GOTEVT General Organization for Technical Education & Vocational Training

GPYW General Presidency for Youth Welfare

HS Harmonized Commodity Description & Coding System

HIDA Al-Hassa Irrigation and Drainage Authority

HRDF Human Resources Development Fund

ICT Information and Communications Technology

IEF International Energy Forum

IPA Institute of Public Administration

ISDN	Integrated Services Digital Network
ITU	International Telecommunications Union
KACST	King Abdul Aziz City for Science and Technology
LTS	Long Term Strategy
MA'ADEN	Saudi Arabian Mining Company
MCuM	Million Cubic Meter
MEPA	Meteorology and Environmental Protection Administration
MOA	Ministry of Agriculture
MOEP	Ministry of Economy and Planning
MOH	Ministry of Health
MOMRA	Ministry of Municipal and Rural Affairs
MOPMR	Ministry of Petroleum and Mineral Resources
MW	Megawatt (One million watts)
NCWCD	National Commission for Wildlife Conservation and Development
LNG	Liquid Natural Gas
OPEC	Organization of the Petroleum Exporting Countries
PCA	Presidency of Civil Aviation
PIF	Public Investment Fund
MOPTT	Ministry of Posts, Telegraphs and Telephones
MOWE	Ministry of Water and Electricity
R & D	Research and Development
REDF	Real Estates Development Fund
SAAB	Saudi Arabian Agricultural Bank
SABIC	Saudi Basic Industries Corporation
SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Arabian Monetary Agency
SANTRA PLAN	Saudi Arabian National Transportation Plan
SAPTCO	Saudi Arabian Public Transport Company

SASO	Saudi Arabian Standards Organization
Saudi ARAMCO	Saudi Arabian Oil Company
SAUDIA	Saudi Arabian Airlines
SCB	Saudi Credit Bank
SCECO	Saudi Electricity Company
SCI's	Specialized Credit Institutions
SEC	Securities and Exchange Commission
SGS	Saudi Geological Survey
SIDF	Saudi Industrial Development Fund
SLI's	Specialized Lending Institutions
SMMA	Simulate Mean Marriage Age
SMEs	Small and Medium Enterprises
SPA	Saudi Press Agency
STC	Saudi Telecom Company
SWCC	Saline Water Conversion Corporation
TFR	Total Fertility Rate
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific & Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
WTO	World Trade Organization

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GLOSSARY OF TERMS AND ABBREVIATIONS

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