

CHAPTER 1

PLANNING AND DEVELOPMENT IN SAUDI ARABIA

1. PLANNING AND DEVELOPMENT IN SAUDI ARABIA

The process of government-induced development in Saudi Arabia began over 40 years ago when the first small oil revenues provided the means for the government to improve economic and social conditions in the Kingdom. Since 1390, the Kingdom has adopted a system of comprehensive planning for economic and social development, based on Islamic values and principles, to guide development in a coordinated and balanced direction. These Islamic values have contributed greatly to social, economic and institutional changes and have been reflected in the government's preference for a free market economy, thus according to the private sector full opportunities to participate in the development process. At the same time, government initiatives have been used to influence economic activity when necessary, in order to protect the interest of the individual.

Development activities accelerated significantly during the First and Second Development Plan periods, when the first large increase in world oil prices generated substantial government revenues. The further expansion of the Kingdom's oil income during the Third Plan created opportunities for a rapid growth in government expenditure, which fostered very high rates of investment in infrastructure and rapid economic growth. Throughout these years, the steady and systematic progress in long term economic diversification into manufacturing, agriculture, and financial services, in education and manpower development, and in the expansion of health and social services, continued at a fast pace.

During the past two decades, economic and social development has proceeded at a rate unmatched almost anywhere in the world. The economy has grown to be ranked among the 20 largest economies in the world, while the Kingdom accounts for only 0.2 percent of the world's population. A modern economic infrastructure has been established and the economy is steadily diversifying away from dependence on oil exports. Major improvements have been made in the provision of public services, particularly in health, education, and social services. At the same time, the institutional structures of both government and the private sector have successfully evolved as the economic and social needs of the Kingdom have become more complex and sophisticated. As a result, the country has been transformed within twenty years, but throughout the development process, firm adherence to Islamic values and cultural traditions has been a constant guiding principle, so that a high degree of social and cultural stability has been maintained.

This combination of high economic growth and social welfare in national development has been achieved through planning. The special characteristic of Saudi Arabian planning is that it integrates the development actions of the government with the dynamism of the private sector, in a free market economy, under the ultimate authority of Islamic values. Saudi

planning has always been practical, as each plan, in the series of five year plans which commenced in 1390, has been designed in accordance with the respective capabilities of the government and of the private sector, and the evolving maturity of the economy. Furthermore, each plan has identified the medium term strategy to achieve the long term goals of national development, and has allocated the various tasks of implementing the strategy to the government or to the private sector, as appropriate.

Although the stagnancy in the world oil market during the 1403-1406 period caused a decline in oil revenues, which adversely affected development progress and resulted in the postponement of some development programs, the government has taken sound measures to restructure the Kingdom's economic base, thus enabling the economy to sustain its long term momentum.

1.1 PRINCIPAL DIRECTIONS OF THE DEVELOPMENT PROCESS

The long term strategic goals of the Kingdom's development have been formulated since the First Development Plan to provide a foundation for future development efforts and for the achievement of national objectives. Over the past two decades, these strategic goals have been reemphasized or modified, but their basic thrust has remained and will continue to guide the development process as it enters a new phase in the Fifth Plan and in subsequent plans.

Two basic principles guiding national development, and providing an essential continuity and stability to the individual plans, have been the sustained preservation of religious values and the provision of national security. Beyond these fundamental principles, several other broad goals have guided the first four plans, and will continue to provide the framework for future plans:

- **Diversifying the Economy and Reducing Dependence on Oil**

While oil revenues have provided Saudi Arabia with the financial base to achieve rapid economic and social progress, they have also exposed the Kingdom to the highly volatile conditions of world oil markets. The need to establish other strong economic sectors and income sources to meet the needs of a rapidly growing population, has been recognized throughout the development plans.

- **Raising Living Standards and Improving the Quality of Life**

A continuing goal has been to distribute the benefits of the Kingdom's increasing wealth throughout the population and to provide opportunities for all members of Saudi society to participate in the development process, while preventing the adverse side-effects of rapid development.

- **Maintaining Economic and Social Stability**

Rapid economic development and modernization have led to social and economic

instability in many countries, particularly when the benefits of development have been unevenly distributed and traditional values have been abandoned. Cognizant of this, the development plans have all emphasized fidelity to Islamic values, the spread of public services and employment opportunities throughout the Kingdom.

- **Regional Development**

Balanced and integrated regional development has been a goal of all five year plans, to be achieved through regional planning that is based on a fair distribution of government services, proper utilization of natural resources, the full utilization of each region's potential and discouragement of migration to cities, unless such migration enhances the development process.

- **Strengthening the Role of the Private Sector in the Economy**

Private enterprise has traditionally been the focus of economic activity in the Kingdom. Of necessity, in the early development plans the government played the leading role in stimulating economic development, particularly through major infrastructure projects. However, engaging the private sector in the development process has been a consistent objective. With the end of the infrastructure stage of development approaching and the growing need to accelerate the diversification of the economy, the fostering of a vibrant private sector has taken on even greater urgency. Therefore, strengthening the private sector was emphasized in the Fourth Plan and is a major thrust of the Fifth Plan also.

- **Broadening the Linkages Between the Kingdom and other Nations**

In recognition of its expanding role in the world politically, economically, socially and in religion, an important goal is to broaden and deepen the Kingdom's relationships with international organizations and other countries, especially the Gulf Cooperation Council (GCC).

- **Developing and Completing the Physical Infrastructure**

With great foresight, oil revenues in the first three plans were invested primarily in establishing the physical and social infrastructure systems essential to a stable, productive and just society. The majority of this infrastructure has now been completed and provides an outstanding base for future economic and social development. The emphasis is now changing to the maintenance of existing facilities, thereby ensuring their long term value to the Kingdom.

- **Developing Human Resources**

The wealth of the Kingdom ultimately resides in the productive skills of its labor force. Accordingly, the development plans have placed great importance on human resource development, through advances in primary, secondary, and higher

education, as well as vocational and technical education and training. The result has been a great increase in the productive employment of Saudi citizens and a steady upgrading of the skill levels and occupational achievements of the Saudi labor force.

Within the broad context of these long term goals that have guided the development process, each plan has had its own particular focus, reflecting both the stage of development and the resources available to the government.

The financial scale of the **First Plan** was modest by subsequent standards. However, it established for the first time a comprehensive planning framework for the systematic construction of a modern infrastructure, the improvement of government services, and the development of human resources, thereby laying the foundations for achieving the long term strategic goals.

The sharp increase in government revenues in the latter part of the First Plan years permitted a much more ambitious **Second Plan**. Expenditures on infrastructure increased dramatically in response to available resources and in recognition of the need to rapidly overcome barriers to economic growth. The government provided the majority of capital investment in the economy, while private sector activity was concentrated mainly in the construction and trade sectors. The establishment of the Ministry of Industry and Electricity, the Royal Commission for Jubail and Yanbu, and the creation of SABIC (Saudi Arabian Basic Industries Corporation) are three examples of effective institutional development initiated during the Second Plan to guide and assist industrial development and to achieve the long term goal of economic diversification.

A major objective of the **Third Plan** was to accelerate the construction of physical infrastructure and to lay the foundations for a more diversified economy. Large scale public sector investments were initiated in capital intensive industries linked to the Kingdom's petroleum resources. In the private sector, manufacturing industries became more prominent, and agriculture emerged as a high growth sector in response to government incentives and funding. The strong pace of economic progress during the Second and Third Plan years was associated with a sharp increase in foreign workers, which highlighted the importance of developing Saudi human resources and of gradually reducing the reliance on expatriate labor.

At the time of the **Fourth Plan's** preparation, the majority of the Kingdom's infrastructure was being completed. The Fourth Plan, therefore, reinforced the diversification theme of the Third Plan, with even greater emphasis on restructuring the economy and with the private sector playing a leading role. Correspondingly, the policy and institutional aspects of development were given more prominence for achieving the plan's objectives. Those sectors which had been primarily dependent on government spending, such as construction, transportation, and communications, were expected to expand more slowly, or even decline. At the same time,

the producing sectors, particularly manufacturing and agriculture, were encouraged to grow more rapidly. Government expenditures, in turn, were focused on health, education, training, and other social services essential to social and human resource development, which became a major feature of the Fourth Plan.

1.2 ACHIEVEMENTS OF THE FIRST FOUR DEVELOPMENT PLANS

By any standard, the achievements of the past two decades of planned development are impressive. Great progress has been made in each major area of development.

- **Diversifying the Economy and Reducing Dependence on Oil**

As the world's largest oil exporter and third largest oil producer, oil revenues continue to be a major force in the economy. Nevertheless, the relative role of oil exports has declined substantially during the past 20 years.

- The value added by the oil sector as a share of GDP has fallen from 58 percent in 1390 to just 21 percent in 1409.
- Oil revenues have declined as a share of total government revenues, from 85 percent in the first three plans to 64 percent in the Fourth Plan.
- Non-oil GDP has increased fivefold since 1390, while total GDP has increased fourfold. Non-oil GDP today is larger than total GDP in 1390.
- Saudi Arabia has diversified its exports and become one of the world's largest exporters of petrochemicals, with a value of over SR 10 billion in 1408, when it accounted for 11 percent of total exports.
- Other industrial exports have grown more than sixfold since 1405, and agricultural exports have become an increasingly important component of the Kingdom's trade.

- **Raising Living Standards and Improving the Quality of Life**

Through steady economic progress, a standard of living has been achieved in the Kingdom that is in most ways comparable to those prevailing in the developed countries.

- During the past 20 years national income has increased more than fourfold in real terms, reaching a value of SR 280 billion in 1409. Although this growth rate has been rapid over the period as a whole, there have been some substantial fluctuations due to changes in the world oil market.

- Personal consumption -- perhaps the best measure of living standards -- has increased at an average annual rate of 9.4 percent in volume terms.
 - Infant mortality has dropped from 148 per 1000 live births in 1390 to about 43 currently.
 - Daily caloric intake per capita has increased from 2000 in 1390 to over 3000 in 1409.
 - The number of physicians in the Kingdom has grown from 1200 in 1390 to more than 20,000 in 1409, while the number of hospital beds has increased from 11,000 to over 38,000.
- **Maintaining Economic and Social Stability**

Inevitably, the economy has been affected by the large fluctuations in the world oil market during the past two decades. However, prudent planning and economic management have reduced the economy's sensitivity to external conditions.

 - Government expenditures were raised more slowly than revenues when oil income increased, while expenditure levels were reduced more gradually when revenues declined during the downturn in the world oil market. During this period of volatility, the government's foreign reserves were used to reduce the sensitivity of the government budget, and thus the economy, to fluctuations in external conditions.
 - Personal incomes have been maintained at relatively high levels through the expansion in private sector activity and high government expenditure -- which have jointly kept up full employment -- and through private investment income from both external and internal sources.
 - Adherence to the Islamic Sharia is the unalterable foundation of the Kingdom that has allowed rapid economic change to occur with comparatively little social strain. The commitment to distribute the benefits of economic and social development throughout the Kingdom has likewise contributed to continuing social stability.
- **Strengthening the Role of the Private Sector**

In response to the government's planning initiatives and its firm commitment to private enterprise, the private sector has steadily expanded its role in the economy.

 - The private sector, which has benefited from periods of rapid economic growth, has also demonstrated impressive resilience during times of overall economic stagnancy and has continued to expand and diversify throughout the past two decades.

- The real output of the private sector has grown fivefold in volume terms during the past 20 years.
- Private investment has increased sevenfold in real terms.
- Employment in the private sector has increased by 3.9 million.
- The number of registered corporations has risen from less than 1000 in 1390 to over 7000 in 1409.

- **Developing Physical Infrastructure**

The ambitious and persistent effort to create the physical foundations for a modern economy has resulted in the establishment of high quality transportation, communications, and utilities systems. Although further extensions of this infrastructure network are necessary in some rural and remote areas, and also in certain high technology sectors such as telecommunications, the accomplishments to date stand as a major tribute to the process of planned development.

- During the past two decades the paved road network expanded from about 8000 kilometers in length to more than 32,000 kilometers.
- Eighteen new airports, including the two international airports at Jeddah and Riyadh, have been built to accommodate the growing numbers of air passengers entering and leaving the Kingdom, which rose from 1.6 million in 1390 to over 24 million in 1409.
- The number of working telephone lines rose from 29,000 twenty years ago to 1,500,000 at present.
- Installed electricity generating capacity increased from 418 megawatts in 1390 to 14,570 megawatts in 1409.
- Ports have been modernized and more than 163 new berths have been added.
- Desalination plants increased their water output from less than 20,000 cubic meters per day in 1390 to almost 1,500,000 cubic meters per day in 1409.

- **Developing Human Resources**

Achievements in developing human resources have paralleled those in physical infrastructure. The intellectual and productive capabilities of the population have been advanced by the firm commitment to education in all development plans.

- Over the past 20 years, school enrollments increased by 192 percent at the elementary level, 375 percent at the intermediate level, and 712 percent at the secondary level, while vocational training has increased by 1575 percent.
- Female enrollment at the elementary level has approached parity with that of males, and is rapidly increasing at the other levels also.
- The total pupil and student population increased from around 600,000 in 1390 to 2,500,000 in 1409.
- Seven universities and eleven girls colleges have been established, with a current enrollment of more than 120,000 students. The annual number of university graduates has grown from 1,100 in 1390 to 13,000 in 1409.

1.3 THE CHANGING FOCUS OF DEVELOPMENT PLANNING

Planning has played an essential role in guiding the economic and social development of the Kingdom during the past two decades, and is even more important in the Fifth Plan and beyond as conditions and needs become more complex and Saudi Arabia moves into a new phase of development. Planning has four key functions: **first**, to provide a long term conceptual vision to guide development; **second**, to provide the organizational framework for coordinated development efforts by the private sector and the government, which involves both policy guidelines for the private sector, and the creation, when necessary, of government-owned enterprises or joint ventures between the government and the private sector; **third**, to allocate public expenditures to achieve structural change as well as provide government services; and **fourth**, to strengthen the existing management and direction of the economy. Planning in Saudi Arabia therefore, represents a special combination of long term indicative guidance, policy directions and instruments, and the allocation of government expenditures, all of which lead to structural changes in the economy and more effective control over the development process.

The Five Year Plan documents reflect the long term vision and provide the conceptual framework for restructuring the Kingdom's productive resources, expanding its industrial sector, and introducing modern technologies throughout the economy. The preparation of a plan requires the specification of objectives for each dimension of development -- economic, social, and institutional -- and designing the most effective measures to achieve them. The effectiveness of each plan's contribution to development depends partly on the consistency of its multiple objectives, partly on the priorities set for each successive plan period, and partly on the practical design and implementation of its policies and programs. In addition, each development plan involves not only the preparation of the five year plan document for all civilian sectors of the economy, operational plans for government agencies and Emirate plans, but also the continual process of follow-up, evaluation, and revision of the plan in the light of emerging

circumstances. These other dimensions of the planning process are a less visible but vital contribution to the management of national development.

The broad thrust of the plans throughout this period has been similar with respect to the weight and interaction of the economic, social, and institutional dimensions of development. Nevertheless, each plan established its own particular priorities among its targets, and identified key elements or variables which were expected to play a leading role in stimulating development in the desired directions.

The Five Year Plans have aimed to achieve balanced economic, social and regional development. Over the years, the planning emphasis has shifted in response to policy and budget considerations. During parts of the Second, Third and Fourth Plans, an increase in oil revenues made it possible to increase expenditures for infrastructure, as well as for other projects and programs. The rising levels of government expenditure and an expanding private sector generated economic growth, which provided the material conditions for advances in the socio-cultural and non-civilian spheres as well. Institution building occurred, enabling new functions to develop according to the disciplines of Islamic society and the priorities of the Kingdom. During these years the objectives of planning could be largely gained through government-controlled variables, especially development spending.

The future pattern of growth, however, cannot be effectively managed mainly by the size and distribution of government expenditures. The decline in oil revenues in the Fourth Plan period not only slowed down economic growth, but also led to a decline in government expenditure, thereby reducing demand for goods and services more quickly than anticipated. The private sector, which in the earlier years of development was oriented largely toward meeting demand stimulated by a rapidly expanding public sector, has accordingly shifted its focus to a more independent course and activities that are less dependent on government expenditure. As a result, it is the extent and direction of private sector investment activity that will increasingly influence the future shape of the economy. The Fifth Plan, therefore, reinforces and extends the basic objectives of earlier plans, but places even higher priority on the role of the private sector and on the policy and institutional innovations essential to economic diversification.

The successful mobilization of the private sector's financial assets into domestic investment and the achievement of a wider range of private sector activity, also call for shifts in the institutional relations between the government and the private sector. In response to these new circumstances, the emphasis of the planning system itself is moving away from quantifiable targets for public spending and on particular initiatives by government agencies, to more qualitative elements involving, in particular, a series of coordinated policy measures in support of the private sector. The greater significance of policies and incentives appropriate to a more developed free market economy was recognized in the Fourth Plan and has been extended even further in the Fifth Plan.

Although the primacy of the economic dimension will remain, the tasks of planning will focus increasingly on new initiatives for longer term development, thus giving the Fifth Plan its own special profile. Therefore, the Fifth Plan is likely to have greater strategic similarity and closer conceptual links to future plans than to past plans, which belonged to a different phase of Saudi development.

1.4 THE STRATEGIC DIRECTIONS OF FUTURE DEVELOPMENT

The main strategy of the Fifth and future plans will be on measures to accelerate the process of economic diversification to achieve a more developed economy. While oil will be a vital part of the Saudi economy for a long time, the goal is to use petroleum as a resource for diversified industrial growth, rather than as a single export commodity. The rapid growth of the Saudi population also necessitates the establishment of a diversified economy capable of sustaining a high standard of living for a population which will more than double in twenty years from now.

A necessary condition for achieving a fully developed economy is a much broader private sector participation in the economy. The private sector has already begun to pursue a wide range of business opportunities unrelated to the level of government expenditures. This process will accelerate as private sector management, production and marketing capabilities strengthen and the competitive environment improves. The government will induce the private sector to play an increasing role in some areas where the government has thus far taken the lead, such as utilities, transportation, and some government services. Crucial institutional support for private sector-led growth and diversification will be provided by the government, through rapid development of the Kingdom's banking and finance sector and financial markets, as well as a widening range of business services.

A modern physical infrastructure has been the prerequisite for initiating the industrialization process. Similarly, the development of a capability to successfully absorb and efficiently utilize available technologies, and to become innovators of technologies unique to the Saudi environment, is a necessary condition for the next stage of development. The developments over the last two decades have firmly established the Kingdom as a successful user of state-of-the-art technologies. For the next stage of development, capabilities must now be developed that will enable the continual updating of the technology base and its effective use, by creating an environment in which men and machines interact efficiently. The methods and institutions necessary for developing this capability are significantly more complex than those needed for developing the physical infrastructure. The Fifth Plan includes a series of policies and new initiatives which will be built upon in subsequent plans.

Another condition for attaining full development is the broadening and deepening of the Saudi labor force's capabilities. Human resource development efforts will accelerate through

a continuing focus on education and training at all levels of the workforce. Particular emphasis will be placed on improving professional, technical, and managerial skills, to ensure that Saudis can successfully replace non-Saudis in these positions. Greater efforts will also be made to improve the education and training of workers in the full range of skilled occupations that are an integral part of a more sophisticated and diversified developing economy.

Finally, the Kingdom must broaden its linkages with the world economy beyond its participation in the international oil market, especially with the GCC, Arab and Islamic countries. Broader trading relations and greater foreign investment in the economy provide channels for the transfer of technology, information on products and markets, and business management techniques. This process of greater integration with the partner states of the GCC has been stimulated by the progressive implementation of the Unified Economic Agreement since 1403, as the GCC steadily moves towards a full common market. Closer integration with the world economy is already under way, through the rapid growth in non-oil exports, the establishment of joint venture investments by foreign companies in petrochemicals and other sectors, and technology transfer through the Offset programs. This process will accelerate in the Fifth and subsequent plans.

CHAPTER 2

PROGRESS DURING THE FOURTH DEVELOPMENT PLAN

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The Fourth Development Plan was implemented during a period of great change in the financial circumstances of the Kingdom. The increase in oil revenues at the end of the Second Plan and in the early years of the Third Plan can be viewed as a short term phenomenon in the context of the overall historic process of development. It provided opportunities for accelerating certain aspects of development, but was not regarded as a permanent feature of the economy. Therefore, it was apparent at the time of the Fourth Plan's preparation that revenues available to the government would be substantially less than during the Third Plan, and, as a result, a more realistic approach had to be adopted in financing both recurrent and project expenditures. This chapter reviews the progress of the Saudi economy during the 1405-1410 period against the background of the Fourth Plan's major objectives.

2.1 FOURTH PLAN OBJECTIVES

The major objectives of the Fourth Plan were to:

- Continue structural change in the economy to diversify the economic base and reduce dependence on crude oil as the main source of national income;
- Encourage the rapid development of the private sector as the principal mechanism for achieving economic diversification;
- Improve the economic efficiency of the government sector;
- Complete the infrastructure projects necessary to achieve long term economic and social development goals;
- Further develop the Kingdom's human resources.

Total government expenditure planned to achieve these objectives during the Fourth Plan was set at SR 1,000 billion, which was about 23 percent below the actual expenditure level for the Third Plan. Nonetheless, the shift in emphasis to economic diversification and a more vigorous private sector were expected to result in continuing expansion of the non-oil economy, which was targeted to grow in real terms at an average annual rate of 2.9 percent.

However, despite the cautious expectations of the Fourth Plan, the further worsening of world oil markets early in the Fourth Plan years caused government revenues to fall short

of their anticipated levels. Accordingly, expenditures were rapidly reduced, resulting in overall government spending declining to 20 percent below the Fourth Plan target. This experience re-emphasizes the strategic importance of the fundamental long term goal of economic diversification in reducing dependence on oil revenues.

This shortfall in government expenditures, together with the fluctuations in private sector activity, prevented the Plan's growth targets from being achieved. Nevertheless, the non-oil sector of the economy made progress over the Fourth Plan period as a whole. Although the degree of economic diversification expected in the Plan was not fully attained because of the emergence of certain growth constraints, strong gains were made in some sectors, particularly agriculture and petrochemicals.

Progress was made in achieving other major objectives of the Fourth Plan. Lower levels of expenditure led to a growing concentration on efficiency measures in the government sector. Most infrastructure projects that had been underway at the start of the Fourth Plan period, were completed. Some new projects expected to be implemented during the Plan were postponed, but no significant disruption in the provision of necessary services and utilities resulted. At the same time, the government initiated important structural changes in the economy, which were indeed accelerated by the lower government expenditure and the resulting decline in the construction sector and its associated activities. Slowly growing or declining markets led to more intense competition, and more efficient private sector companies. As a result, the private sector rapidly diversified into new areas, such as consumer goods, with improved standards of service, competitive prices and higher quality, while its traditional dependence on government projects was lessened. Furthermore, a number of new industrial and investment companies were established; Saudi Arabia emerged as a major exporter of petrochemicals and refined oil products; and the foundations for future growth in high technology industries were laid through the Offset programs. Finally, the Kingdom's human resource capabilities expanded substantially through the educational and training achievements of the labor force. Saudi employment grew at a strong pace, despite the slowdown in the economy.

Overall, the performance of the economy can be viewed as positive, considering the adverse conditions that prevailed during the Fourth Plan years. The appropriateness of the fundamental direction of development, based on the private sector's important role in leading and guiding the targeted economic diversification, has been confirmed. The disruptive effects of volatile world oil markets on the economy as a whole, and on important sectors such as construction, trade, and real estate, were less severe than in other major oil exporting countries. Underlying strengths in the economy have been revealed, particularly in agriculture and petrochemicals, which sustained high growth rates throughout the Fourth Plan period. The

downturn in the economy reached its lowest point in 1407-08, after which there has been a slow but steady return to growth, indicating that the economy has successfully weathered a very difficult period. At the same time, some new constraints emerged during the Fourth Plan period in the form of the government budget and balance of payments deficits.

2.2 GOVERNMENT REVENUES AND EXPENDITURES

The volatility of oil revenues has had a major impact on the economy throughout the two decades of planning in the Kingdom. Conditions prevailing during the Fourth Plan, then, are best viewed in a longer term perspective. Oil income, which has consistently held the dominant share of total government revenues, peaked in 1401/02 and fell steadily in subsequent years of the Third Plan period. Further declines occurred during the first two years of the Fourth Plan, but this was followed by more stable oil revenues during the last three years.

Non-oil revenues also declined during the Fourth Plan, although they increased as a share of total government revenues. The balance of payments deficits that resulted from the drop in oil income necessitated a drawdown in the Kingdom's overseas financial assets, which in turn led to a shrinkage in foreign investment income. Revenues from customs duties, zakat, and other miscellaneous measures showed an upward trend during the Fourth Plan.

The government implemented a wide range of policies to lessen the impact of the declining oil revenues in 1406/07, the second year of the Plan, when the budget deficit reached SR 69 billion. The program to reduce the annual deficit had many components, all designed to minimize adverse effects on the economy. Instead of a precipitous reduction in spending or large increases in local taxes and fees, foreign reserves were used in the early years of the Plan as a buffer against declining oil revenues. A major budgetary initiative was introduced in the fourth year of the Plan with the issue of government development bonds. In addition, capital spending was reduced and efficiency measures implemented to curb recurrent expenditures. However, the level of direct and indirect subsidies needed for the welfare of citizens and to maintain their living standards, was preserved. Moreover, an expansion in the number of public sector employees was sanctioned to help maintain the level of essential services, and to compensate for the shortage of employment opportunities in the private sector.

The ambitious investment programs in oil refining, petrochemicals and productive infrastructure (such as desalination, telecommunications and electricity) continued. The government endeavored to reduce the impact of lower spending on the economy by replacing foreign suppliers by local suppliers in many contracts, a measure which also realized substantial savings. In addition, the Offset Program was initiated to ensure, among other things, that a sizea-

ble part of the value of military contracts would stimulate economic activity within the Kingdom. In general, the proportionate decline in domestic spending by the government was smaller than the overall budget cuts. As a result of these policies the budget deficit declined in the last year of the Fourth Plan to about SR 25 billion, or 36 percent of its 1407/08 peak.

2.2.1 Recurrent and Project Expenditures

As total government spending declined, a major structural change occurred in the allocation of expenditure (see Figure 2.2). Recurrent expenditures -- on salaries, materials and supplies, operation and maintenance, and subsidies -- fell marginally during the first four years of the Fourth Plan period, before increasing slightly in the last year. Project expenditures, on the other hand, were being reduced rapidly from the middle of the Third Plan, and this decline continued through to the end of the Fourth Plan. Although a reduction in project expenditures had been targeted for the Fourth Plan years, as much of the infrastructure construction begun in earlier years neared completion, the actual reduction was greater than planned, due to circumstances in the international oil markets.

Project expenditures budgeted for the last year of the Fourth Plan were at a relatively low level compared to previous years. A higher level of spending is now needed to fund priority projects that were delayed in recent years, to expand capacity in some government services and infrastructure in response to the needs of a growing population, and to cover replacement needs of installed equipment and facilities. Accordingly, the Fifth Plan sets targets for a substantial increase in these project expenditures, within the overall limit of fiscal balance in the public sector finances.

2.2.2 Development Expenditures

The financial constraints as the Fourth Plan years progressed required a revision of the planned level and distribution of expenditures, and a change in relative priorities (see Table 2.1). The smallest cutback was in the critically important area of human resources development, on which actual expenditure reached 84 percent of its planned levels. To complete ongoing infrastructure projects, actual expenditure on transportation and communications was about two thirds of its planned outlay.

The largest reductions were implemented in economic resources and municipalities and housing, where actual expenditure cuts of around 50 percent of their planned levels were effected. The reduced expenditure on housing did not negatively affect the housing market, because of the oversupply of housing throughout most of the Fourth Plan period. The lower expendi-

Figure 2.1
Government Revenues and Expenditures
1390 - 1410

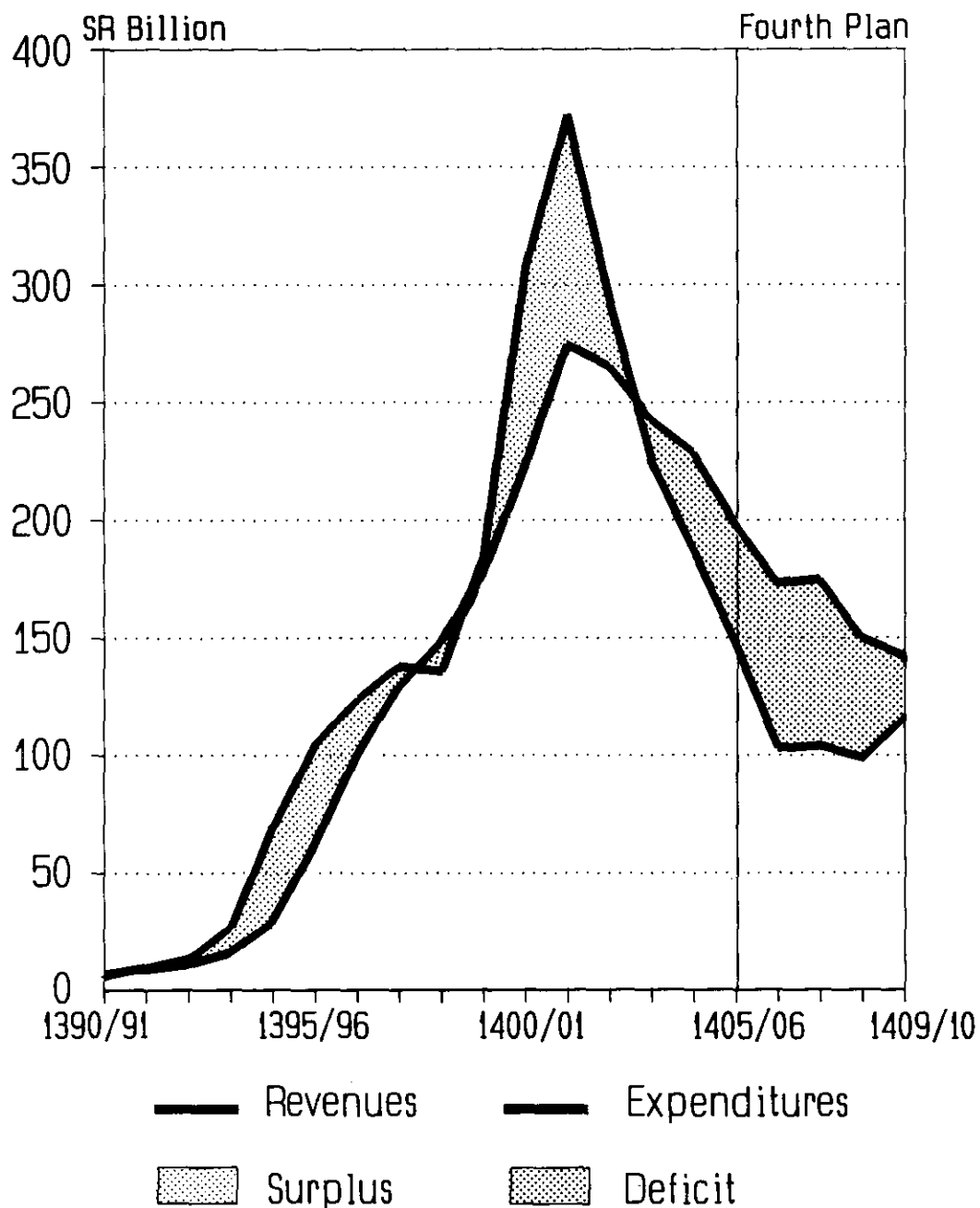
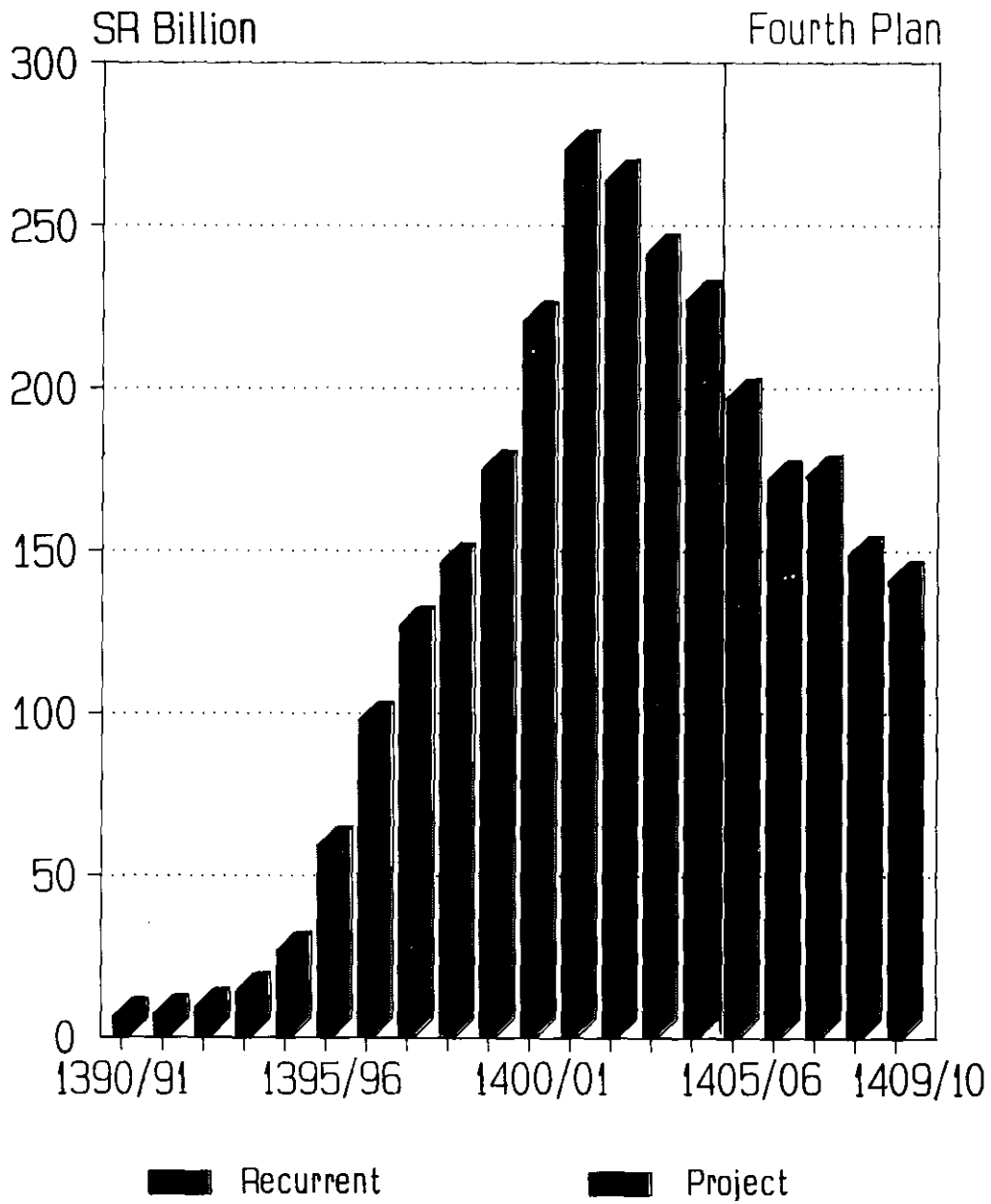


Figure 2.2
Government Expenditures
1390 - 1410



tures did result in some strains for certain sub-sectors in economic resources, municipalities, and communications. Thus, these areas are targeted for higher spending allocations, particularly for priority projects, in the Fifth Plan.

TABLE 2.1

Allocation of Development Expenditures in the Fourth Plan^{*}

	Distribution		Actual Expenditures	
	Plan (%)	Actual ^{**} (%)	Value (SR billion)	As Percent of Plan (%)
Economic Resources	26.1	19.9	64.5	49.3
Human Resources	27.1	35.3	114.2	84.4
Health and Social Development	17.9	18.2	59.1	65.9
Transport and Communications	15.4	15.6	50.6	65.8
Municipalities and Housing	13.5	11.0	35.7	53.0
Total	100.0	100.0	324.1	64.8

^{*} Excludes government-owned specialized credit institutions, i.e. REDF, PIF, SIDF, SAAB, Saudi Credit Bank, and the specialized credit schemes.

^{**} Estimates for the last two years of the plan.

2.3 GROSS DOMESTIC PRODUCT IN THE FOURTH PLAN

With the fall in both oil production and prices, Gross Domestic Product fell during the Fourth Plan. However, the decline has now been reversed (see Figure 2.3), and non-oil GDP resumed its positive growth path towards the end of the Fourth Plan period.

Table 2.2 presents aggregate and sectoral growth rates for the Fourth Plan period in constant 1404/05 prices. Non-oil GDP decreased at an average annual rate of 0.8 percent during the Fourth Plan years, compared to a targeted growth rate of 2.9 percent per year in the Plan. Although little net change in non-oil GDP took place between the first and the last years of the Fourth Plan, positive growth was achieved during the last two years of the Plan period. The economy performed quite favorably from 1403/04 to 1406/07 in spite of the significant reduction in government expenditures during that period. The economy has therefore exhibited considerable resilience, and has reached a state of lessened dependence on government spending

as its driving force, which was one of the objectives of the Fourth Plan. Over a 15-year period this is reflected in the changing ratio of government expenditure to non-oil GDP, which declined from 1.45 to 1.27 between the Second and Third Plans, and declined even further to 0.79 over the Fourth Plan, thus suggesting that the Kingdom's economy has increased its ability to generate production in the face of a declining stimulus from government expenditure.

TABLE 2.2

Gross Domestic Product by Sector in the Fourth Plan

	Value Added (in current prices)		Average Annual Growth (based on 1404/05 prices)	
	1404/05	1409/10	Target	Actual
	(SR billion)		(Percent)	
Producing Sectors	85.3	84.5	3.7	0.7
Agriculture	11.6	22.8	6.0	13.8
Other Mining	1.9	1.8	3.0	(1.4)
Manufacturing	27.4	25.0	10.9	3.9
Petroleum Refining ⁽¹⁾	13.8	9.9	5.6	5.3
Petrochemicals	0.5	5.7	64.1	55.5
Other Manufacturing	13.1	9.4	10.5	(4.6)
Public utilities ⁽²⁾	(0.6)	0.8	5.0	5.7
Construction	45.0	34.2	(2.8)	(6.7)
Service Sectors	94.4	78.6	3.8	(2.6)
Trade	30.4	27.4	2.5	(1.5)
Transport, Communications	23.8	21.4	5.0	(1.9)
Real Estate	13.1	6.1	0.0	(6.5)
Financial and Business Services	17.4	13.7	9.0	(4.8)
Community and Personal Services	9.7	10.0	3.5	0.5
Government Services	52.1	56.8	0.0	1.5
Sub-Total:Non-oil sectors	231.8	220.0	—	—
Crude Oil and Natural Gas Sector	120.3	60.2	5.6	1.0
Gross Domestic Product (excluding import duties)	352.1	280.2	4.0	0.1

1) The combined growth target for crude oil, natural gas and petroleum refining was 5.6 per year.

2) Value added in 1404/05 is negative (operating revenue not covering costs for material inputs).

Figure 2.3
Gross Domestic Product by Main Sector
1390 - 1410

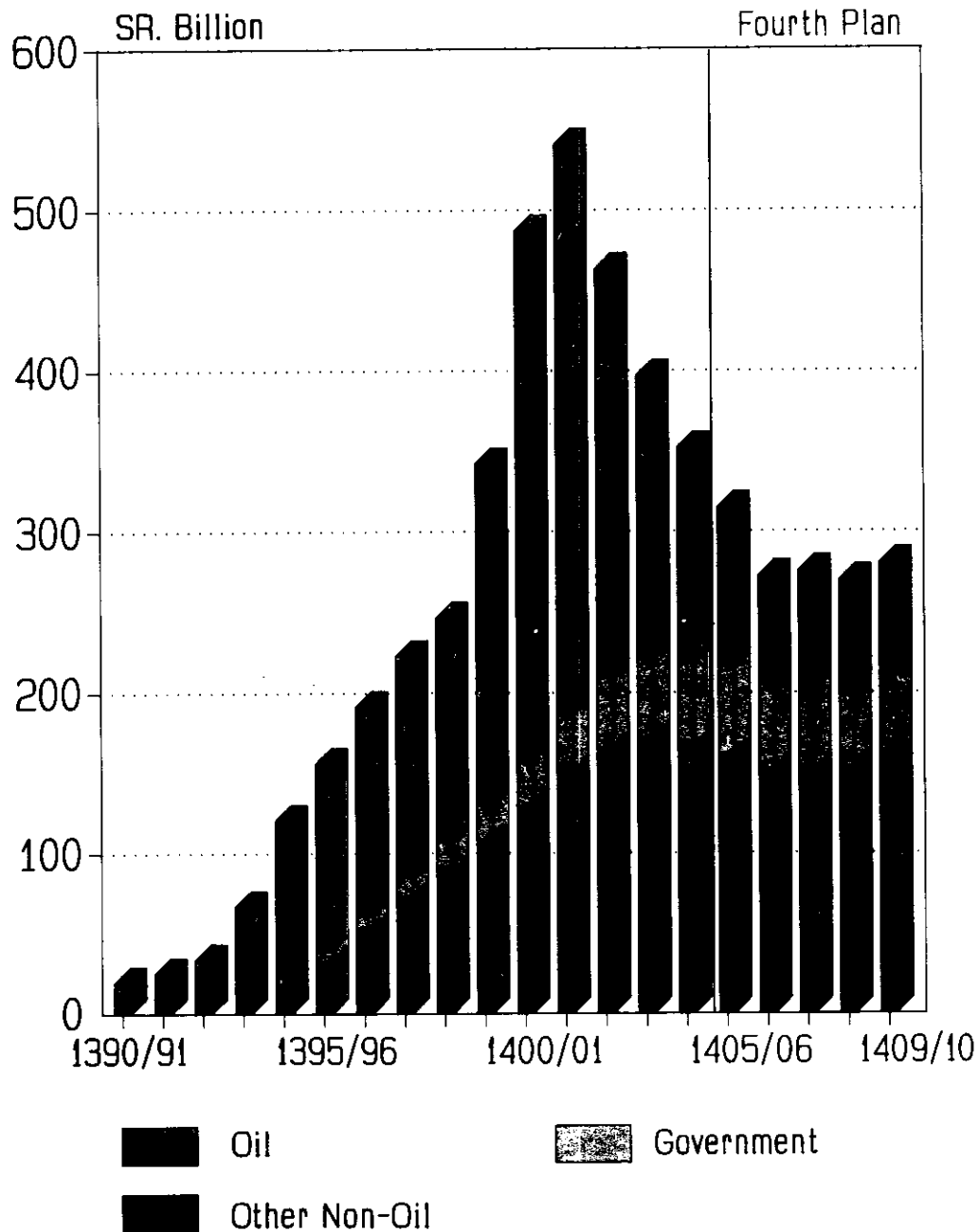


TABLE 2.3

Gross Domestic Product : Oil and Non-oil Sectors

	Value Added (in current prices)		Average Annual Growth (based on 1404/05 prices)	
	1404/05	1409/10	Target	Actual
	(SR billion)		(Percent)	
Non-Oil Sectors	218.0	210.0	2.9	(0.8)
Government Services	52.1	56.8	0.0	1.5
Other Non-Oil Sectors	165.9	153.3	3.8	(1.6)
Oil Sector ⁽¹⁾	134.1	70.1	5.6	0.9
Gross Domestic Product	352.1	280.1	4.0	0.1

1) Including crude oil, natural gas and refined products.

Despite the general stability of the non-oil economy during the Fourth Plan period, the sectoral composition of GDP changed considerably. Agriculture achieved very strong growth, expanding in volume terms by 13.8 percent per year. Petrochemicals output grew even more rapidly, starting from a small base in 1404/05, and now comprises almost one quarter of total manufacturing value added. Other manufacturing, which along with mining is almost entirely in the private sector, declined as domestic demand remained weak. Construction, which had been projected to decline in the Plan, contracted more sharply than anticipated, partly as a result of the unexpected reductions in the government's project spending.

The service sectors experienced a minor aggregate decline. Value added in the government sector expanded at a modest rate as a result of an increase in total government employment. The oil sector also achieved moderate growth, as a consequence of the recovery of oil production from the low levels of the 1404-07 period.

2.4 STRUCTURE OF EXPENDITURE ON GROSS DOMESTIC PRODUCT

Fluctuations in crude oil prices and export volumes have had a considerable impact on government revenues and expenditure during the Fourth Plan period, which, in turn, affected the structure and demand components of Gross Domestic Product. Government sector con-

sumption and fixed capital formation experienced a major decline. The government maintained the volume of Chapter 1 expenditure, which helped minimize the decline in private consumption (see Table 2.4). A significant turnabout during the Fourth Plan period has been the cut-back in the balance of payments current account deficit; exports grew at an average annual rate of 2.2 percent, while imports of goods and services fell by 12.1 percent per annum. The increase in exports, especially during the latter part of the Fourth Plan, was the successful outcome of the Kingdom's endeavors to boost non-oil and non-traditional exports, particularly petrochemical products.

TABLE 2.4

**Expenditure on Gross Domestic Product
in the Fourth Plan**

	SR billion (in current prices)		Average Annual Growth (based on 1404/05 prices)	
	1404/05	1409/10	Target	Actual
			(Percent)	
Consumption	280.5	231.4	1.0	(3.5)
Government	121.1	95.2	(2.2)	(4.8)
Private	159.4	136.2	3.0	(2.6)
Gross Fixed Capital Formation	96.5	58.0	3.6	(10.5)
Oil	9.6	7.3	4.4	(6.0)
Government	46.3	20.8	(2.4)	(15.5)
Private	40.6	29.9	10.0	(6.8)
Change in Stocks ⁽¹⁾	20.2	3.4	—	—
Domestic Final Demand	397.2	292.8	0.2	(6.3)
Net Exports	(45.1)	(12.6)	—	—
Exports	145.5	108.6	5.8	2.2
Less Imports	190.6	121.2	(3.0)	(12.1)
Gross Domestic Product	352.1	280.2	4.0	0.1

1) Including statistical discrepancy.

As a major component of final demand, total investment over the Fourth Plan period as a whole was equal to 23 percent of GDP. By international standards, this is a favorable performance, especially given the adverse developments in the oil sector and the consequent contraction in government expenditures. Capital investment in the economy has paralleled the path of overall GDP (Figure 2.4). After peaking in 1401/02 and 1402/03, total investment had declined by half by the last two years of the Fourth Plan. The greatest reduction was in the government sector, reflecting the cutback in project expenditures as a result of both the completion of infrastructure projects and budgetary restrictions. Investment in the oil sector fell in the latter part of the Third Plan, but then increased gradually during the Fourth Plan period. Private sector investment fell gradually till the last year of the Plan, when a modest recovery took place. Much of the decline was in the construction sector; non-construction private investment was little changed through the Fourth Plan years and was strongly supported by the government's specialized credit institutions.

2.5 EMPLOYMENT AND PRODUCTIVITY

In spite of lower levels of economic activity during the Fourth Plan period, employment increased at an average annual rate of 1.9 percent (see Table 2.5). Two major structural changes dominated the sectoral composition of employment. The Fourth Plan targets included a significant reduction in employment in the construction sector, as major infrastructure projects were completed. In accordance with the Plan, construction activity declined and the construction sector reduced its work force by nearly 526,000 over the Fourth Plan years. This reduction, however, was more than offset by significant employment increases in community and personal services, and in the trade sector. In the community and personal services sector, employment increased by nearly 790,000, with the great majority of this gain taking place in household employment. In the trade sector, employment increased by nearly 210,000. Trends were less marked in most of the other sectors of the economy, where moderate changes in employment occurred between 1404/05 and 1409/10 in most cases. In the government sector, employment grew at an unanticipated average annual rate of 5.9 percent.

In the agriculture sector, where output has continued to grow at exceptionally high rates, employment increased only modestly -- by just over 31,000, or at an average annual rate of 1.1 percent -- reflecting a high rate of productivity growth, as a result of a decline in the traditional and nomadic farming activities and the growth of modern agriculture activities.

The significant changes in employment in construction, community and personal services, and the trade sectors, caused major shifts in the employment balance between the producing and service sectors. The producing sectors' share of total employment fell from 48.6 percent in 1404/05 to 35.0 percent in 1409/10, while the services sectors' share rose from 41.3 percent to 53.4 percent in the same period. Employment in community and personal services reached almost 32 percent of total employment in 1409/10.

TABLE 2.5

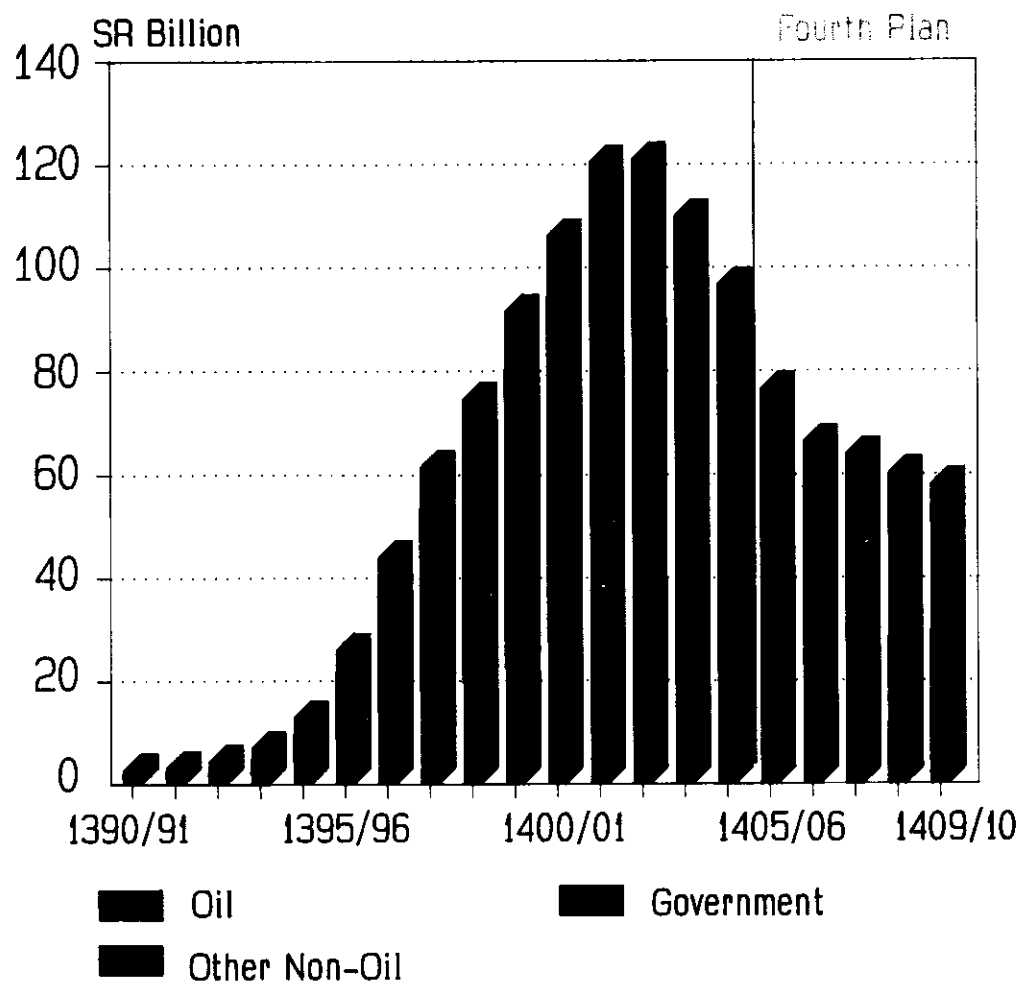
Employment by Sector in the Fourth Plan

	Employment		Percent Distribution		Average
	1404/05	1409/10	1404/05	1409/10	Annual
	(000)	(000)	(%)	(%)	Growth
					(Percent)
Producing Sectors					
Agriculture	538.0	569.2	10.3	9.9	1.1
Other Mining	4.2	3.5	0.1	0.1	(3.6)
Manufacturing	424.1	374.9	8.1	6.4	(2.4)
Petroleum Refining	14.0	14.6	0.3	0.2	0.8
Petrochemicals	4.7	6.2	0.1	0.1	5.7
Other Manufacturing	405.4	354.1	7.7	6.1	(2.7)
Public Utilities	112.2	126.9	2.1	2.2	2.5
Construction	1470.0	944.1	28.0	16.4	(8.5)
Sub-total	2,548.5	2,018.6	48.6	35.0	(4.6)
Service Sectors					
Trade	688.7	898.3	13.1	15.6	5.5
Transport, Communications	316.5	262.3	6.0	4.5	(3.7)
Finance, Real Estate	130.0	99.0	2.5	1.7	(5.3)
Community and Personal Services	1,033.1	1,822.0	19.7	31.6	12.0
Sub-total	2,168.3	3,081.6	41.3	53.4	7.3
Government Sector [★]	469.1	624.8	9.0	10.8	5.9
Non-Oil Sectors	5,185.9	5,725.0	98.9	99.2	2.0
Crude Oil and Natural Gas	58.7	46.8	1.1	0.8	(4.4)
Total	5,244.6	5,771.8	100.0	100.0	1.9

★ Excludes non-civilian employment and includes daily wage workers, not classified as civil servants.

Figure 2.4

Fixed Capital Formation by Main Sector 1390 - 1410



During the Fourth Plan period, many sectors of the economy had positive productivity growth, although the average output per employee for the economy as a whole fell at an average rate of 2.0 percent per year. Overall, the producing sectors experienced a strong improvement in productivity, at an average 5.5 percent per year. Productivity tends to increase most rapidly in sectors with strong output growth, as a result of high levels of capital utilization, new capital investment, and efforts to improve efficiency. This pattern was reflected in the very high rates of productivity growth in the agriculture and petrochemicals industries. Also, despite declining output, the mining, construction, transportation and communications sectors managed to increase productivity, although at more modest rates. In the government sector, in which, by definition, value added equals total employee compensation, significant gains were made in reducing average costs per employee. The value added per worker (cost per worker) in the government sector declined at an average annual rate of 4.1 percent during the Fourth Plan period.

2.6 INTERNATIONAL TRADE AND THE BALANCE OF PAYMENTS

A surplus in merchandise trade has been sustained every year throughout the past two decades (see Figure 2.5), despite the sharp fall in the value of oil exports since 1401/02. This pattern has been sustained in the Fourth Plan, with the new feature of a significant contribution from non-oil merchandise exports, which increased from SR 2.6 billion in 1405/06 to an estimated SR 15.2 billion in 1409/10. The higher level of non-oil merchandise exports reflects the strong increase in both petrochemicals and agricultural production achieved during the Fourth Plan years. By 1409/10, non-oil products comprised over 16 percent of total merchandise exports. From the middle of the Third Plan through the early years of the Fourth Plan, merchandise imports decreased rapidly, keeping pace with the fall in total exports. Since 1406/07, both exports and imports have recovered moderately, although the increase in imports has been lower.

The decline in imports, which in the 1406-10 period were only about half the levels reached during the 1402-04 years, reflects a positive development, despite the fact that the Kingdom continues to depend on imports for many agricultural, consumer, and capital goods. The drop in imports resulted from increased domestic production of products that are substitutes for imports, as well as from lower demand for construction materials and equipment.

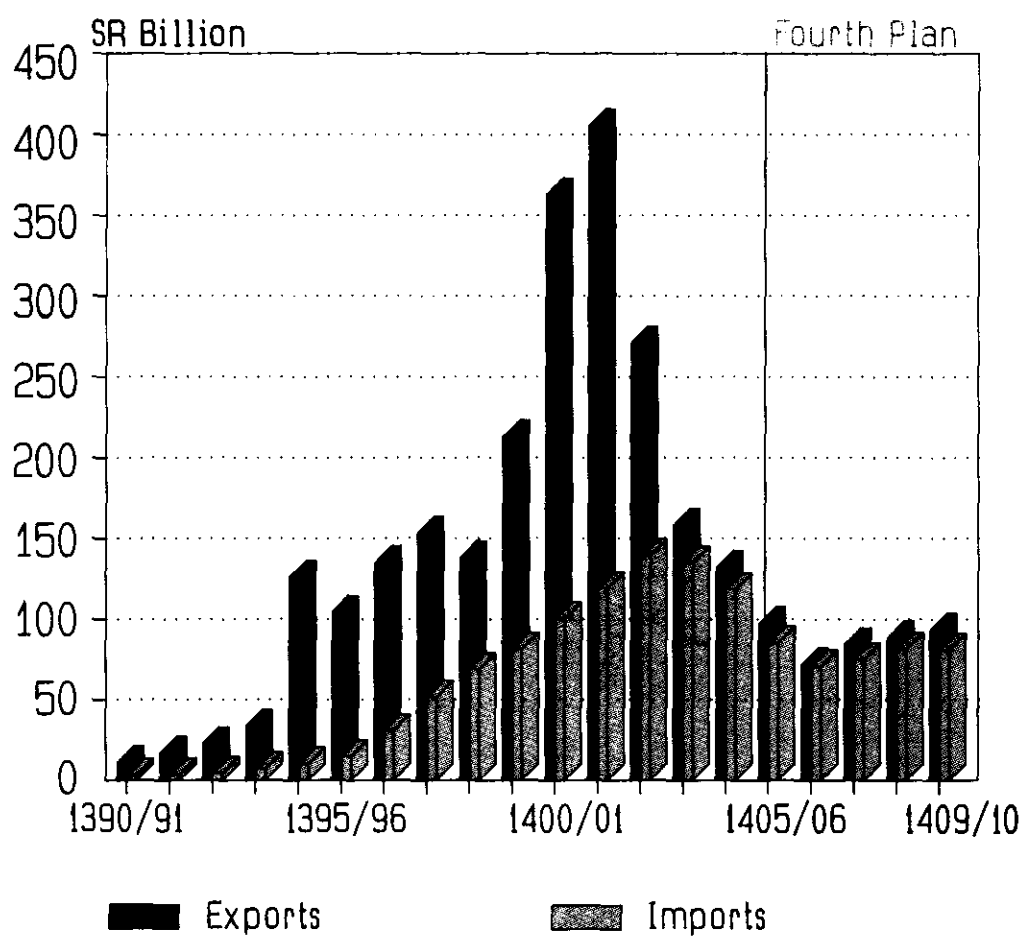
Although the merchandise trade account remained in surplus, the current account of the balance of payments has been in deficit since 1403/04, reflecting the Kingdom's deficit in services and falling investment income from abroad. A positive development during the Fourth Plan period has been the steady decline in the current account deficit, from SR 66 billion (18.5 percent of GDP) in 1404/05 to an estimated SR 27 billion (9.6 percent of GDP) in 1409/10.

Underlying the overall trends in international trade are a number of changes that have occurred in its size and composition. These trends are summarized as follows:

- Exports amounted to 38 percent of GDP in 1409/10 compared to 41 percent at the beginning of the Fourth Plan, reflecting the substantial decline in the value of crude oil exports, which was partly offset by increasing non-oil exports.
- Imports equalled 59 percent of non-oil GDP in 1409/10 compared to 89 percent in 1404/05, indicating the favorable effects of import substitution.
- Overall trade volume as a percentage of GDP remained at a relatively low level of 82 percent in 1409/10, compared to 96 percent in 1404/05, thus underlying the major shift of the Kingdom's economy towards a more appropriate balance between domestic and international demand.
- The current account deficit as a percentage of GDP has been reduced considerably, from 19 percent in 1404/05 to 10 percent in 1409/10.
- The share of crude oil as a percentage of total exports declined from 87 percent in 1404/05 to around 60 percent at the end of the Fourth Plan, while refined products increased their share of total exports from 10 percent to 23 percent over the period.
- Exports of petrochemicals increased sharply from SR 1.5 billion in 1404/05 to more than SR 10 billion at the end of the Fourth Plan. Over this period, their share of total exports increased from 1 percent to 11 percent.
- Exports of other manufactured products originating from secondary industries and from agriculture doubled in absolute terms, and their share of total exports increased from less than 2 percent in 1404/05 to over 4 percent in 1409/10.
- The trade flows between the Kingdom and other GCC countries have shown an increasing trend, both in absolute size and in terms of percentage share of total trade. This indicates the growth and expansion of trading linkages between GCC member countries.
- Exports to other Arab countries as a proportion of total exports have increased from 7 percent in 1404/05 to 11 percent at the end of the Fourth Plan, indicating the potential for Saudi exports to these markets.

Figure 2.5

Merchandise Trade 1390 - 1410



Balance of Payments

Current account deficits must be financed by capital inflows. The economy has benefited, and will continue to do so, from substantial capital inflows from foreign investors and Saudi citizens repatriating funds held outside the country in order to take advantage of investment opportunities in the Kingdom and to finance business operations. However, the deficits of the Fourth Plan years exceeded private capital inflows, thus necessitating a major reduction in the government's foreign asset holdings. Although the current account deficit fell in the last two years of the Fourth Plan, continued reductions are desirable in the Fifth Plan years to prevent further depletion of the Kingdom's external assets. Accordingly, the Fifth Plan establishes a number of policies aimed at improving the current account position, particularly by encouraging further increases in non-oil exports and import substitution.

2.7 INFLATION

As anticipated in the Plan, one of the most significant developments during the Fourth Plan period was the general downward adjustment of factor incomes (wages, profits, rents) through the pressures of increased competition. This effectively eliminated inflationary tendencies in the economy, even in the face of higher import costs due to the declining value of the U.S. dollar. Although the aggregate price level remained virtually unchanged over the Fourth Plan period, there were significant changes in relative prices between sectors. While prices in all the services sectors fell, the decline was particularly steep for commercial and residential rents, which dropped by up to one third over the five year period. In the goods producing sectors price changes varied considerably by product, but overall, prices of goods increased relative to services.

2.8 PRIVATE SECTOR DEVELOPMENT IN THE FOURTH PLAN

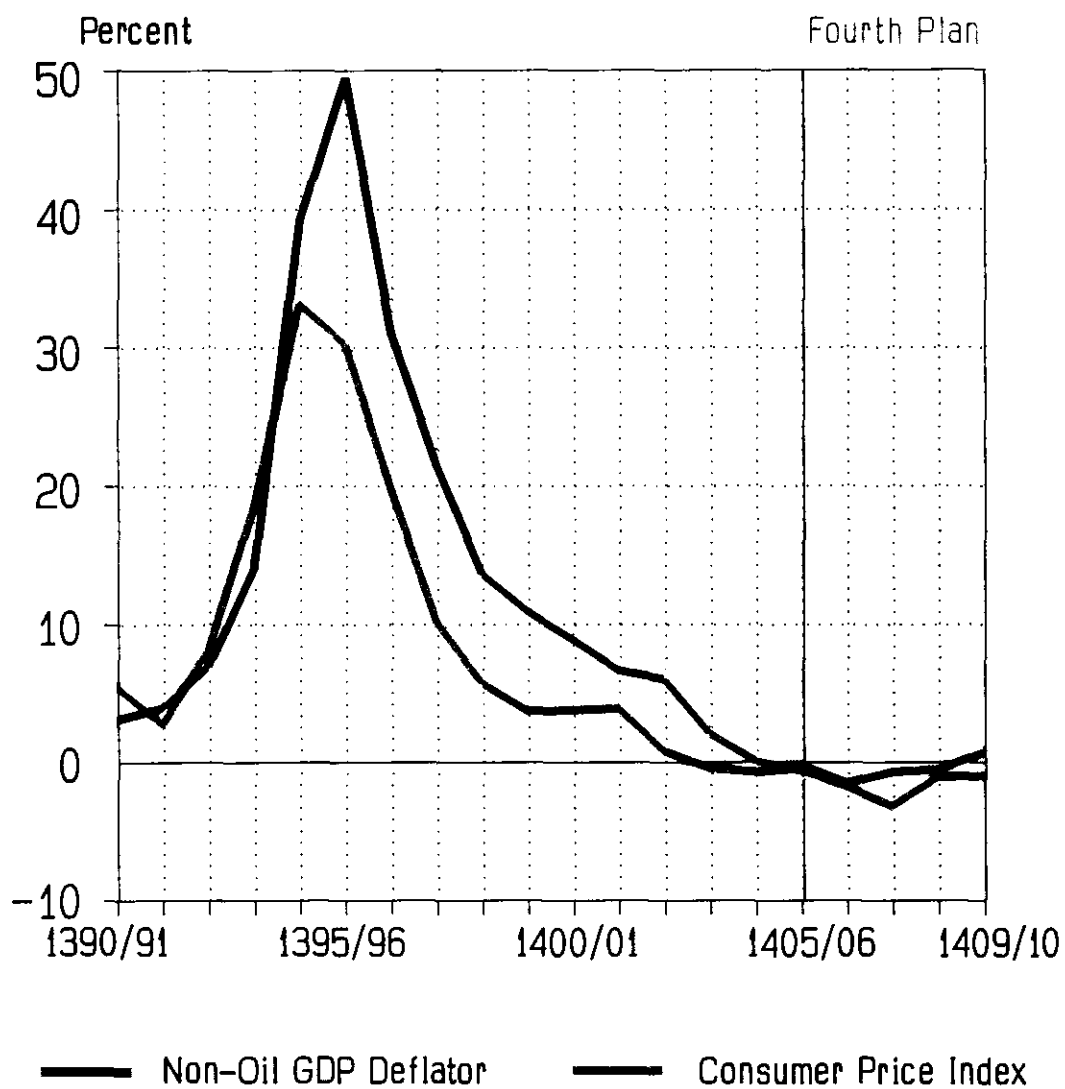
The slowdown in economic activity during the Fourth Plan years induced a rapid restructuring of the economy, as envisaged in the Plan. This, in turn, resulted in a stronger, more diversified private sector that is less dependent on government expenditure. Despite the absence of growth in the overall economy, the private sector identified and developed new opportunities. Some examples of these developments during the Fourth Plan period are: the increased investment in agriculture; the regional diversification into the smaller towns and villages, in contrast to the previous concentration on major cities and urban centers, such as Jeddah, Riyadh, and the Eastern province; the formation of new companies dedicated to operations and maintenance, not only for physical infrastructure but also for industrial plant and equipment; the rapid growth of high quality medical services at privately owned hospitals; the

investment in consumer goods industries to meet the growing needs of the population, in contrast to the traditional emphasis on building materials for the construction sector. In particular, the private sector has improved its marketing practices, and now strives to compete on service as well as on quality and price.

Moreover, the private sector has considerably strengthened its institutional role in development during the Fourth Plan period. An Export Promotion Council was formed and additional research activities are well under way within the Federated Council of Saudi Chambers of Commerce and Industry in areas such as investment opportunities, trade patterns and development policies. A number of new industrial investment corporations have also been established.

Thus, the private sector has demonstrated its willingness and capacity to take on a wide range of economic activities and development responsibilities that are compatible with commercial principles. In the Fifth Plan period, therefore, the private sector will be able to take over, on a commercial basis, many of the services now provided by the government.

Figure 2.6
Price Indices
1390 - 1410



CHAPTER 3

MAIN OBJECTIVES AND THEMES OF THE FIFTH PLAN

3. MAIN OBJECTIVES AND THEMES OF THE FIFTH PLAN

The Fifth Development Plan represents an important phase in the continuing economic and social development of Saudi Arabia. As the achievements of the first four plans amply testify, the physical and institutional foundations of a modern economy have been established, a wide range of social services has been provided throughout the Kingdom, and the basis for a diversified, productive economy has been established in industry, agriculture, mining and financial services.

The challenge now is to further broaden the development of the economy and society as a whole, and in particular to sustain and accelerate the recovery which began in the last years of the Fourth Plan. To provide its people with meaningful and productive employment and to use its resources effectively, the Kingdom will continue to make progress towards establishing a diversified competitive economy in which the private sector, by investing its extensive financial resources, pursues an ever widening range of opportunities, and in which the government asserts its role in guiding the national economy.

3.1 OBJECTIVES OF THE FIFTH DEVELOPMENT PLAN

Although the Fifth Plan reaffirms the broad objectives established in the Fourth Plan, they are to be achieved with a substantially different set of development policy initiatives, in response to the special conditions that have evolved in recent years and the constraints that prevail on the national economy.

The objectives of the Fifth Development Plan (1410-1415 A.H.), as established by the Council of Ministers, are:

1. To safeguard Islamic values by duly observing, disseminating, and confirming Allah's Sharia (God's Divine Law).
2. To defend the Faith and the Nation, and to uphold the security and social stability of the Kingdom.
3. To form a productive national work force by encouraging citizens to avail themselves of the benefits from the infrastructure and institutions provided for them by the State -- ensuring their livelihood and rewarding them on the basis of their work.

4. To develop human resources, thus ensuring a constant supply of manpower, upgrading its quality and improving its efficiency to meet the requirements of the national economy.
5. To raise cultural and information standards to keep pace with the Kingdom's development.
6. To reduce dependence on the production and export of crude oil as the main source of national income.
7. To continue with real structural changes in the Kingdom's economy so as to establish a diversified economic base -- with due emphasis on industry and agriculture.
8. To develop mineral resources and to encourage discovery and utilization thereof.
9. To concentrate on qualitative development of already-established utilities and facilities by improving their level of performance.
10. To complete the infrastructural projects necessary to achieve overall development.
11. To further encourage private sector participation in socioeconomic development.
12. To achieve balanced growth throughout all regions of the Kingdom.
13. To achieve economic and social integration among the Gulf Cooperation Council (GCC) countries.

3.2 CENTRAL THEMES OF THE FIFTH PLAN

The planning system in Saudi Arabia has been designed to stimulate integrated national development along three broad dimensions: the **economic**, which includes infrastructural investment as well as growth in industry, agriculture, mining and services; the **social**, which includes the fostering of a high quality cultural, social and physical environment, as well as the provision of education, health and welfare services; and the **institutional**, which covers the respective roles of the government and the private sector in development, as well as the framework of various policies and regulations supporting the desired development process. While each Five Year Plan has incorporated all these dimensions of development, the emphasis of each plan has varied according to the prevailing circumstances, stage of development and future growth prospects.

The Fifth Plan is initiated at a time when the physical infrastructure has been largely completed and the process of economic diversification and of restructuring are well under way. High living standards and a healthy quality of life have been largely secured, while most of the institutional framework for development has been established and the private sector is now ready to absorb more of the tasks which have previously been handled by central government agencies. The circumstances prevailing at the start of the Fifth Plan period indicate that the economy has successfully come through a difficult phase of constraints and contraction, and while gradual positive growth has resumed, a clear forward direction and resurgence of growth has yet to be fully established.

In the past, the momentum for economic growth and development has been provided predominantly by strongly expanding government expenditures, but this method of stimulating economic activity will not be revived in the Fifth Plan. Instead, the Fifth Plan will affirm a new phase of development in which the institutional dimension will be emphasized and where progress will be achieved as much through private sector initiative, (stimulated by government policy actions), as through government expenditures. This new phase of development marks the predominance of planning methods which were initiated in the Third Plan and strengthened in the Fourth Plan, rather than a completely new departure, and thus maintains the continuity of evolving processes in national development. An increasingly diversified and more mature economy, such as that of Saudi Arabia, need not be so dependent on nor responsive to government expenditure. Therefore, the main challenge of the Fifth Plan will be to use institutional and policy initiatives to induce structural shifts in the economy through the encouragement of private investment that is consistent with the strategic priorities. Meeting this challenge requires the careful specification of macroeconomic and sectoral policies to create a positive environment for private sector investment and growth. Such policies are now just as important as the definition of government expenditure and executive actions.

Within this context, the objectives of the Fifth Plan will be achieved by focusing on ten main strategic themes which will provide consistency to all components of the national economy:

- **Stabilization of the Economy through Steady Growth of Government Expenditure**
Fluctuating oil prices over the last decade, their impact on government revenues, and the structural changes and contraction in economic activity that took place during the Fourth Plan period, together have influenced the private sector's confidence in the national economy. As a result, the Fifth Plan places special emphasis on stabilizing the economy, through maintaining a modest but steady growth in government expenditure, thereby avoiding the possible volatility associated with fluctuations in oil revenues. At the same time, this approach will be consistent with a progressive reduction in the budget and balance of payments deficits.

- **Institutional Development**

A second main theme will be the strengthening of private and public institutions, and the delegation of many development functions to specialized private and public sector agencies. This will, in turn, involve a change in the relationships between the government and the private sector. This theme has already been initiated during the Fourth Plan, and efforts will be intensified during the Fifth Plan period to establish more supporting institutions and organizations.

- **Extension of the Private Sector's Role**

In close association with the theme of institutional development, the private sector will be broadened and strengthened as the cornerstone of economic diversification. Greater emphasis will be placed on new policies to encourage private sector development, including closer collaboration between the public and private sectors, and a broader range of incentives and opportunities for the creation of new private sector enterprises to take over more services previously supplied by the government. The extent to which the private sector will commit its financial resources to investment in the domestic economy is the overriding issue of the Fifth Plan and beyond. In the past, the bulk of private sector economic activity has been in direct or indirect response to government expenditure. The need now is for a substantial increase in autonomous investment from the private sector, to take advantage of the new opportunities offered by the domestic, GCC and broader export markets. Thus, in addition to enhancing the general business environment by fostering stable economic conditions, the Fifth Plan emphasizes government policy measures intended to encourage private investment, through an appropriate combination of regulatory and institutional initiatives, information dissemination, financial and other incentives.

- **Intensification of Structural Change Through Growth**

The economic conditions of the Fourth Plan period confirm the need to reduce the economy's dependence on the oil sector. This has been an objective since the First Plan, and considerable progress has been made towards the original goal of a diversified economy. It is important that this progress be accelerated in the Fifth Plan period, through more assertive policy actions. The leading growth sectors are targeted to be manufacturing, financial and business services, agriculture, minerals and the large-scale competitive construction sector. In addition to further advances in petrochemicals and related downstream products, a much wider range of manufacturing enterprises will be encouraged. Efforts will be made to increase the production of import-substituting goods, to increase linkages between already established industries, and to stimulate the expansion of export-oriented industries. The financial sector will also be a high priority sector, because of its inherent growth potential and its importance in facilitating the operation of a modern and efficient economy. Agriculture will continue to expand, although at a slower rate than in recent years.

The mineral resources of the Kingdom are extensive, and although scarcely developed so far, offer great potential for long term growth. The construction industry has developed considerable resources, experience and expertise to meet competitive international standards during the last fifteen years, and is now in a position to export its skills.

- **Improving Quality, Efficiency and Competitiveness**

The Fifth Plan will renew the Fourth Plan's emphasis on improving efficiency in the government sector, without diminishing the quality of public services provided by the government. Similarly, greater competitiveness will be encouraged throughout the economy, in terms of quality, price and service. In addition to efforts aimed at increasing productivity, rationalizing subsidies, optimizing the utilization of existing facilities, and promoting the quality of service provided to the public, efficiency and competitiveness will also be enhanced through institutional development and market forces. New institutional initiatives to improve the efficient utilization of economic and human resources, in both the government and the private sectors, are an important element of the Fifth Plan.

- **Intensified Utilization and Development of Saudi Human Resources**

Impressive progress has been made in developing Saudi labor skills and increasing the participation of Saudis in responsible and productive roles in both the government and the private sectors. The Fifth Plan places high priority on the further broadening and deepening of those skills that are compatible with the technology base of the Saudi economy, and on reducing the number of unskilled Saudis who enter the labor market without completing their educational programs. As the focus of economic development shifts increasingly to the private sector, the need to further develop Saudi labor and management skills required in the private sector becomes more critical. Furthermore, as technical and managerial capabilities continue to advance throughout the world, the demands on Saudi skill levels in those sectors that hope to compete internationally, will also increase. In this regard, policies to improve the efficient utilization of Saudi and foreign workers will be strengthened, while the education, training, and manpower planning efforts necessary to increase the participation of Saudi nationals and to provide attractive career opportunities in all sectors of the economy, will be accelerated. Particular attention will be given to increasing the participation of women in the work force, in accordance with the Sharia and cultural traditions, taking advantage of the opportunities offered by modern technology.

- **Maintaining the Welfare and Quality of Life of Saudi Society**

A high level of education, training, health, municipal and social services has been established to serve the cultural, spiritual, and material needs of the people. Although additional efforts are required to ensure that these services are adequately available in all regions, the majority of the government services system is in place. The Fifth

Plan aims at a further improvement in the quality and distribution of these services, as well as guaranteeing their continuing provision to the rapidly growing population. At the same time, the public will be encouraged to understand the costs of government services and to share in these costs where appropriate. The Fifth Plan also emphasizes continuing social and cultural development, the prevention of social problems and disruptions to community life, and the preservation of a healthy natural environment, as essential elements for citizens' rewarding and fulfilling participation in Saudi society.

- **Achieving Balanced Regional Development**

Achieving regional balance in economic development and the availability of government services has been a consistent objective throughout the development planning process. The major centers of economic production in the Kingdom are more widely dispersed than in most countries. However, levels of economic activity and prosperity still lag behind the average in some rural areas, while government services and infrastructure are more thoroughly developed in the principal population centers. It is accepted that all Saudis, regardless of where they live, should have reasonable access to all essential government services and greater efforts are required, within financial constraints, to distribute economic progress more evenly throughout the Kingdom. Institutional measures will be undertaken to give more consideration to regional issues and to encourage private sector participation in regional development.

- **Acceleration of Science and Technology Development**

The Fifth Plan will place a new emphasis on the development of science and technology. The universities and the King Abdul Aziz City for Science and Technology (KACST) have established a basic scientific research infrastructure, and the transfer of technology has been recently enhanced by the Offset Program. This extensive long term industrial investment program by Saudi and foreign joint venture companies is designed to link together many individual projects utilizing the high technology of the foreign partner. The Offset Program thus makes an important contribution to economic diversification and to the development of an indigenous technological capability, through the cumulative transfer of technology and the synergy generated by linking together individual projects. The Fifth Plan will commence a systematic program to upgrade and promote the science and technology capabilities needed to support long term economic growth in an increasingly technology-intensive world.

- **Strengthening and Expanding International Linkages**

As the world's leading oil exporter and a major importer of goods from all over the world, the Kingdom has always been closely linked to the international economy. In addition, Saudi Arabia has deep and close ties with other Arab countries and the Islamic world in general. These international linkages deepened over the Fourth Plan

period, as Saudi petrochemicals and refined oil products emerged as two major areas for international joint-venture enterprises with the Kingdom. In addition, other economic sectors succeeded in opening up new international export markets and increasing international cooperation, particularly with GCC countries. Thus, the Kingdom's international trading relations have expanded to become a significant element influencing the national economy and Saudi society. As a result, a major theme of the Fifth Plan is to establish appropriate institutional arrangements to ensure national economic competitiveness, thereby enhancing the Kingdom's contribution to global economic cooperation and its wider trading links with the world economy.

CHAPTER 4

KEY ISSUES

4. KEY ISSUES

This chapter discusses a number of important policy issues that have arisen during the Fourth Development Plan period, some of which interact with one another, but all of which are deemed to be of great national importance in overcoming various constraints to the development process. The Plan presents them for the purpose of remedial action, for which, in many instances, specific policy options and considerations are outlined.

Although many of the issues raised require, wholly or partly, institutional solutions involving both the government and the private sector, they remain intricately linked to the market economy and its role in promoting the efficient use of resources. It is important that all relevant government agencies examine these issues carefully, so that solutions may be found that are appropriate to the new social and economic conditions facing the Kingdom.

4.1 MANPOWER ISSUES

Although impressive progress has been made by the Kingdom in developing human resources at all levels, a number of issues have emerged which require special attention for the realization of the Fifth Plan's goals.

4.1.1 Balanced Manpower Development

Over the last two decades, the Kingdom has achieved unprecedented growth in the number of student enrollments at all levels of the education and training systems. This rapid growth, however, has also brought with it problems which are now constraining the effectiveness of these systems in meeting the national economy's manpower requirements, and also the needs of special groups such as the handicapped, gifted children, out-of-school youth or unskilled manpower. The education and training systems are now in need of further control and consistency amongst their various elements, which can only be achieved through an integrated development framework.

There is a need to place more emphasis on technical education and vocational training at the secondary level, through channelling a greater proportion of the secondary student population towards post-secondary training programs, rather than continuing to increase the number of enrollments and academic programs in the universities. Therefore, it is important to adopt policies which will help to define the optimum relative scale of post-secondary technical education. On the other hand, expansion of the higher education institutions still requires the adoption of an overall plan to establish balance and harmony in the development of higher education, as well as consistency between the graduate output in various specializations and the manpower requirements of the national economy.

4.1.2 Upgrading Manpower Efficiency

The effectiveness of the education and training systems in meeting the manpower requirements of the national economy is determined by the match between graduates' skills and the functional needs of employers for particular technical and other skills. This effectiveness can be improved by relating the curriculum and teaching methods more closely to the technology base of the Saudi economy, and by establishing systematic linkages between users and producers of skills. However, this does not necessarily imply that the universities ought to be transformed into training centers, rather it is now widely accepted that the university graduate should be provided with short-term training in the practical aspects of his career, and commensurate with the assignments he is likely to undertake.

Excessive dropout rates and repetition which result in protracted study periods are a common feature of both the general and higher education and training systems. Students dropping out of the system before completing primary or intermediate schooling years translate into new labor market entrants who do not have even basic functional literacy. According to the Fifth Plan's projections, about 50 percent of new labor market entrants hold qualifications below the primary level. Therefore, it is imperative that high priority be given to eliminating this negative phenomenon.

The education and training systems now face the challenge of significantly improving efficiency in managing and utilizing available resources, periodically updating the curriculum and continually adopting new teaching methods. Furthermore, reducing centralization in the general education system and further coordination among education institutions will help to eliminate those factors which adversely affect the efficiency of the education system.

4.1.3 Manpower Utilization

The Fifth Plan's projections indicate only a modest growth of 354,400 in the number of available new job openings during this period, nearly 96 percent of which are expected to be in the private sector. On the other hand, about 574,800 Saudis are projected to enter the labor market during the Fifth Plan period. Thus, if these new entrants into the labor market are to be successfully absorbed, employers must not only employ Saudis in the 354,400 newly created jobs, but they must also replace 220,400 foreign workers with Saudis who will enter the labor market during the Fifth Plan period. The achievement of this goal is, however, constrained by the following factors:

- 1. Wage Differentials**

A widening wage gap between Saudi and non-Saudi workers has become a serious barrier to the expansion of Saudi employment in the private sector, particularly

of those with low skill levels. Therefore, ensuring that these Saudi workers are employed will require the adoption of measures that minimize wage differentials to such an extent that the private sector will be able to give priority to Saudi workers.

2. Saudiization

The achievement of Saudiization in the private sector depends upon the extent to which employers' perceptions are positive with respect to the quality of Saudi new entrants. At the same time, it remains true that these perceptions may be influenced by easy access to cheaper and more experienced non-Saudi workers. While this provides a competitive advantage for employers, and therefore, has a positive effect on the process of diversification, it can become an impediment to the employment of Saudi nationals if the issue is left entirely to market forces for its resolution. The success of the Saudiization process, therefore, will be enhanced by:

- Implementation of selective measures which, while maintaining this competitive advantage, will ensure employment of Saudi new entrants into the labor market in all sectors of the economy.
- Taking measures to improve the quality, remuneration expectations and attitudes towards work of all potential Saudi workers.

3. Labor Market Information and Placement Services

An efficiently functioning labor market establishes consistency and balance between manpower demand on the one hand, and the available supply on the other. In this regard, the widespread availability of information about job vacancies and salaries/wages has an important role. To improve labor market performance and upgrade its efficiency, there is an urgent need to:

- Improve the scope and quality of employment placement and job counselling services.
- Develop and widely disseminate on a regular basis information and analysis on current conditions and the future labor market outlook.

4. Employment Opportunities for Women

The total supply of Saudi nationals entering the labor market during the Fifth Plan period will include over 60,000 females. More than half of these Saudi females will have completed a university degree, representing over 44 percent of the total supply of university trained manpower. In the social and natural sciences, Saudi females are projected to account for more than half of the total supply. The challenge now lies in finding ways to utilize effectively the knowledge and skills of this segment of the population in accordance with the Sharia.

4.1.4 Policy Options

To ensure the development of Saudi national manpower which is compatible with the socioeconomic and the technology base of the Kingdom, it is imperative to ensure that :

- an overall ‘master plan’ for the balanced and coordinated development of the various components of the education and training system be completed; this plan will establish the relative sizes of the various components of the education and training systems and will outline the relative configurations for the general, vocational and technical streams;
- a review of the admission standards and financial incentives provided to students at the secondary and post-secondary levels be completed within the first two years of the Fifth Plan;
- appropriate measures be implemented to reduce the dropout rate in both the education and training systems, and to ensure that Saudi nationals who offer their services to the labor market have the opportunity to participate effectively in all sectors of the economy;
- Saudiization plans be prepared every year by public sector agencies (and the private sector be encouraged to follow this practice also) that reflect the changing labor market conditions and employment priorities;
- relevant government agencies study the feasibility of providing financial incentives to increase the participation of Saudi women in the labor force.

4.2 PRIVATE SECTOR ISSUES

The private sector has now reached a stage which will allow for its more effective participation in the Kingdom’s development. Of overriding importance in this regard is the need to stimulate a net inflow of private capital from abroad, (and from within the Kingdom), to engage in development projects and increase the level of foreign direct investment in the Kingdom.

In the economic climate that exists at the start of the Fifth Plan, the private sector’s motivation to invest is closely linked to the overall economic and regulatory environment in general, and the availability of attractive new investment opportunities in particular. In this regard, a number of key issues have arisen which will require new regulatory and administrative measures, and adjustments in the institutional relations between the government and private sector during the Fifth Plan period and beyond.

4.2.1 Private Savings and Capital Mobilization

The development financing process depends on the mobilization of national savings into capital investment and on encouraging legal channels to absorb private savings that might otherwise remain idle. In the prevailing economic circumstances, where future development will depend increasingly on the private sector, an effectively functioning capital market is necessary to help reduce and share risks, while avoiding the negative consequences of speculation.

The inadequacy of the Kingdom's existing capital market and the limited scope for long term investment by private financial institutions now constitute constraints against wider private sector investment in the development process. While the government's fiscal policy has always been supported by SAMA's monetary policies, it is the operations and scope of the financial sector, under SAMA's control, which need to be redefined so that banking and other financial services can fulfill their potential to participate more directly in the medium and long term capital transactions of the private sector in the Kingdom.

4.2.2 Public and Private Sector Coordination

The private sector's wider and more effective contribution to the development process will require a reconsideration of some of the government's financial and administrative regulations -- particularly since private enterprise activities embrace almost all sectors of the economy -- in order to avoid their negative impacts on the efficient functioning of private enterprises and market forces. This problem is clearly recognized in the third basic strategic principle of the Fifth Development Plan strategy.

4.2.3 Foreign Direct Investment

The Kingdom is committed to development through the utilization of advanced technology. Technology transfer, management expertise and technical training associated with new foreign direct investment is an important source of enhanced productivity and competitiveness underpinning the Kingdom's industrial diversification. During the Fourth Plan period, the number of new Saudi/foreign joint ventures declined substantially. This is a cause of some concern for future growth prospects, requiring urgent government attention and formulation of an appropriate strategy to encourage more foreign investment in the Kingdom, through the Offset Programs, for example.

4.2.4 Information

The role of information in reducing uncertainty is critical for sound investment decisions and for guiding the future direction of private sector activity on an ongoing basis. One of the primary functions of any government ministry or agency is to develop and improve the

quality of information within its jurisdiction for use by other government agencies and the private sector. A basic issue to be addressed during the Fifth Plan period is the need to enhance government support for private sector development and investment planning through the wider dissemination of business and economic information.

4.2.5 Policy Considerations

The issues described above all concern the creation of an economic environment that is conducive to an expansion in private sector investment. The introduction of new institutional measures is now necessary for such an expansion. In this regard, the major areas where policy reform and new initiatives will be considered in the Fifth Plan are:

Capital Markets

Measures will be considered to bring about the creation of a well supervised market for equity and debt instruments. The development of a more extensive domestic capital market would expand the pool of available capital and provide more diverse opportunities and greater liquidity for Saudi investors.

Private Sector Department at the Ministry of Planning

The establishment of a Private Sector Department at the Ministry of Planning will be considered to ensure improved coordination and cooperation between the public and private sectors, and to facilitate the effective implementation of private sector development policies and program initiatives during the Fifth Plan period. Such an executive mechanism is needed early in the Fifth Plan to improve government decision making on complex topics affecting many aspects of private sector activity.

Information Center

It is important for the private sector to establish an information center (or bank) to undertake the collection and analysis of data pertaining to the national economy and other economies. Such information can constitute an important asset for the private sector in making its decisions.

Commercial Courts

An expansion in the activities of the specialized commercial courts is a prerequisite for the targeted expansion in the size and scope of private investment, in order to ensure prompt settlement of commercial disputes.

Commercial Banks

It is important that commercial banks be encouraged to expand their long and medium term lending activities, and to adjust their credit policies in collaboration with SAMA.

Encourage Mergers of Small Scale Enterprises

The phenomenon of many small private establishments engaged in similar activities is widespread. The merging of such establishments into large companies would help to reduce average production costs through the economies of large scale production, improve competitiveness, and promote greater financial strength.

Development of the Private Sector's Non-Oil Exports

There is a need to create incentives and measures which will help the private sector to overcome problems associated with the limited size of the local market, and the constraints it faces in international markets. The export potential of the private sector is considered to be important for the diversification of the national economy. Therefore, it might be appropriate to establish a bank for promoting Saudi exports.

Privatization of Some Government Projects

Some government projects might increase their economic effectiveness if they are privatized. It is important that this step be undertaken in light of the successful experience of developed and developing countries in this regard.

4.3 SCIENCE AND TECHNOLOGY ISSUES

Science and technology contributes to the development process in two ways: firstly, by helping to overcome or alleviate existing constraints and secondly, by utilizing resources more effectively. In the past, the constraints facing the Kingdom included its severe climatic conditions, a very low technology base and the need to realize major development within a short period. The resources available to the Kingdom consisted largely of its vast petroleum reserves, its land and its people, although a scarcity of trained and qualified manpower did exist. With these early constraints and available resources, it was recognized that the acceleration of the Kingdom's development would greatly depend upon the utilization of advanced technology from abroad. While this strategy was successful in transforming aspirations into unique achievements on a comprehensive and unprecedented scale, the Kingdom still has a long way to go if it is to attain a high level of technology capability from its own citizens' talents and initiatives. The Fifth Plan endeavors to concentrate on the following issues :

4.3.1 Technology Gap

Dependence on modern technology has created a gap between the level of technology used in various sectors, and the capability to adapt this technology for the benefit of the national economy. For the Kingdom to keep up to date with global scientific and technological developments, it is imperative that this gap be addressed by emphasizing those technologies that help to support and develop the Kingdom's applied research and development capabilities in fields compatible with development needs.

Concern about this gap comes at a time when there are growing protectionist tendencies amongst the technologically advanced countries against the export of sophisticated technology, not only from an economic but also from a national security viewpoint. In such cases, the export of technology is withheld until its owner has fully exploited its commercial benefits and has invented a new technology for its replacement. In this regard, there is a critical need for effective cooperation with international partners by establishing a system for technology transfer that is attractive to both the owner and user of the new technology.

4.3.2 Research and Development (R&D) Activity

The strengthening of the Kingdom's own research and development capabilities is an essential condition for enhancing the level of science and technology in use. Because the competitiveness of private sector establishments depends to a large extent upon the productivity improvements induced by R&D activities, greater emphasis on the creation of R&D capabilities in private companies is required. Regardless of whether it is performed in the public or the private sectors, R&D in the field of science and technology requires a long lead time and vast resources before its results are obtained and put to practical use. Furthermore, because of its probabilistic nature, the risks are high for scientific and technological R&D activity, as research results cannot be predicted with certainty. Thus, because of the extent of the task ahead, the effective mobilization of resources for R&D activities on a national scale is necessary, with close cooperation between the public and private sectors.

4.3.3 Policies

In response to these important issues the following policy measures will be considered by the government during the Fifth Plan period:

- the establishment of a long term plan for the development of science and technology;
- measures to ensure maximum coordination between the relevant government agencies and effective cooperation with the private sector;
- concerted action to expand and improve educational courses and curricula related to science and technology at all levels;
- the mobilization of all available means to promote deeper public awareness of the importance of science and technology, such as the mass media, symposia and exhibitions;

- strengthening the government's role in improving the overall infrastructural support for science and technology, through improved information services, a patent protection scheme and the establishment of an appropriate mechanism for sponsoring risk sharing systems and the efficient transfer of technology;
- promoting the establishment and expansion of R&D activities in both public and private sectors.

4.4 WATER ISSUES

4.4.1 Priority Uses of Water

As in most arid and semi-arid regions, the primary concern in the Kingdom has always been water for human needs, followed by livestock, cropping and other sectors such as industry. In the implementation process, however, these water use priorities have not been fully adhered to. While it is the common experience of many countries that deviations from principles frequently occur when it comes to the practical implementation of priorities, such matters can be resolved through appropriate policy actions. In the Kingdom's case, a number of multi-dimensional issues have emerged between water users, the utilization of water resources and potential supplies in particular localities.

High cost and energy-intensive desalinated seawater has been pumped in great quantities through pipelines across hundreds of kilometers to inland urban localities where non-renewable water resources of good quality already exist and have high potential for further exploitation. At the same time, the practice of crop farming in close proximity to these urban centers has been allowed to expand dramatically. In those areas that depend on non-renewable ground water, the use of water for agricultural purposes is a natural consequence of the need to develop that sector. However, the problem lies in the intensive nature of this water consumption, by agricultural establishments located close to the main urban centers. Each year, these non-renewable water resources are being depleted at a rate equivalent to several decades of urban water consumption, thereby minimizing the life of these resources available for domestic use. As a result, basic human water needs are now competing with the consumption demands of agriculture. This issue will become more complex over time, unless effective measures are soon taken to apply more appropriate water use priorities. The twin effects of these practices are: a high unit cost of desalinated seawater delivered for domestic use; and a high opportunity cost of irrigation water because of the risk to the future security of water supplies for human consumption. Thus, there is a need to delineate a priority framework for the long term use of ground water in close proximity to urban centers, particularly those located a long distance from the sea.

4.4.2 Water Information and Data

Preliminary estimates of proven water reserves in major and secondary aquifers have recently been established by the Ministry of Agriculture and Water, through studies conducted on the Kingdom's surface and ground water resources. Compared with similar information in most developing countries, these data are considered to be of quite a high quality. However, for long term planning purposes, more precise confirmation of the Kingdom's potential ground water reserves requires the completion of more detailed studies in the Fifth Plan period. This is particularly important, as the social and economic development process of the past twenty years has entailed the use of large volumes of water. On the basis of these preliminary ground water estimates, water consumption will reach critical levels at some time in the future. At the same time, it is widely accepted that the development and use of water for various purposes at local, regional and national levels should be undertaken in accordance with the National Water Plan to minimize long term water security problems. This Plan has not yet been finalized, because additional and more precise information is needed. The availability of water affects many aspects of social and economic development. Therefore, the lack of comprehensive and accurate information has become a critical constraint against effective planning in general, particularly in the Kingdom, where water supplies come mainly from non-renewable ground water.

4.4.3 Growth In Water Consumption

During the Fourth Plan period, agricultural output in the Kingdom grew at rates unprecedented in the contemporary history of developing nations. This remarkable leap forward in agricultural development took place mainly as a result of the impetus generated by substantial government support. This support was based on the recognition that agriculture has a major role to play in achieving some of the Kingdom's long term objectives, including structural transformation of the Saudi economy and a prudent level of security in food supplies. However, this success has been linked to a rapid increase in water consumption arising from the spatial expansion of agriculture and the intensive use of water for irrigation. As a result, the agriculture sector has become the major consumer of water in the Kingdom.

The accelerated growth in water demand for agricultural, domestic, industrial and recreational uses has brought the overall rate of water consumption to a critical level that far exceeds sustainable supplies, according to preliminary estimates. Further development of surface water and an expansion in the supply of desalinated seawater will remain vital elements of any policy package aimed at augmenting water supply in the future. They are not, however, the most promising sources to cope with the growing demand for water, due to the natural limitations on the former and the high associated cost of the latter using existing technology. The central issue is an ever looming critical imbalance between water supply and demand, for which agriculture is the prime cause. Therefore, to avoid the depletion of ground water reserves, there is

a need to apply effective demand management measures with a view to reducing the amount of water consumed by agriculture and increasing the utilization of reclaimed waste water significantly.

4.4.4 Policies

The Fifth Plan policies for water resource development take into consideration the following major principles:

- Policy measures will include a built-in mechanism for the continuous reconciliation of priorities among conflicting and competing user interests.
- Policy measures affecting agriculture and water resources will be coordinated and integrated with a view to attaining the desirable ends.
- Long term policy options must predominate over short- and medium term considerations whenever conflicts between them exist.

To achieve the objectives of water resource development, major long term policy options will include:

- The introduction of effective water conservation measures and rules governing priorities between water users, within the framework of the National Water Plan, and with due regard to the cost dimension and the necessary regulatory measures for water supply and distribution.
- Intensive development of non-renewable water resources and reclaimed waste water.
- Giving priority to the completion of detailed studies, the continuous evaluation of water resources and finalization of the National Water Plan, in order to achieve the optimal utilization and conservation of water resources.

4.5 FINANCING PUBLIC SERVICES AND UTILITIES

4.5.1 Motives for Review

The main reasons for reviewing the existing system of financing public services and utilities are as follows:

- **Efficiency of Service** : The government has been the main source of finance for the investment and operating expenditures of the public utilities, through the general budget and specialized development funds. In addition, revenues from service charges have supplemented public financing, although these charges are usually below the cost of providing the service. The ample availability of investment and operating funds from public sources has weakened the incentive to improve investment and operating efficiency. In the public sector, efficiency considerations require an appropriate balance between internally generated resources, centrally organized savings and investment, and market based financial arrangements.
- **Participation by the Private Sector** : The growth in public finance has militated against the participation of the private sector in several investment activities. This development is in conflict with the present strategy for development. Utilities are capital intensive and have highly predictable earnings.
- **Monitoring and Control** : In addition to financing the public utilities, most governments have an important role in controlling and regulating the operations of public service organizations such as the water and electricity companies, public transport and the gas companies. The government control tasks include the quality of commodity or service, their prices and distribution networks, and the organization of market competition to protect the interests of both producers and consumers. Since most of these utilities are publicly owned, the functions of control (other than by the General Audits Bureau), organization and management have been merged into one entity. It is more appropriate that the control function be institutionally separate from the administrative function. In other words, it is not advisable that the controller and the manager should belong to the same organization, as is the case in most of the government-owned companies and their boards of directors.
- **Competing Demands for Limited Public Revenues** : The increasing financial demands by public utilities on public funds is constraining the government's financial resources. As in many other countries, and with the exception of health and education services, necessary funds could easily be provided from commercial sources for most government services, on condition that economic prices can be realized and productivity improved. Such developments would also contribute to the conservation and rational use of these services.

4.5.2 Methods of Finance

There is no single optimal combination of financial instruments that is applicable across all public services and utilities. In the context of national priorities, the health services are considered special in nature, and their financing requirements are the greatest of all public services.

Thus, a major study will be conducted during the Fifth Plan to determine the optimal institutional and financial arrangements that would assure the long-term viability of the health services, while meeting the goals and objectives of that sector. In this regard, public-private sector collaboration is expected to increase.

Given the national commitment to free education, the public sector will always be the main source of finance for educational services. However, the private sector is expected to expand its role in activities such as student transportation and the leasing of buildings and capital equipment.

Telecommunication services are capital intensive with highly predictable earnings, and as such, can be financed through a number of instruments, including private equity participation, bonds, and long-term loans. Given the relative certainty of their future revenue stream, a relatively high debt to equity ratio can be acceptable.

Among the utilities, electric power has similar attributes to those of telecommunications, and consequently, similar financial instruments may be employed. Furthermore, private investors can be licensed to finance - build - and operate power generation plants. The latter arrangement may also be utilized in certain municipal services such as waste treatment plants, water distribution and water treatment plants.

4.5.3 Policy Options

The following policies will be pursued in order to facilitate the self-financing of utilities and other public services, as appropriate:

- Emphasize and give priority to national and sectoral policies and programs aimed at improving the efficiency and productivity of utilities and public services.
- Rationalize and strengthen the prudential regulation and supervisory functions of public agencies and the financial market, and ensure the separation of regulatory and managerial functions at the corporate and implementing agency levels.
- Pursue an active policy in setting tariffs, prices and user charges to cover service costs, but without indirectly causing low productivity, and with due consideration to the consumer's ability to pay.
- Implement the necessary measures in the institutional, legal, and financial spheres among others, that will strengthen the financial services sector and allow it to mobilize private savings more effectively.

- Improve cost accounting in the public services and the utilities, in order to achieve cost transparency, and improve the flow of information.
- Develop human skills for managing complex financial operations by promoting better understanding of the importance of the financial function.

4.6 SUBSIDIES

4.6.1 Subsidies as Policy Tools

Social and production subsidies have become an integral and important component of the economic and social policies in the Kingdom. The use of direct and indirect subsidies has had four main functions.

First, they are used to protect citizens from fluctuations in the prices of basic foods and essential items. This policy has been followed since the mid 1390s in response to large price increases for grains, rice and sugar. The government chose to provide subsidies to producers and importers of these basic items, instead of interfering directly with the functioning of the market through price controls, rationing, cost controls and the like. In this way, the effectiveness and flexibility of the market system has been preserved.

Second, the government also undertook to distribute the benefits of the country's increased wealth through the provision of a wide range of services either free of charge or at a nominal fee. This welfare policy enabled millions of citizens to attain, within a short period, a standard of living which otherwise might have taken centuries. Modern health, education and municipal services, amongst others, are provided free of charge. At the same time, in 1394, the government abolished a number of taxes previously used to finance some government services, such as road building and municipal services, and also reduced custom duties. Abundant oil revenues were sufficient to cover all government expenditure, and there was no need to burden the citizen with part of the cost of the active development program.

Third, a number of income support programs were instituted for the destitute, families with special needs, and for students and other deserving groups.

Fourth, production subsidies were used to assist in diversifying the country's economic base and to promote self-sufficiency in grain production. These subsidies took two basic forms: production inputs were provided at less than cost and the final output was purchased by the government at higher than market prices. Examples of the former are interest free industrial and real estate development loans, with a large part of the loan being written off completely. The enormous increase in grain production occurred in response to the government's

price support and policy to buy at advantageous prices all grain and barley offered for sale. At the same time, the agriculture sector benefits from subsidized inputs such as fertilizers, fodder and veterinary services.

4.6.2 The Need to Review Subsidy Policy

The Kingdom's long experience of subsidies has made it clear that reform and rationalization is necessary, for the following reasons:

1. A number of subsidies, such as those for real estate development, have outlived their usefulness, as the housing shortage has been virtually eliminated in the large cities. Also, special lending facilities to hotels, bakeries and hospitals have helped achieve similar results.
2. Subsidies are useful only insofar as they affect the relative price structure of the market. As they become prevalent in many fields their effectiveness declines.
3. The essence of a market economy is the free interplay of market forces. Thus, it has become evident that the extensive subsidy system in the Saudi economy, despite having effectively achieved its immediate objectives, has also caused various forms of market distortion. For example, wheat subsidies may have attracted resources away from other field crops. Moreover, as the claims of different interest groups multiply, a complex bureaucracy is needed to assess these claims and manage the subsidy system.
4. Price subsidies usually induce excessive consumption and may cause wasteful utilization. This problem is especially acute in two areas. One is the rapid increase in the cost of the public health program, caused primarily by unnecessary visits to health facilities in the cities; and the other is the excessive use of piped desalinated seawater. Social programs in many countries have recognized the need to make the final beneficiary aware of the service costs by various means, including sharing these costs. For example, a nominal fee might be charged for some services which are currently provided free. In other cases, the consumer may be charged a fee that escalates according to the level of consumption, or alternatively, the amount of subsidy declines as consumption increases. In the Kingdom, electricity and water tariffs use an escalating fee structure.
5. Consumers usually prefer a direct cash subsidy to a subsidy of equal value but paid in kind. As the economy of the Kingdom matures, it is expected that reliance on product subsidies will lessen and a more comprehensive system of income subsidies and social security payments to the needy will be instituted.

6. One additional drawback to a general price subsidy for a product or service, is that the subsidy is available to all consumers regardless of their need. Thus, it might be more appropriate to establish a social program directed only at those who deserve such support, provided that such subsidies would be more effective and less costly than general commodity subsidies.

Recognizing these various shortcomings in the existing subsidy system, the government clarified its approach to this important subject in the Fifth Development Plan Strategy. The Fourth Basic Strategic Principle stipulates that the government shall “rationalize the system of direct and indirect subsidies on many goods and services provided by the State through:

1. Reducing subsidy rates in ways that will rationalize consumption without significantly affecting low income consumers;
2. Ensuring that all government departments which administer public services make economic efficiency fundamental to the function of these services by adopting two basic principles:

First : the cost of producing such services to the Saudi community should be reduced.

Second : the prices of such services should not be less than production costs, except in rare cases -- and with the provision that they should be periodically reviewed.”

4.6.3 Policy Options

In view of the clear policy directives contained in the Fourth Strategic Principle, the government has begun a challenging program to review and rationalize the subsidy system in the Kingdom. Such an ambitious program cannot be designed and applied too quickly; it requires careful study and consultation with all affected parties. The program should be applied in a gradual manner in order to avoid disruptions in production and total demand. Furthermore, reform of the subsidy system can be structured only within the general framework of overall economic and social policy.

4.7 SOCIAL ISSUES

4.7.1 Importance of Social Issues in Planning for Development

Development planning in the Kingdom places great emphasis on social and cultural issues. It has been recognized, from the very beginning, that economic development is not an

objective in itself; rather, it is merely an instrument for creating appropriate financial conditions, adequate living standards and a social environment within which the Saudi citizen can develop, and that supports social stability through preserving the community's genuine cultural and deep rooted Islamic identity. The distinguished progress of two decades of socioeconomic change stands as evidence of the prudence and wisdom of this approach to development. Saudi society has witnessed a period of rapid change unprecedented in other countries with similar conditions. The extent of this change is clearly seen when comparing the Kingdom's status in 1410 with that of 1340.

The achievements of the development plans are reflected in the greatly increased welfare of all citizens: health conditions have improved significantly; education has been provided for almost the entire population; while housing and other general conditions have raised the standard of living for all. At the same time, major changes have occurred in the urbanization of the population, through industrialization and other economic activities, which in turn have induced tangible changes in the social structure and have influenced the traditional role of the family.

In addition to providing the Saudi citizen with security and stability, this unique development has been accomplished within a framework that maintains and safeguards Islamic values and cultural principles, and without negative social changes. This achievement can be attributed to the planning and management of the development process in a coordinated and integrated manner that aims to minimize social problems and disruptions. However, the main social planning issue during the Fifth Plan period is to maintain and build upon past success and to avoid the emergence of new social problems. In earlier years, typical social problems were linked to poverty, lack of education and endemic diseases, as well as some other negative aspects arising from the speed of development. In the near future, some undesirable side effects can be expected to occur as a common and natural response to modern influences and the general increase in economic welfare. In the health field, for example, it is now apparent that new health and psychiatric problems will emerge, particularly as the community becomes more urbanized. In this regard, family primary health care will require further attention and support to combat epidemic and endemic diseases.

It is noteworthy that some members of the community consider health care to entail the mere provision of health services, and so do not take preventive measures such as vaccination and other appropriate actions to protect the health of children under school age. Therefore, it is imperative to intensify educational activities that will warn citizens of the consequences of not taking precautionary steps, and to advise them of their responsibilities to vaccinate children under school age.

The Kingdom has the unique characteristic of having avoided many of the social crimes and problems that occur in several other communities, and in this regard crime rates are generally declining. Although indicators show an increase in drug abuse, the problem has been firmly

encountered through preventive treatment and rehabilitation measures. Notwithstanding the fact that drug abuse in the Kingdom is less widespread than in other countries, it is imperative to continue paying attention to this issue.

Other problems are associated with the spread of urbanization and the emergence of modern urban communities, such as people living alone and the associated sense of loneliness, and other changes in the family structure, all of which can lead to physical and mental health disorders. It is very important, therefore, that informational, cultural and educational measures be adopted to alleviate the negative impacts of these problems.

As the speed of social change is expected to be slower in the future than in past years, a comprehensive review of the relationship between work and leisure time should be undertaken. Changing occupational structures and the impacts of advanced technology are expected to change attitudes towards work, which will be viewed not only as a livelihood, but also as a factor contributing to national development efforts, and a source for self-assertion and the realization of personal aspirations and ambitions. Similarly, the nature of leisure time will change from being merely a period of relaxation after the fatigue of work, to becoming also a time of opportunity for realizing personal aspirations and raising productivity. In this regard, social and cultural activities will become increasingly important not only in strengthening the particular qualities and distinguished characteristics of Saudi society, but also in supporting the intellectual dimensions of the citizen's life.

In general, the most important social issue will be the need to maintain the overall equilibrium necessary for integrated social, cultural and economic development. This can only be attained through the careful analysis and evaluation of the development process and its prudent management.

4.7.2 Policy Considerations

The main policy implications of these issues revolve around the need to maintain a balance between both preventive and curative measures, services and facilities. The curative approach relies on methods for solving social problems after they occur. Notwithstanding the importance and need for such measures, these methods alone are considered very costly and often ineffective.

The implementation of social policy requires that all government agencies should be aware of, and be capable of evaluating, the social impacts of their development programs, as well as the long-term social implications of the policies they adopt. In this connection, the Ministry of Planning has a special role to play in integrating the social, economic and cultural aspects of development, in settling the many potential conflicts between social and financial priorities,

in the diagnosis of potential social problems and in the adoption of appropriate measures for their prevention or elimination.

Furthermore, the government information and media services will be encouraged to upgrade cultural standards, and to support the efforts and activities of Saudi writers, artists, intellectuals and gifted individuals in general.

The private sector will also have to play a significant role, by recognizing that social issues are among its essential interests, and that the social implications of private sector activities are no less significant than for government agencies. Furthermore, executives of private sector corporations should adopt more active company policies to upgrade the levels of job satisfaction on the part of their employees, and to contribute towards enriching cultural standards through their participation in and sponsorship of cultural activities.

4.8 INFORMATION ISSUES

4.8.1 The Growing Value of Information

The growing complexity of social and economic life is a normal consequence of the development process itself, and calls for ever increasing flows of objective information on which decisions can be based. The collection, publication and widespread dissemination of accurate information and statistics has become an issue of fundamental importance for policy formulation and investment decisions in both the public and private sectors.

The Kingdom's information technology and networks are on a par with the most advanced sectors in the developed countries. In recognizing the importance of this issue, the Kingdom has established and supported several information centers to facilitate investment and production decision making.

The establishment of information technology systems assists in:

- identifying the demand for commodities and services provided by the government or the private sector, including needs that have or have not been met, responding to consumer priorities and adapting products and services to constantly changing circumstances;
- controlling costs, efficiency and effectiveness of public sector projects and services through the use of appropriate performance indicators, as well as adopting measures and techniques to facilitate the collection and evaluation of these indicators;

- improving market performance through encouraging competition and supporting the consumer's capability to evaluate the quality of available products and services, in a manner that will provide strong incentives for producers to improve the quality of their performance;
- raising awareness of international developments, particularly in the areas of science and technology, in addition to supporting the establishment of an economic structure based on advanced technology.

4.8.2 Basic Information Needs

All economic sectors, including the government, recognize the need for developing and improving information systems. In accordance with the importance of this issue, the Fifth Plan has identified the following areas as deserving of special and urgent attention:

- In the water sector, there is a need for accurate information on available water resources and for monitoring use patterns, in order to encourage conservation and lay the basis for appropriate policies in this respect.
- In the producing sectors, there is a need to acquire sufficient and timely knowledge of output and investment trends, in order to guide investment decisions and economic policy making.
- With respect to the labor market, and the need to facilitate the absorption of Saudi new entrants in private sector employment, it is crucially important to develop an information system about current and prospective job opportunities; this is also needed to help decision makers in the field of education determine the most appropriate study areas for young Saudis, that will support their successful integration into the labor market.
- With respect to the quality of education, standardized national monitoring and evaluation procedures must be adopted in order to achieve desirable improvements consistent with development needs.
- Health needs and outcomes must be monitored through the full implementation and eventual computerization of the health card system, in order to achieve the required effectiveness and avoid cost increases.
- The social services institutions lack information about basic social indicators and the necessary capability to carry out social surveys and projections.

- In the transport sector, the lack of a system to monitor road usage on a regular basis is a clear constraint on rational investment decisions with respect to the expansion and upgrading of an increasingly complex network.
- The lack of satisfactory information on the availability of housing poses unnecessary burdens and policy dilemmas for the public sector.
- The collection of extensive and coherent information about the regional distribution of government services and economic activities are needed to achieve balanced development.

4.8.3 Need to Improve Quality and Flow of Information

In many fields of data provision the quality of information produced is not yet up to the standards of accuracy and reliability required for rational and responsible analysis, planning and decision making. Decisions based on inaccurate information can prove very costly to individuals, organizations and society as a whole.

In many cases, appropriate information is available to the responsible office or agency, but is not circulated sufficiently widely. The flow of information within the public sector is of paramount importance in achieving effective coordination between government agencies and in evaluating and improving efficiency in the public sector. Furthermore, maximum information should be made available to the private sector in order to guide its investment and management decisions.

There are four main issues related to improving the flow of information:

- Data collection surveys tend to occur on an irregular basis. Discontinuities of information on key themes, such as demographic and labor market data, seriously impair analysis and rational policy making.
- The elapsed time between the completion of data collection and the availability of that information to users is often unacceptably long. The more outdated information becomes, through the time lag in dissemination, the less value it is to users.
- An important proportion of the information produced by government agencies cannot be considered as a public commodity. The private sector, whether business establishments, research institutions or individuals, may at times not gain access to information which is important to its decision making and which could be disclosed with no harm to the interests of the state.

- The private sector has not adjusted to changing conditions in terms of the need to carry out its own research and organize data collection concerning the private sector itself. The Chambers of Commerce and Industry and other private sector groupings have an important role to play in this respect.

4.8.4 Policy Options

All government agencies will be encouraged to improve their collection and dissemination of information. Whenever appropriate, agencies will consider the creation of a separate office to be responsible for this increasingly important task. A special effort will be made to improve the capabilities and services of the Central Department of Statistics, beginning with the completion of a new National Population Census in 1411.

The collection of information is improved when appropriate technologies and procedures are adopted. In this regard, agencies shall review their procedures, aiming for some degree of standardization and at maximizing the use of electronic technology, thus making the collection of information an automatic by-product.

The flow of information will be improved, and special attention will be given to making the best use of electronic technology. Access to foreign-based electronic data banks and sources of information will be supported, and the creation of an electronically accessible Saudi national data bank will be considered. In this context, and because the private sector will be taking on ever increasing responsibilities for the Kingdom's future development, the restrictions on access to statistical information will be reassessed. The high priority attributed in the Fifth Development Plan to investment in communications is fully consistent with the perceived importance of electronic information flows for the future development of the nation.

CHAPTER 5

THE NATIONAL ECONOMY IN THE FIFTH DEVELOPMENT PLAN

5. THE NATIONAL ECONOMY IN THE FIFTH DEVELOPMENT PLAN

5.1 THE ECONOMY AT THE START OF THE FIFTH PLAN

The Fourth Development Plan marked a period of transition in the development of the Saudi economy. Two major factors were expected to affect the economy's adjustment process during the Plan period:

- the virtual completion of the government's infrastructure investment program, leading to lower requirements for government expenditures and a general downward realignment of factor incomes (wages, profits and rents);
- the efforts to maximize the purchasing power of budget appropriations, generating greater competition for government contracts in the private sector, and thus enhancing cost efficiency on public sector projects.

The unexpectedly severe decline in oil revenues greatly reinforced these tendencies and led to a reversal of the long established growth trend in the non-oil economy. Under these adverse revenue conditions, the government recognized that a period of large budget deficits would be necessary to ensure the continued provision of high quality services to citizens. Accordingly, government recurrent expenditures were stabilized at relatively high levels. Government investment expenditures, on the other hand, declined more rapidly than planned, and, as a result, the emerging private corporate sector -- whose activities had been closely connected to public sector investment -- was confronted with major adjustment problems. Falling profit margins and lower capacity utilization, although anticipated in the Plan, put even greater downward pressure on future investment plans than expected.

Notwithstanding the economic difficulties arising from the decline in oil revenues and the negative growth rates in the early years, the non-oil economy has successfully stabilized and has shown signs of economic recovery and renewed growth in the later years of the Fourth Plan. In this regard, the Kingdom's development strategy based on economic diversification and structural change has proved more resilient against external pressures than has been the case with other developing countries. However, this resilience can be attributed more to new economic policy measures and stable recurrent expenditure of the government, together with the availability of foreign exchange reserves, than to any significant lessening in the Kingdom's vulnerability to the fluctuating oil market.

The Fifth Development Plan is an important transitional phase for the Kingdom, as it seeks to build on the recovery that was evident towards the end of the Fourth Plan. With the completion of much of the infrastructure investment program, the physical foundation of a modern economy will have been established. In addition, the provision of basic social services, particularly education and healthcare, have been extended throughout the country. The Saudi economy has now entered a new stage in its development, which is characterized by a very different environment from that prevailing in earlier Plans. The new era is marked by two critical factors:

- oil revenues that are expected to grow to more moderate levels compared to the high levels experienced in the past;
- the need to expand private economic activity and to lessen its dependence on government expenditure.

With the passing of the infrastructure stage of development, the creation of new output capacities will become increasingly dependent on private sector expectations and actions. The government's responsibility in the Fifth Plan will be to create a climate which is conducive to the expansion of private investment, through a combination of regulatory measures, financial and other incentives, including the joint public/private financing of development projects.

In the Kingdom's case, diversification has usually meant the progressive reduction of the domestic economy's dependence on crude oil as its almost exclusive source of exports, budget revenues and sectoral value added. It included the more immediate objective of raising the contribution of non-oil GDP in the economy. At the same time, in terms of the balance of payments, reducing structural dependence on oil revenues was seen as a long term objective to be reached through selective sectoral development, such as petrochemicals exports, growth in agricultural output, and generally through the expansion of new foreign exchange earning/saving activities. Under the new oil market conditions facing the Kingdom, however, with limited potential for higher revenues, this perspective will have to change. While resumption of overall economic growth will be an important policy objective of the Fifth Plan, the balance of payments consideration will be accorded an equally high priority in evaluating the contribution of new activities and investments.

Despite all these difficulties, the Saudi economy has entered the Fifth Plan period with many strengths and advantages. Living standards are high, business prospects and optimism are strengthening and a large, high quality, social and physical infrastructure system is in place.

5.2 MACROECONOMIC OBJECTIVES

The macroeconomic framework for the Fifth Development Plan has been formulated in accordance with the objectives and strategic principles of the Plan, taking into account the

economic conditions prevailing at the time of the Plan's preparation. Accordingly, the strategy for the Fifth Plan gives priority to resumption of steady economic growth, improving the balance of payments position, continuing to promote structural change to achieve diversification, and strengthening of the private sector. In line with these objectives, the Plan strategy incorporates a renewed emphasis on investment, together with appropriate incentives for the private sector to increase its contribution to the process of diversification and structural change. It calls for further reductions in the budget and the current account deficits. The Plan envisages a moderate but steady increase in total public expenditures, together with measures to further increase efficiency in the government sector, and to increase non-oil revenues. Further increases in non-oil exports and reductions in imports through efficient import substitution are also high priority targets. The challenge for the Fifth Plan is to build on the recovery that began in the last years of the Fourth Plan, and set the economy back on the course of long term growth and development that has extended since the First Plan.

The cornerstone of economic growth in the Fifth Plan is investment, which in earlier periods was initiated predominantly by the government sector. However, with the completion of the majority of the infrastructure, investments will be increasingly needed for activities which are within the domain of the private sector. As the importance of the private sector in the economy grows in the Fifth Plan years and beyond, the government's function of guiding future development will increasingly have to be exercised indirectly, through a comprehensive policy framework which encourages investment in activities which are in accordance with the Kingdom's long term development objectives. The policy-focused strategy of the Fifth Plan will employ a much broader array of economic policy measures than in previous plans. These policies will be directed toward the following objectives:

- **Stabilization of the Economy** through stable government expenditure and avoiding sharp increases and decreases in the budget. Thus, government expenditure will continue to increase at a modest rate, thereby enabling the private sector to base its forecasts and set its policies accordingly.
- **Broaden the Revenue Base of the Government** by increasing non-oil revenue sources in order to reduce the budget deficit and to lessen the impact of volatile world oil markets on the government budget.
- **Expand and Diversify the Economy** through the continuous implementation of new initiatives to support private sector activities and increase its contribution to the national economy, particularly in the producing sectors.
- **Increase Investment** : The plan envisages a steady recovery in government investment expenditure, while a high level of private sector investment will also be stimulated through a broad range of government initiatives.

- **Strengthen the Competitiveness of Saudi Industry** through measures that will enable Saudi producers to effectively compete with imported goods in the domestic market and to increase and broaden their penetration of export markets. Policies to increase productivity, such as improving the skill levels of the labor force and introducing more advanced technologies, are a high priority in the Fifth Plan.
- **Improve the Balance of Payments** by encouraging rapid growth in non-oil exports and through import substitution. The maintenance of official foreign exchange reserves and the repatriation of assets held abroad by the private sector will have high priority.

5.3 MACROECONOMIC DEVELOPMENTS (GDP)

An essential element of the planning process is to establish targets for the key elements of the economy. These targets present a comprehensive and consistent picture of the desired structure of the economy, reflecting production expectations and the Kingdom's overall development objectives for the Fifth Plan period. The Plan also identifies appropriate policies for achieving these targets and emphasizing the priority given to continued structural change and economic diversification.

Growth Targets

The targeted real growth rate for Gross Domestic Product (GDP) during the Fifth Plan is 3.2 percent per year (see Table 5.1 and Figure 5.1). The non-oil sectors are targeted to grow faster than the overall economy, at an average annual rate of 3.6 percent. The significance of these sectors lies not only in their contribution to economic diversification, but also in their dominant role in civilian employment. Accordingly, their Fifth Plan targeted growth rates are higher than those set for the Fourth Plan, reflecting the economic recovery achieved by the end of the Fourth Plan. This renewed economic growth will result from the implementation of a broad range of financial, regulatory and institutional measures and the anticipated responses from the private sector. These will include:

- a renewed emphasis on investment expenditure in the state budget;
- supporting the growth of private sector investment, both for new activities and for enhancing productivity;
- mobilization of the private sector's financial assets and the development of a domestic capital market;
- more effective utilization of the workforce.

Figure 5.1
Gross Domestic Product by Main Sector
1390 - 1415

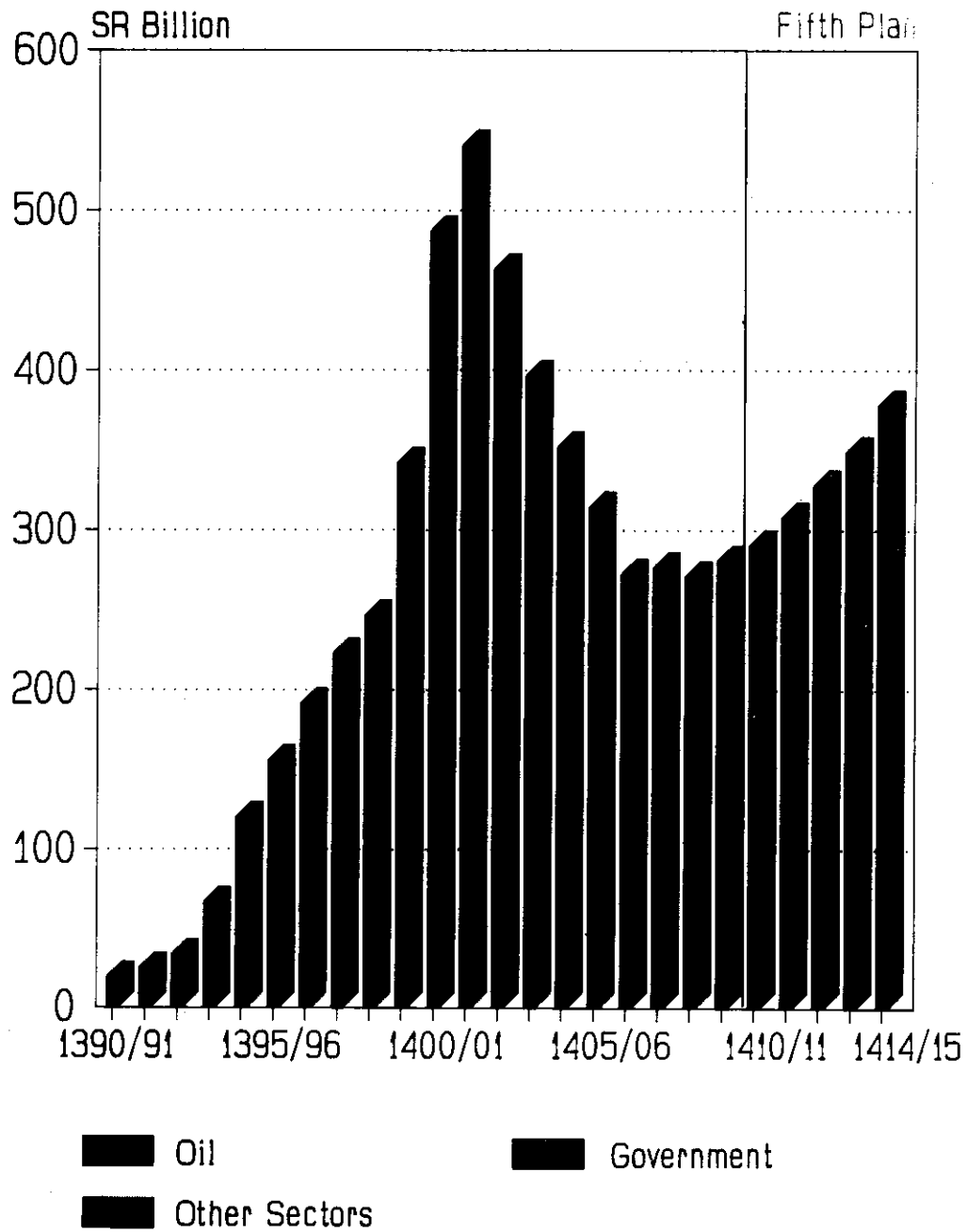


TABLE 5.1

**Gross Domestic Product in the Fifth Plan
(in constant 1404/05 prices)**

	Value Added (SR billion)		Average Annual Growth (Percent)
	1409/10	1414/15	
Non-Oil Sectors	209.1	249.3	3.6
Government Services	56.2	58.4	0.8
Other Non-Oil Sectors	152.9	190.9	4.5
Oil Sector *	140.2	159.9	2.7
Gross Domestic Product **	349.3	409.2	3.2

* In this table, the 'oil sector' is defined according to the conventional definition used by the CDS and includes petroleum refining. Because of its linkages with other economic sectors, petroleum refining is included as part of the non-oil producing sectors in all other tables.

** Including imputed bank service charges less import duties.

5.3.1 Sectoral Developments

The continuation and acceleration of structural change is a key objective in the Fifth Plan. This adjustment process will be facilitated by the improved competitiveness of Saudi products as a result of declining costs of production in the Kingdom in recent years, through both productivity improvements and falling labor costs. Therefore, a considerable boost to the producing sectors is expected in the Fifth Plan period through continued import substitution and the pursuit of export opportunities. Resumption of positive growth in the overall economy and expanding real incomes will also increase demand for goods and services. Though all sectors are expected to grow, agriculture, petrochemicals, other manufacturing, and financial, insurance and business services are expected to be the leading growth sectors in the Fifth Plan (see Table 5.2).

Agriculture

Agricultural production expanded rapidly during the Fourth Plan period in response to strong government support. Real growth over the Fifth Plan period is expected to average a vigorous 7 percent per year, reflecting the strong infrastructural base which has been established

and the considerable agricultural potential of the Kingdom. Government support to the sector will encourage a gradual shift in the structure of production, away from crops which require excessive inputs of scarce water resources toward more high value-added products.

Mining

The mining sector is expected to resume growth in the Fifth Plan as a result of the expected increased demand for construction materials, as well as from development of the Kingdom's precious metals and other non-oil mineral resources.

TABLE 5.2
Gross Domestic Product by Sector in the Fifth Plan
(in constant 1404/05 prices)

	Value Added (SR billion)		Average Annual Growth (Percent)
	1409/10	1414/15	
Producing Sectors	88.0	115.9	5.6
Agriculture	22.2	31.1	7.0
Other Mining	1.7	2.1	4.0
Manufacturing	33.1	45.4	6.5
Petroleum Refining	17.9	23.3	5.4
Petrochemicals	4.9	7.3	8.0
Other Manufacturing	10.3	14.8	7.5
Public Utilities *	(0.8)	(1.1)	6.9
Construction	31.8	38.4	3.8
Service Sectors	82.8	98.3	3.5
Trade	28.2	32.7	3.0
Transport, Communications	21.7	25.3	3.2
Real Estate	9.4	10.8	2.8
Financial and Business Services	13.6	18.7	6.6
Community and Personal Services	9.9	10.8	1.7
Government Services	56.2	58.4	0.8
Crude Oil and Natural Gas	122.3	136.6	2.2
Gross Domestic Product	349.3	409.2	3.2

* Value added in 1404/05 prices is negative due to operating revenues not covering costs for material inputs in the base year.

Oil Refining

The petroleum refining sector will be further developed during the Fifth Plan period in line with the Kingdom's industrialization strategy of increasing the domestic value added from its crude oil resources. The sector is expected to grow by 5.4 percent per year on average, as existing refineries are upgraded and capacities increased through completion and operation of the Rabigh refinery.

Petrochemicals

Rapid expansion of production capacity, together with successful penetration of foreign export markets, resulted in real growth rates for the petrochemicals sector exceeding 50 percent annually during the Fourth Plan. Saudi Arabia is today a major supplier to world markets for many important petrochemical products. The sector entered the Fifth Plan operating at full capacity. Some expansion of capacity is expected in the early part of the Plan, but capacity constraints and world market conditions will slow output growth to around 8 percent per year during the next five years.

Other Manufacturing

The long term process of industrialization is the prime mechanism through which the Saudi economy will undergo structural change and diversification. In this regard, the 'other manufacturing' sector has an important role to play. Up till the Fourth Plan, the linkages generated by high levels of construction activity established the production of building materials as the biggest single category of manufacturing. Thus, the construction downturn of the Fourth Plan years negatively affected overall manufacturing output. Its revival during the Fifth Plan period will, therefore, positively influence growth prospects in this sector. Therefore, a considerable boost to the manufacturing sector is expected in the Fifth Plan period through continued import substitution and the pursuit of export opportunities. Resumption of positive growth in the overall economy and expanding real incomes will also increase demand for manufactured goods. In addition, the rapid development of agriculture and petrochemicals in recent years has created major new opportunities in the food processing and secondary/tertiary petrochemicals industries. The Peace Shield and Al-Yamamah Offset Programs will also stimulate activity in some high technology manufacturing industries. As one of the leading growth sectors in the Fifth Plan, outside of petrochemicals, 'other manufacturing' is expected to grow at an average annual rate of 7.5 percent.

Public Utilities

The electricity, gas and water sector has grown at high rates in the past, reflecting rapid growth of energy intensive production methods, new consumption patterns, and subsidized user tariffs. Adjustments in user tariffs and measures to improve efficiency have significantly improved the financial situation of these utilities in recent years. Average annual growth in the sector is expected to be 6.9 percent during the Fifth Plan.

Construction

Construction sector output declined by more than one-third in the Fourth Plan years as a result of the completion of major infrastructure projects. Competition between contractors in the declining market has led to a substantial reduction in profit margins. Capacity in the sector has been broadly realigned with demand through the departure of a number of major foreign construction companies from the Kingdom. Several Saudi-owned companies have now taken their place. The increase in aggregate investment expenditures targeted in the Fifth Plan will stimulate construction activity. Overall, the sector is expected to expand by 3.8 percent annually during the Fifth Plan, which will be a major recovery from the shrinkage that took place during the previous five year period.

Trade

Growth in the trade, restaurants and hotels sector is expected to average 3.0 percent per year during the Fifth Plan, following a small decline during the Fourth Plan years. The expected recovery will be driven by increased consumer spending for retail goods, food services, recreation and increased domestic tourism, and a revival in general business activity.

Transport and Communications

The transport and communications sector is targeted to grow by 3.2 percent annually in the Fifth Plan as a result of the generally higher level of economic activity and expected stronger demand for communications services.

Real Estate

The rapid increase in the number of rental units and commercial building space resulted in substantial excess capacity and falling rents in the real estate sector throughout the Fourth Plan. Population increases and growth in personal incomes, together with growing demand for commercial and office rental space, is expected to lead to a gradual recovery of the sector.

Financial and Business Services

The finance, insurance, and business services sector staged a recovery in the last year of the Fourth Plan, after experiencing earlier difficulties due to the general decline in the economy. Compared to other countries at the same or a more advanced stage of development, the sector is not yet fully developed in the Kingdom. Modern knowledge- and information-based financial and business services are a prerequisite for sustaining industrial and economic development. Therefore, success in meeting the Fifth Plan targets for rapid growth in the producing sectors depends on the availability of supporting financial and other business services. As industrialization and economic diversification accelerate and financial markets become more developed, the demand for these services is expected to expand rapidly. This, together with measures focusing on institutional redirection, are expected to result in strong real growth of 6.6 percent per year in this sector.

Community and Personal Services

The community and personal services sector is relatively small in terms of value added, but important from an employment point of view. The dominant part of the sector is domestic household services. Because of a shift in the nationality composition of employees, relative costs for these services have fallen in recent years, thus stimulating demand. This trend is likely to slow down during the Fifth Plan as wage levels stabilize.

Government Services

Value added in the government sector is primarily employee compensation. The limited expansion of public sector employment targeted for the Fifth Plan, therefore, will be reflected in a low growth rate for the government sector's contribution to GDP.

Crude Oil

The crude oil and natural gas sector is expected to grow at an average annual rate of 2.2 percent.

5.3.2 The Structure of the Economy

The targeted growth rates for the individual sectors will gradually affect the structure of the economy (see Table 5.3). The government's share of non-oil GDP is expected to fall significantly during the course of the Fifth Plan. The share of the producing sectors within non-oil GDP is expected to increase from about 38 percent in 1409/10 to over 43 percent in 1414/15. The sectors mainly contributing to this growth include agriculture, petrochemicals and other manufacturing. Overall, the share of the service sectors in non-oil GDP is expected to change only modestly. The crude oil sector is expected to account for about one-fifth of the total economy during the Fifth Plan, considerably lower than its share at the beginning of the Fourth Plan, when it exceeded one-third of total GDP.

TABLE 5.3

Structure of the Economy
(in current prices)

	Value Added		Shares of Non-Oil Gross Domestic Product		
	(SR billion)		(Percent)		
	1409/10	1414/15	1404/05	1409/10	1414/15
Producing Sectors	84.6	126.3	36.8	38.5	43.3
Agriculture	22.8	34.8	5.0	10.4	11.9
Other Mining	1.8	2.4	0.8	0.8	0.8
Manufacturing	25.0	41.4	11.9	11.4	14.2
Petroleum Refining	9.9	16.5	6.0	4.5	5.7
Petrochemicals	5.7	9.9	0.2	2.6	3.4
Other Manufacturing	9.4	15.0	5.7	4.3	5.1
Public Utilities	0.8	1.1	(0.3)	0.4	0.4
Construction	34.2	46.6	19.4	15.5	16.0
Service Sectors	78.6	102.9	40.7	35.7	35.2
Trade	27.4	33.4	13.1	12.5	11.4
Transport, Communications	21.4	27.6	10.3	9.7	9.5
Real Estate	6.1	9.0	5.6	2.8	3.0
Financial and Business Services	13.7	20.9	7.5	6.2	7.2
Community and Personal Services	10.0	12.0	4.2	4.5	4.1
Government Services	56.8	62.6	22.5	25.8	21.5
Sub-Total: Non-Oil Sectors	220.0	291.8	100.0	100.0	100.0
Crude Oil and Natural Gas	60.2	87.1	—	—	—
Crude Oil and Natural Gas as Share of GDP (percent)	—	—	34.2	21.5	23.0
Gross Domestic Product	280.2	378.9	—	—	—

5.3.3 Structure of Expenditure on Gross Domestic Product

The priority given to stable economic growth and long term capacity expansion is reflected in a high growth rate for capital formation. Domestic final demand is expected to increase at a lower rate than GDP, reflecting the increase in net exports necessary to achieve the targeted improvement in the current account balance. Total consumption will, therefore, increase at a lower rate than GDP.

The highlights of the expected changes in the major components of expenditure on GDP over the Fifth Plan period (see Tables 5.4 and 5.5) are summarized below:

- Total consumption expenditure is expected to grow at an average annual rate of 2.7 percent, thus reversing its average annual decline of 3.5 percent during the Fourth Plan period, with private consumption growing twice as fast as government consumption, as a result of higher private incomes, and rationalization of consumption expenditures and improved efficiency in the government sector.
- Investment is estimated to grow at an average annual rate of 7.0 percent, reflecting the Fifth Plan's renewed emphasis on investment, with both private and public sectors reversing the downward trend of the Fourth Plan years. The source of this new investment will be a significant shift in government expenditure from recurrent to project expenditure, while private investment is expected to respond positively to a range of new institutional measures and restructured economic incentives. As a proportion of GDP, (which amounted to SR 280.2 billion in 1409/10), investment expenditure is expected to increase from 20.7 percent in 1409/10 to around 23 percent in 1414/15, when GDP is expected to reach SR 378.9 billion.

TABLE 5.4

Expenditure on Gross Domestic Product
(in constant 1404/05 prices)

	SR billion		Average Annual Growth (Percent)
	1409/10	1414/15	
Consumption	234.1	267.2	2.7
Government	94.7	101.8	1.5
Private	139.4	165.4	3.5
Gross Fixed Capital Formation	55.5	78.1	7.0
Oil Sector	7.0	8.2	3.2
Government Sector	19.9	30.2	8.6
Private Non-Oil Sectors	28.6	39.7	6.8
Change in Stocks *	(2.5)	(16.3)	—
Domestic Final Demand	287.1	329.0	2.8
Net Exports	62.2	80.2	—
Exports	162.3	197.5	4.0
Less Imports	100.1	117.3	3.2
Gross Domestic Product	349.3	409.2	3.2

* Including statistical discrepancy.

TABLE 5.5

Structure of Final Demand
(in current prices)

	SR billion		Shares in Gross Domestic Product		
	1409/10	1414/15	(Percent)		
	1404/05	1409/10	1414/15		
Consumption	231.4	286.2	79.7	82.6	75.5
Government	95.2	109.9	34.4	34.0	29.0
Private	136.2	176.3	45.3	48.6	46.5
Gross Fixed Capital Formation	58.0	88.4	27.4	20.7	23.4
Oil Sector	7.3	9.1	2.7	2.6	2.4
Government Sector	20.8	33.6	13.2	7.4	8.9
Private Non-Oil Sectors	29.9	45.7	11.5	10.7	12.1
Change in Stocks *	3.4	(2.8)	5.7	1.2	(0.8)
Domestic Final Demand	292.8	371.8	112.8	104.5	98.1
Net Exports	(12.6)	7.1	(12.8)	(4.5)	1.9
Exports	108.6	162.2	41.3	38.8	42.8
Less Imports	121.2	155.1	54.1	43.3	40.9
Gross Domestic Product	280.2	378.9	100.0	100.0	100.0

* Including statistical discrepancy.

5.4 GOVERNMENT EXPENDITURE IN THE FIFTH PLAN

The public expenditure program for the Fifth Plan aims at achieving economic recovery and stabilization, leading to steady growth in the economy. Recognizing the expected limitations on revenues during the Plan period, priority has been given to creating appropriate conditions to achieve planned economic growth through:

- a moderate increase in total government expenditures;
- institutional measures and policies for the optimal utilization of budget resources, the development of the financial market and support for the private sector.

Total government expenditure in the Fifth Plan, including non-civilian items, is set at SR 753 billion in current prices, which is 9.1 percent less than the actual expenditures over the Fourth Plan period (see Figure 5.2). However, compared to the budget allocation for the last year of the Fourth Plan (1409/10), the average annual expenditure of the Fifth Plan represents an increase of about 7 percent.

Although an important element of the Fifth Plan's overall development strategy is the relative decline in the weight of direct government expenditure in the economy, particularly recurrent expenditure, total public sector investment will be higher in the Fifth Plan than its actual level in the Fourth Plan. This positive development will be achieved by making increasing use of non-budget investment financing by the public corporate sector, as well as shifting the structure of government expenditure away from recurrent expenditures in favor of project expenditures. In addition, the lending activities of the government's specialized credit institutions, unlike in the past, will no longer be financed from the budget, but rather exclusively through the repayments of past loans. The Fifth Plan allocations also take into account the possibility of joint public/private financing of development projects.

5.4.1 Structure of Government Civilian Expenditure

The government civilian expenditures in the Fifth Plan are set at SR 498 billion, representing two-thirds of total government expenditure. They include: expenditures of the development agencies, subsidies, administration costs for the regulatory/administrative agencies and government offices, (some of which provide social services, but are not part of the development agencies), and foreign aid (see Table 5.6). About 72 percent of total civilian spending will be undertaken by the development agencies. Some development projects will be financed directly by the private sector in coordination with the development agencies and the Ministry of Finance and National Economy.

Figure 5.2

Government Expenditure 1390 - 1415

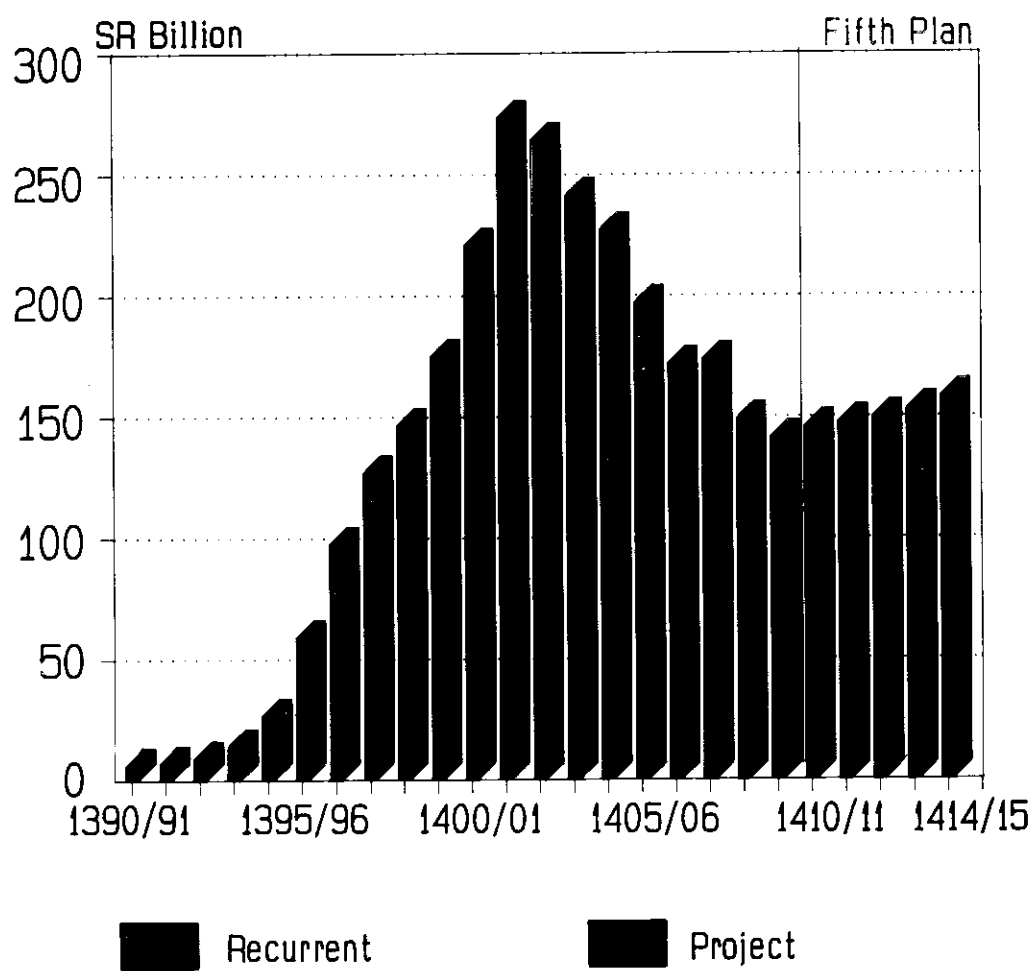


TABLE 5.6

**Government (Civilian) Expenditure in the Fifth Plan
(in current prices)**

	SR billion	Percent
Development Agencies		
Economic Resources	56.5	
Human Resources	139.9	
Health and Social Services	63.9	
Transport and Communications	52.6	
Municipalities and Housing	44.8	
Sub-total	357.7	71.9
Other Government Agencies		
Religious and Judicial	13.4	
Other Agencies	17.7	
Sub-total	31.1	6.3
Other Expenditures		
General Items	88.4	
Subsidies	20.4	
Sub-total	108.8	21.8
Total Civilian Expenditure	497.6	100.0

5.4.2 Expenditures of the Development Agencies

The Fifth Plan expenditure programs of the development agencies combine a moderate increase in overall expenditures with measures to ensure greater efficiency in the use of available funds. More emphasis is placed on financing development projects, while maintaining recurrent expenditures to fund the provision of public services. Project expenditures of the development agencies will be increased, so that high priority projects aimed at economic restructuring and supporting private sector expansion can be undertaken, as well as projects essential for the well-being of the population. The total expenditures of development agencies are

targeted to increase at an average annual rate of 5.8 percent (see Table 5.7). Within total expenditure, projects will be the fastest growing expenditure category, expanding at an average annual rate of 11.6 percent. When funding provided by the specialized credit institutions is included, through repayments of past loans, the overall development expenditure allocations in the Fifth Plan are 15.6 percent higher than their actual level during the Fourth Plan period.

TABLE 5.7

**Development Expenditure by Budget Chapter
(in current prices)**

Budget Chapter		Expenditures (SR billion)	Share of Total (Percent)	Average Annual Growth (Percent)
I and II	Salaries and Supplies	195.8	54.7	3.6
III	Operations and Maintenance	53.3	14.9	4.9
IV	Projects	108.6	30.4	11.6
Total		357.7	100.0	5.8

The distribution of development expenditures by budget chapter and expenditure category is summarized in Table 5.8. Chapter I (mainly employee compensation) and chapter II (government current consumption) expenditures are lower than in recent budgets, because of the higher priority given to both project and operation and maintenance expenditure in the Fifth Plan. Together, these two chapters will account for around 55 percent of total spending by the development agencies. Salaries will continue to absorb the largest share, but will increase at a modest rate. This reflects the expectation that the private sector will absorb a growing percentage of the Saudi labor force, and the importance given to restoring fiscal balance between recurrent and project expenditure, and improving efficiency in the government sector.

Expenditures on operations and maintenance (chapter III), which are primarily directed towards sustaining the value of the Kingdom's infrastructure and equipment, will account for 15 percent of total spending of the development agencies, while project spending (chapter IV) will account for over 30 percent. When the investment component of the operations and maintenance expenditures are taken into account, total investment expenditures by the development agencies will substantially exceed the project expenditure allocation.

The largest share of recurrent expenditures is allocated to human resource development, and health and social development, both of which have high manpower requirements. For major

government services such as education and health, recurrent expenditures will increase to accommodate population growth in the age brackets requiring these services. However, the measures envisaged in the Plan to further improve efficiency in the public sector will enable these expenditures to increase at a lower rate than demand for these services, while maintaining present service availability and quality.

TABLE 5.8

**Development Expenditure by Budget
Chapter and Spending Category
(Percent)**

Spending Category	Budget Chapter			Total
	I and II	III	IV	
Economic Resources	2.6	3.5	9.6	15.7
Human Resources	32.9	0.6	5.7	39.2
Health and Social Services	13.0	2.8	2.1	17.9
Transport and Communications	2.7	5.6	6.4	14.7
Municipalities and Housing	3.5	2.4	6.6	12.5
Total	54.7	14.9	30.4	100.0

The structure of expenditure on development projects in the Fifth Plan emphasizes the completion of major infrastructure programs and the priority given to different sectors of the economy (see Table 5.9).

Economic Resources

Only part of the total public sector investment on economic resources will be financed from the government budget. Given the success in establishing financially solid economic institutions that are increasingly capable of generating their own investment funds, it is normal to expect budget allocations for the development of economic resources to decline over time. Thus, major investments in petroleum refining and petrochemicals will be financed entirely by the government-owned companies operating in these sectors. This also applies to some of the large investments needed in the electricity sector to meet growing demand. Furthermore, a substantial volume of loans from the government's specialized credit institutions will be extended to the producing sectors, on the basis of funds made available through repayments of past loans and with no new contributions from the budget. A large share of the allocated funds will finance substantial investments in developing the water resources needed for a growing popu-

lation, while ways to mobilize private financing will also be considered for this purpose. The project expenditure requirements of the Royal Commission for Jubail and Yanbu, which, in the past, received a large share of the total allocation for economic resource development, will decline, since existing capacities are sufficient to meet the needs for the Fifth Plan period.

TABLE 5.9

Development Agency Expenditures in the Fourth and Fifth Plans

A - Expenditure Structure *

Spending Category	Fourth Plan		Fifth Plan
	Plan	Actual	
	(Percent)	(Percent)	(Percent)
Economic Resources	30.0	20.9	18.5
Human Resources	24.2	33.4	35.4
Health and Social Services	16.3	17.4	16.8
Transport and Communications	13.7	14.8	13.3
Municipalities and Housing	15.8	13.5	16.0
Total : Development Agencies	100.0	100.0	100.0

B - Expenditure Level *

Spending Category	Fourth Plan	Fifth Plan	Increase on Fourth Plan
	(Actual)		(Actual)
	(SR billion)	(SR billion)	(Percent)
Economic Resources	71.4	73.0	2.2
Human Resources	114.2	139.9	22.5
Health and Social Services	59.3	66.1	11.5
Transport and Communications	50.6	52.6	3.9
Municipalities and Housing	46.0	63.2	37.4
Total : Development Agencies	341.5	394.8	15.6

* Including funds provided by the government's specialized credit institutions, mainly from repayment of previous loans.

Human Resources

Facilities for primary and secondary education will be increased in all regions in response to population growth. Funding allocations for technical and vocational training facilities will also increase substantially. Overall, targeted spending in the Fifth Plan is more than 20 per cent higher than expenditure during the Fourth Plan period, reflecting the priority given to the development of the Kingdom's human resources.

Health Services

In the health sector, the Plan gives priority to growth in the basic primary health care network in smaller cities and rural areas. Since health services in the major cities are now widely available, further growth in urban demand can be accommodated through relatively small additional investment and by the expansion of private health care.

Transportation and Communications

The great majority of the transportation infrastructure has been completed, so the need for new projects in this sector will be relatively low during the Fifth Plan. However, strong demand for further expansion of postal services and the telephone system will require a large increase in investments in communications facilities. Similarly, in meeting the needs of a high technology society, further investment will be necessary to extend television coverage to the entire country through the use of satellite technology.

Municipalities and Housing

Investment in municipalities will grow strongly during the Fifth Plan, in particular to improve services in smaller cities and towns. Existing excess capacity in the public housing sector will reduce the need for investment in new housing projects during the Fifth Plan.

5.5 GOVERNMENT REVENUES AND FINANCING

The volatility of oil export earnings over the past decade underlines the need to increase government non-oil revenues, so that a more stable income base can be established to finance government activities and reduce the budget deficit.

Progress in increasing non-oil revenues is closely related to the further diversification of the economy, the continued rise in national wealth, and the strengthening of the revenue-gathering institutions. Adjustments in fees for public services where existing fees do not cover the service costs would also contribute to enhanced non-oil revenues. During the Fifth Plan period non-oil revenues are expected to grow at about the same rate as non-oil sector production. Thus, the Fifth Plan establishes a balance between the goals of restoring fiscal soundness in the government sector and of ensuring the well-being of citizens.

At the end of the Fourth Plan a new fiscal policy was implemented, as government revenues used to finance development projects were supplemented by domestic borrowing, instead of

further draw-downs of the Kingdom's foreign reserves. This policy will be continued (as necessary) in the Fifth Plan and has several advantages: it supports the continued funding of high priority projects that are essential to the Kingdom's further development; it mobilizes domestic financial resources that would otherwise be idle or invested abroad; and it provides Saudi citizens with new savings opportunities. Furthermore, domestic borrowing through the issuance of development bonds provides a much needed monetary policy instrument. Although the costs of servicing such domestic debt will increase current expenditure, government foreign investment income will not be affected.

5.6 INVESTMENT REQUIREMENTS AND MOBILIZATION OF CAPITAL

5.6.1 Investment Requirements

To achieve the macroeconomic growth targets of the Fifth Plan, an estimated total investment of SR 386 billion will be required. Estimates of the sectoral structure of investment needed to achieve these macroeconomic targets and projected sectoral growth rates in the Fifth Plan are shown in Tables 5.10 and 5.11.

The sectors with the strongest growth potential (agriculture, petrochemicals, other manufacturing, and financial services) are expected to account for about 22 percent of total investment in the economy by 1414/15, compared to about 13 percent one decade earlier. This investment is expected to have strong multiplier effects on other sectors and to make a substantial contribution to the further diversification of the economy. Residential housing will continue to account for a significant share of total investment, reflecting the continuing need for new housing for the growing Saudi population. Housing investment will generate powerful multiplier effects on the manufacturing and other mining sectors. The priority given to extending the supply of water and electricity throughout the Kingdom will require substantial investment in the utilities sector. One quarter of total investment in the Fifth Plan will be allocated to government services to maintain present service standards.

During the Fifth Plan period, major changes in the financing of investment are expected to occur, as the role of the government budget as a source of financing is targeted to decline. The main assumptions underlying these expectations are:

- The government budget is targeted to provide SR 151 billion for investment in transportation facilities, government services (such as schools and hospitals), utilities and other public facilities. Part of these investment expenditures will be financed by development bond issues, if necessary.
- Specialized credit institutions are expected to provide approximately SR 35 billion in investment by recycling repayments of outstanding loans.

- Government-owned companies are expected to provide about SR 56 billion in investment, mainly from retained profits and depreciation charges.
- The private sector is expected to contribute about SR 144 billion of total investment in the Fifth Plan. Financing of this investment will come primarily from retained earnings of private sector companies, private savings, commercial bank loans, and private capital brought back from overseas. In addition, the private sector is expected to purchase part of the development bonds, if issued during the Fifth Plan.

TABLE 5.10

**Estimates of Capital Investment by Sector
(in current prices)**

	Capital Investment		Share of Total Investment		
	(SR billion)		(Percent)		
	1409/10	1414/15	1404/05	1409/10	1414/15
Producing Sectors	16.6	31.4	22.9	28.5	35.6
Agriculture	2.5	4.6	1.5	4.3	5.2
Other Mining	0.2	0.6	0.3	0.4	0.7
Manufacturing	7.8	13.4	9.7	13.3	15.2
Petroleum Refining	1.7	2.4	1.0	3.0	2.7
Petrochemicals	2.6	3.8	2.8	4.3	4.3
Other Manufacturing	3.5	7.2	5.9	6.0	8.2
Public Utilities	3.9	9.3	7.9	6.7	10.5
Construction	2.2	3.5	3.5	3.8	4.0
Service Sectors	13.4	18.2	20.8	23.1	20.6
Trade	3.8	5.4	5.1	6.6	6.1
Transport, Communications	5.3	5.6	7.8	9.1	6.3
Real Estate	1.4	2.4	3.7	2.4	2.7
Financial and Business Services	1.9	3.4	3.0	3.3	3.9
Community and Personal Services	1.0	1.4	1.2	1.7	1.6
Government Services	14.3	22.3	36.3	24.7	25.2
Crude Oil and Natural Gas	5.6	6.7	8.9	9.7	7.6
Residential Housing	8.1	9.7	11.1	14.0	11.0
Total	58.0	88.3	100.0	100.0	100.0

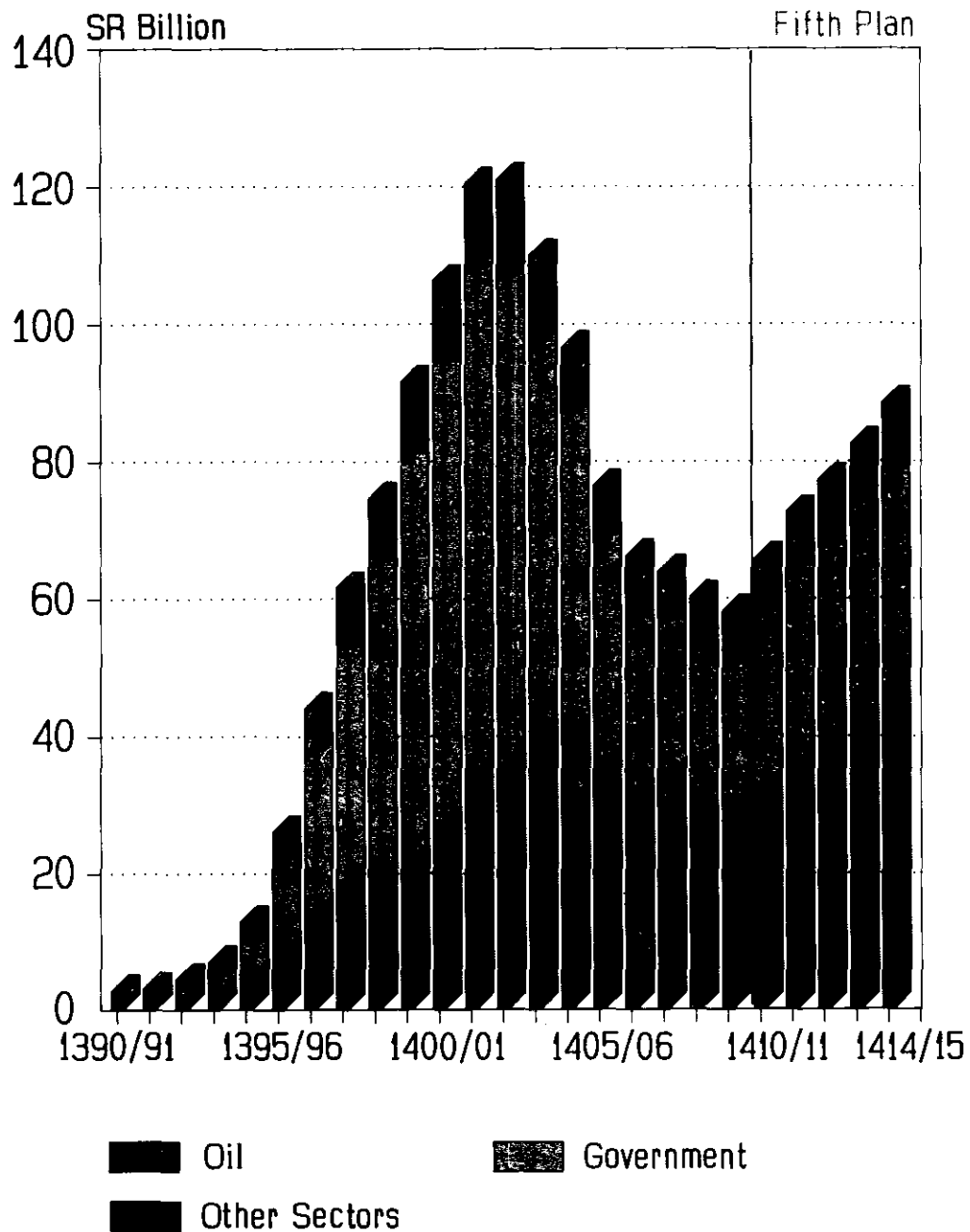
TABLE 5.11

Estimates of Investment Financing Requirements by
Sector and Source
(SR billion in current prices)

	Total	Govern- ment Budget	Specialized Credit Instit- utions	Govern- ment Owned Companies	Private Sector
Producing Sectors	129.6	32.4	15.9	16.9	64.4
Agriculture	18.4	0.9	6.9	—	10.6
Other Mining	2.6	1.2	—	0.3	1.1
Manufacturing	54.6	1.3	9.0	13.6	30.7
Petroleum Refining	10.8	—	2.3	6.3	2.2
Petrochemicals	16.5	0.4	2.2	3.6	10.3
Other Manufacturing	27.3	0.9	4.5	3.7	18.2
Public Utilities	39.2	29.0	—	2.3	7.9
Construction	14.8	—	—	0.7	14.1
Service Sectors	84.9	22.5	0.6	9.2	52.6
Trade	23.3	—	—	0.2	23.1
Transport, Communications	32.2	22.5	0.6	7.2	1.9
Real Estate	9.7	—	—	0.5	9.2
Financial and Business Services	13.5	—	—	0.7	12.8
Community and Personal Services	6.2	—	—	0.6	5.6
Government Services	95.9	95.9	—	—	—
Crude Oil and Natural Gas	30.9	0.2	—	30.7	—
Residential Housing	45.0	—	18.4	—	26.6
Total	386.3	151.0	34.9	56.8	143.6

Capital investment by source is shown in Figure 5.3, which demonstrates that private investment in the Fifth Plan is expected to be about 24 percent higher than in the Fourth Plan, a level well within the financing capacity of the private sector.

Figure 5.3
Fixed Capital Formation by Main Sector
1390 - 1415



During the Fifth Plan, mechanisms will be considered for the greater involvement of private investment in public sector functions. Areas where such investment may be sought include electricity generation, telephone systems, and the construction of schools.

5.6.2 Mobilization of Capital

The Fifth Development Plan objectives provide opportunities for the private sector to make maximum use of its financial resources. In this regard, the effective mobilization of domestic household savings, financial assets held abroad by Saudi citizens, and retained earnings of private companies, is considered very critical for the financing of investment in the Fifth Plan. This objective must be achieved within the framework of a free market economy, in which individuals and companies choose to deploy their financial assets according to their perceptions of relative risk/reward characteristics of investment opportunities in domestic and foreign markets.

The mobilization of private capital to meet the investment needs of the Kingdom's development strategy will require effectively functioning financial intermediaries and mechanisms for the efficient transfer of resources from sectors with financial surpluses to private companies seeking investment funds. The savings potential of the household sector is substantial, for example, and is currently under-utilized for domestic investment other than private housing. In the Fifth Plan, therefore, measures to accelerate the provision of a wider range of marketable short- and long-term savings instruments will be necessary. Furthermore, the successful transformation of short term financial assets into longer term capital investment needs an effective and competitive financial and banking sector, and a more developed capital market to assist in reducing and sharing risks. Such financial market innovations would provide private sector companies with an attractive and significant complement to the government's specialized credit institutions as a source of finance for long term investment.

An expanded role for the non-banking financial sector will also be important to the mobilization of capital. In developed economies, a large share of private savings is channelled to insurance companies and pension funds, and enters into circulation through the investment activities of those institutions. The licensing of such long term saving and investment activities on a joint venture basis with Saudi institutions would have the important benefit of attracting foreign capital into the Kingdom. Related types of organizations, such as mutual funds or unit trusts, will also be considered.

5.7 FOREIGN TRADE AND THE BALANCE OF PAYMENTS

The significance of foreign trade to the national economy comes from the unique position of Saudi Arabia in the world economy, which is characterized by the following:

- The Kingdom is the world's leading crude oil exporter.
- The Kingdom holds substantial public financial assets abroad in the form of liquid reserves and other investments. The private sector also has its own foreign investments.
- The Kingdom has emerged on the international scene as an exporter of processed goods, and in particular, petrochemicals.

Throughout the past two decades, the rapid growth process has coincided with the establishment of the Kingdom as an important market for the world's major exporting countries. During this period the value of imports into the Kingdom reached SR 2000 billion, and included a wide range of capital goods and services needed to implement the development process, as well as consumption goods catering for the well-being of the population. The emergence of the Saudi economy as a major market for the exports of the industrialized countries greatly helped to overcome international trade imbalances and the economic recession experienced by these economies at the beginning of the last decade.

The entry of most imports into the Kingdom tariff-free and without other barriers emphasizes the Kingdom's strong commitment to the principle of free trade, thus making the Kingdom one of the few countries in the world with a low level of tariffs, at a time when many other countries are experiencing a rising trend of protectionism and are erecting barriers against the Kingdom's exports.

At the beginning of the Fifth Plan period, Saudi Arabia is faced with the problem of a current account deficit that has persisted since the mid 1980s, as the Kingdom's oil export revenues fell in response to falling international oil prices. Despite this decrease in oil revenues, the balance of trade experienced a continuous surplus during the Fourth Plan period. However, the other elements of the balance of payments (trade in services and public and private transfer transactions) have maintained a high level in favor of other countries, at a time when the balance of trade surplus was rapidly declining. As a result, this led to a continuous deficit in the current account which reached its peak in 1404/05, since when it started to decrease in response to the Kingdom's diversification efforts to expand non-oil exports and reduce merchandise imports through import substitution.

Despite all these efforts, the current account deficit continues to present a problem for the future economic growth prospects of the Kingdom and the achievement of its development objectives. The Kingdom's foreign trade strategy in the Fifth Plan, therefore, will be directed towards the attainment of an adequate balance in the net financial and merchandise trade flows between the Kingdom and other countries. Foreign trade will continue to play its important role in the development process, as the share of total exports in GDP is expected to increase

because of expanding non-oil exports (see Table 5.12). Furthermore, development efforts in the industrial sector are expected to accelerate import substitution during the Fifth Plan period.

TABLE 5.12

**Foreign Trade in the Fourth and Fifth Plans
(based on current prices)**

	1404/05	1409/10	1414/15
	percent	percent	percent
Percentage Share of GDP			
Exports	41.3	38.8	42.8
of which : Merchandise Exports	37.6	33.1	35.9
Non-oil Merchandise Exports	1.2	5.4	6.7
Imports of Goods and Services	54.1	43.3	40.9
Percentage Share of Non-Oil GDP			
Imports	82.2	55.1	53.2
of which : Merchandise Imports	51.2	36.8	35.5

Based on the general strategic principle concerning the important relationship between foreign trade and the development process, the Fifth Plan aims to achieve the foreign trade objectives through the following additional policies:

1. Enhancing the Base of Export-Oriented Industries and Expanding Exports

Saudi Arabia has a substantial comparative advantage in hydrocarbon processing and energy intensive industries, as manifested by the success of its petrochemical industries in world markets. The scope of these industries will be further broadened through the development of downstream industries, both to enhance forward linkages within the national economy and to promote exports, with due consideration of the expected changes in the pattern of demand during the Fifth Plan period.

The exports of some consumer goods and construction materials will continue, and will be supported by special export promotion programs. The recently established Saudi Exports Development Center and the Saudi Company for Export Marketing are expected to be fully operational during the Fifth Plan period.

The policies and programs for export support are expected to achieve continuous structural change in the composition of total exports (see Table 5.13).

TABLE 5.13

Trend in the Structure of Saudi Exports
(based on current prices)

	1404/05	1409/10	1414/15
	percent	percent	percent
Merchandise Exports	90.9	86.4	84.8
of which : Oil Exports	87.9	72.4	69.1
Non-Oil Exports	3.0	14.0	15.7
Services Exports	9.1	13.6	15.2
Total	100.0	100.0	100.0

2. International Trade Agreements

The expansion of Saudi exports depends not only on the international competitiveness of these products, but also, more importantly, on easy access to foreign markets. In this context, the Kingdom will aim for the removal of the tariff and other barriers imposed on its exports by other countries, through the conclusion of trade agreements based on mutual interests and reciprocal treatment. In conjunction with its GCC partners, the Kingdom will take all necessary measures to ensure access for its exports to international markets through such bilateral and multilateral trade agreements.

3. Broadening the Scope of Import Substitution Industries

The high per capita income and purchasing power in the Kingdom provides a sizeable internal market potentially capable of absorbing many locally produced goods that can substitute for imports. During the Fifth Plan, further development policies will be devoted to import substitution industries through concerted efforts to enhance horizontal and vertical expansion of the manufacturing sector, and the competitiveness of national products, in addition to programs for improving productivity in the private sector.

4. Accelerating the Process of Economic Integration with the GCC

Clearly, the process of economic integration will open new horizons for the future development of the Kingdom and will provide economic and social benefits for all GCC member countries. Furthermore, it will establish conditions for the expansion of the region's internal markets and the exploitation of economies of large scale production. Efforts will be made during the Fifth Plan to accelerate the process of economic integration, with particular emphasis on:

- standardization of tariff systems;
- standardization of technical and statistical specifications and standards;
- enhanced coordination of industrial projects.

In addition, the balance of payments position will be strengthened and the current account deficit reduced through adoption of the following policies:

- Pursuing ways of achieving greater economic diversification and broadening private sector export and import substitution capabilities, including exportable services and the domestic provision of services currently being imported (e.g. transport, insurance, internal tourism).
- Increasing the role of national products in the Kingdom's foreign aid and assistance programs provided to other countries and international institutions.
- Encouraging national and foreign capital for investment inside the Kingdom and increasing the flows of such capital into the Kingdom. These flows increased during the latter part of the Fourth Plan and are expected to accelerate further as more private sector investment opportunities emerge within the Kingdom during the Fifth Plan period. In addition, foreign investment in the economy will grow as a result of the Peace Shield and Al-Yamama Offset Programs.

5.8. LONGER TERM ROLE OF THE PRIVATE SECTOR

The Fifth Plan marks a new phase in the Kingdom's development, as it embarks upon a structural adjustment process in which the private sector and the market mechanism in general can be expected to play a leading role. However, the responsibility for designing the adjustment process, in both institutional and operative terms, will remain with the government. Thus, an overriding concern over the Fifth Plan period will be the establishment of institutional and other mechanisms for inducing long term private capital inflows, to create and expand activities that will improve the external balance, both through increased non-oil exports and further

import substitution. The Fifth Plan's greater emphasis on rules and incentives appropriate to a more complex market economy is expected to open up a wider range of private sector activity. In this regard, the components of the Kingdom's existing and future economic potential can be identified as a range of advantages available to the private sector, such as:

- locational advantages for high quality infrastructure and opportunities to expand trade with Arab, other Islamic and developing countries in Africa and Asia;
- financial advantages in respect of asset and transaction security, taxation and investment incentives;
- resource advantages for energy intensive and petrochemicals related operations and derivative products;
- increasing opportunities for high technology and research intensive activities;
- increasing availability of a well trained labor force at reasonable costs.

The Kingdom's non-oil GDP is expected to resume its growth pattern of earlier years through the joint efforts of the public and private sectors. The longer term focus of the Fifth Development Plan gives it greater strategic similarity and closer conceptual links to future Plans than to past Plans, which belonged to a different stage in Saudi development. Seen in this light, the Fifth Plan is the first stage of a longer term process making the Saudi economy capable once more of self sustaining and externally balanced growth.

CHAPTER 6

LABOR MARKET IN THE FIFTH DEVELOPMENT PLAN

6. LABOR MARKET IN THE FIFTH DEVELOPMENT PLAN

During the two decades of planned development in the Kingdom, the labor market has undergone rapid and profound changes. Total employment has grown at an average annual rate of 8 percent, and 4.3 million new workers have been added to the work force over this period. The extensive structural shifts that have occurred in the economy have caused major changes in the sectoral, occupational, and nationality composition of the labor force.

During the early years of planned development, it was apparent that the Kingdom's population and the size of its national work force were insufficient to meet the total manpower requirements of the rapidly developing economy. Recognizing this constraint, the development strategy in the early phase opted for importing whatever non-Saudi labor was needed to facilitate achievement of the Kingdom's development objectives. As a result, from the beginning of the Second Plan to the end of the Third Plan, over 3 million non-Saudi workers were added to the labor force. At the same time, massive efforts were mounted to increase the supply of qualified Saudis through rapid expansion of the education and training systems.

As the economy slowed during the latter part of the Third Plan and in the Fourth Plan years, new Saudi entrants to the labor force continued to be able to find employment, but increasingly this was in the government rather than in the private sector. At the same time, the total number of non-Saudis employed in the economy increased, in contrast to the expected substantial decline called for in the Fourth Plan.

The Kingdom now has in place a modern infrastructure, a base of industrial facilities, and an education and training system that is almost five times larger than twenty years ago. Not surprisingly, then, in this very dynamic environment, the characteristics of both the manpower that is needed, and the size and composition of the Saudi labor supply, have been changing. The rapid changes of the past have created numerical imbalances in the labor market between the Saudi and non-Saudi components of the labor force, that pose serious challenges for the Fifth Plan.

6.1 LABOR MARKET OBJECTIVES OF THE FIFTH PLAN

The achievement of the structural changes targeted for the economy -- particularly those involving the private sector -- in the new phase of development encompassing the Fifth Plan years and beyond, will raise additional challenges for the labor market that must be addressed. The resolution of these issues will require the implementation of a broad range of labor market policies to rationalize labor force growth, to increase efficiency, and to improve the technical and productive skills of Saudi manpower.

These policies will be guided by the enduring basic objectives of the Kingdom's manpower strategy:

1. To develop a Saudi work force whose education and skill profile, remuneration expectations, and attitudes towards work are compatible with the realities of a dynamic labor market, by ensuring that the education and training systems are capable of producing high quality, motivated graduates with a skill mix that matches the manpower requirements of the economy.
2. To gradually increase the employment of Saudis in all sectors of the economy, with the ultimate objective of replacing most of the non-Saudi workers with Saudis, particularly in skilled and professional occupations.
3. To improve matching between Saudi workers and available jobs by ensuring the availability of needed labor market services and labor market information to individuals in the work force, to employers, and to students making career choices.
4. To increase the participation of women in the work force.

6.2 LABOR MARKET ISSUES IN THE FIFTH PLAN

An important goal of the Fifth Plan is to increase the participation of Saudi nationals in the private sector, to achieve a higher level of Saudiization of the work force. The achievement of this goal, however, will depend upon the implementation of appropriate policy measures to resolve the following major labor market issues.

- **Improving Saudi Employment Opportunities in the Private Sector**

The principal labor market policy objective during the high growth period of development was to attract the maximum number of Saudi university graduates entering the labor market into the public sector, where they were needed to meet rapidly growing requirements. However, with the maturing of the public sector and increased emphasis on private sector investment and growth, the focus of labor market policy has shifted to concerns about the employment of Saudis in the private sector, which, until recently, had to rely on non-Saudi labor to meet its manpower requirements. Although both the Third and Fourth Plans identified this need to refocus the thrust of labor market policies, the achievement of this objective has been limited, both by changing labor market conditions and by a lack of implementation of appropriate labor market measures.

- **The Gap Between Saudi and Non-Saudi Wages**

The process of downward adjustments in wages of non-Saudi workers that had started in the middle of the Third Plan, continued during the Fourth Plan years, and has resulted in a widening of the wage gap between Saudi and non-Saudi workers. This is now becoming a serious barrier to the employment of Saudis in the private sector, especially in low skill occupations, and is compounded by the ready availability of a large pool of non-Saudis, together with the demonstrated ability of the system to absorb large numbers of such low skill workers.

- **Improving Saudi Labor Skills**

The education and training systems need to be upgraded to provide students with the skills and work habits that will enable them to function effectively in their fields of specialization. The quality of graduates depends on both student efforts and attitudes, and the curriculum, quality of teaching staff, and teaching methods used in imparting knowledge, skills, and work habits. Less emphasis on problem solving and analytical skills, and regional imbalances in the quality of facilities and teaching resources affect the quality of education. In addition to improvements in overall skill levels, there is a need to minimize the skill mismatches between what the education and training systems are producing and the needs of employers in the private sector. It is becoming increasingly important to improve linkages between the education and training system and potential private sector employers to achieve better coordination between producers and users of skills and to influence the attitudes and expectations of students.

- **Reducing Wastage in the Education System**

The rapid expansion of the education and training system achieved over the last two decades, has not been without problems. Wastage, as reflected in the excessive number of dropouts and high repetition rates, adversely affect all levels of the general education system. The 'waste' is not only in financial resources, in terms of costs incurred for value not obtained, but also in terms of investment in human capital not developed. At the higher education level, protracted study and a low proportion of graduates relative to entrants constrain the universities from meeting the economy's manpower needs. The large numbers of students leaving the education and training system without completing their studies have limited skills to offer in a highly competitive and technology based economy, particularly in the private sector.

- **Improving Labor Market Information**

The role of timely and reliable labor market information and analysis in enhancing the efficiency of the labor market and in planning for human resources development

has been recognized since the First Plan. Despite considerable progress in this direction, the lack of current and reliable data and analyses on different aspects of the labor market remains a major obstacle to developing a better understanding of the dynamics of the labor market and to the formulation of appropriate policies that will ensure the optimal utilization and development of Saudi manpower. The scope of labor market information needs to be broadened beyond the traditional analyses based on censuses and periodical surveys providing information on labor force characteristics. It must also continuously monitor and analyze labor market imbalances, and establish feedback mechanisms to the education and training authorities on the labor market experiences of their graduates. Information on the informal sector and labor markets in the rural areas also needs improvement.

- **Expanding Labor Market Services**

Another constraint on the efficiency of the labor market is related to the nature, scope, and quality of labor market services available to facilitate the matching of Saudi workers with available jobs. Services currently available leave this important function to operate through informal networks of personal contacts and referrals.

6.3 EMPLOYMENT DURING THE FIFTH PLAN

6.3.1 Aggregate Employment

To achieve the economic growth objectives of the Fifth Plan, total civilian employment is targeted to increase from 5.77 million in 1409/10 to 5.98 million in 1414/15, representing an average annual rate of growth of 0.7 percent. Employment in the private sector is projected to increase by 204,800, while government sector employment is expected to increase by only 8,700 (see Table 6.1). Thus, the private sector is expected to account for almost 96 percent of the growth in employment, reflecting both the leading role of the private sector in the Plan and the emphasis on greater efficiency and recurrent expenditure restraint in the government sector.

TABLE 6.1

Civilian Employment in the Fifth Plan

	Employment		Net Change 1409/10 to 1414/15	
	1409/10 (000)	1414/15 (000)	(000)	(Percent Distribution)
Private Sector	5147.0	5351.8	204.8	95.9
Government	624.8	633.5	8.7	4.1
Total	5771.8	5985.3	213.5	100.0

Total Saudi employment is projected to increase by 4.2 per cent per year, while non-Saudi employment is expected to decline at a 1.2 percent annual rate. Employment growth for Saudi women is targeted to be higher than for Saudi men.

Although total employment is targeted to increase by 213,500, the Saudi labor force is projected to grow by 433,900 over the Fifth Plan period. Therefore, a reduction of 220,400 in the size of the non-Saudi labor force is expected. The successful absorption of these Saudi new entrants to the labor market during the Fifth Plan years will depend upon the ability and willingness of employers, primarily in the private sector, to:

- replace 220,400 non-Saudi workers with Saudis; and
- employ Saudis in the 213,500 new jobs that are expected to be created during the Fifth Plan period.

Because very little growth in employment in the public sector is envisaged over the Fifth Plan period, employment opportunities for Saudis in the public sector will be generated primarily through the implementation of active Saudiization programs.

6.3.2 Sectoral Composition of Employment

During the Fifth Plan period, the producing sectors' share of total employment is projected to increase from 35.0 percent at the beginning of the period to 36.0 percent at the end. The

services sectors and the government sector are expected to account for slightly smaller shares of total employment. Within the producing sectors, employment in manufacturing is targeted to grow by 85,600, or at an average annual rate of 4.2 percent (see Table 6.2). Manufacturing's share of total employment is expected to increase from 6.4 percent in 1409/10 to nearly 7.6 percent by 1414/15. Employment in the agricultural sector is expected to increase only modestly, by 27,400, reflecting the continuing growth in productivity as a result of the growth in the modern mechanized agriculture activities and a continuing decline in traditional and nomadic farming. By the end of the Fifth Plan period, agriculture will account for 10.0 percent of total employment in the Kingdom. Employment in the construction sector is expected to increase marginally at an average annual rate of 0.3 percent, after declining by over 35 percent over the Fourth Plan period.

Aggregate employment in the service sectors is targeted to increase by 0.4 percent per year. Employment in the community and personal services sector is projected to increase only modestly by 18,900 or at an average annual rate of 0.2 percent. Employment in the trade sector is targeted to increase by 23,900 or at an average annual rate of 0.5 percent. In the financial services sector, employment is expected to increase more rapidly, at an average annual rate of 2.5 percent, or by 13,200.

The share of the government sector in total employment is projected to decline slightly. However, in absolute numbers, it is expected to increase by 8,700, representing an average annual growth rate of 0.3 percent.

TABLE 6.2

Civilian Employment by Sector

	Employment		Percent Distribution		Average Annual Growth
	1409/10 (000)	1414/15 (000)	1409/10 (%)	1414/15 (%)	
Producing Sectors					
Agriculture	569.2	596.6	9.9	10.0	0.9
Other Mining	3.5	3.8	0.1	0.1	1.7
Manufacturing	374.9	460.5	6.4	7.6	4.2
Petroleum Refining	14.6	15.0	0.2	0.2	0.5
Petrochemicals	6.2	6.5	0.1	0.1	0.9
Other Manufacturing	354.1	439.0	6.1	7.3	4.4
Public Utilities	126.9	136.7	2.2	2.3	1.5
Construction	944.1	959.9	16.4	16.0	0.3
Sub-total	2018.6	2157.5	35.0	36.0	1.3
Service Sectors					
Trade	898.3	922.2	15.6	15.4	0.5
Transport, Communications	262.3	271.3	4.5	4.5	0.7
Finance, Real Estate	99.0	112.2	1.7	1.9	2.5
Community and Personal Services	1822.0	1840.9	31.6	30.8	0.2
Sub-total	3081.6	3146.6	53.4	52.6	0.4
Government Services *	624.8	633.5	10.8	10.6	0.3
Non-Oil Sectors	5725.0	5937.6	99.2	99.2	0.7
Crude Oil and Natural Gas	46.8	47.7	0.8	0.8	0.4
Total	5771.8	5985.3	100.0	100.0	0.7

★ Excludes non-civilian employment and includes daily wage workers, not classified as civil servants.

6.3.3 Occupational Composition of Employment

The occupational composition of total civilian employment is shown in Table 6.3. These projections for the years 1409/10 and 1414/15 show the effects of the planned structural changes in the economy on the occupational composition of employment. Over the Fifth Plan period, the total number of professional and technical workers is expected to increase by 68,600, representing around one-third of the total growth in employment. By the end of the Fifth Plan period, the civilian labor force will include around 800,000 highly qualified professional and technical workers, constituting 13.3 percent of the total labor force. The shares in total employment of the administrative and managerial, clerical, and sales workers are also projected to increase over the Fifth Plan period. Relatively lesser skilled workers in the services, production and construction related occupations will account for a slightly smaller share of total employment by the end of the Fifth Plan.

6.3.4 Wages and Productivity

The achievement of the employment growth targets in the Fifth Plan is based on the assumption that GDP per worker in the non-oil economy will grow at an average annual rate of 3.0 percent. GDP per worker is targeted to grow at a 4.3 percent rate in the producing sectors and at 3.1 percent in the services sectors.

The attainment of the Fifth Plan targets for growth in GDP per worker for the services sectors will require employment growth to be concentrated in skilled and higher paying jobs, as compared to the past, when growth occurred primarily in unskilled, low paying jobs. This will mean that the contribution to sectoral GDP of each new job during the Fifth Plan period will be significantly higher than in the recent past.

The targets for growth in GDP per worker are also based on the assumption that the process of downward adjustments in wages and salaries of non-Saudi workers, that started in the later half of the Third Plan period, has reached its limit. To achieve these targets, administrative mechanisms regulating the importation of non-Saudi workers will be strengthened to ensure that only needed qualified workers are imported, that surplus non-Saudi workers are repatriated promptly, and that longer periods of residence and intersectoral mobility for the best qualified non-Saudi workers are encouraged.

TABLE 6.3

Civilian Employment by Occupation

Occupation	Employment		Percent Distribution		Net Change
	1409/10 (000)	1414/15 (000)	1409/10 (%)	1414/15 (%)	
PROFESSIONAL AND TECHNICAL	729.8	798.4	12.7	13.3	68.6
Engineers	70.1	78.6	1.2	1.3	8.5
• Civil Engineers & Architects	23.2	26.2	0.4	0.4	3.0
• Electrical & Electronic Engineers	9.1	9.8	0.2	0.2	0.7
• Mechanical Engineers	6.5	7.3	0.1	0.1	0.8
• Industrial Engineers	2.1	2.5	0.0	0.0	0.4
• Chemical Engineers	1.4	1.6	0.0	0.0	0.2
• Other Engineers	27.8	31.2	0.5	0.5	3.4
Technicians	58.4	65.5	1.0	1.1	7.1
• Electrical & Electronic Technicians	5.6	6.2	0.1	0.1	0.6
• Mechanical Engineering Technicians	2.3	2.7	0.0	0.0	0.4
• Civil Engineering Technicians	7.9	9.0	0.1	0.2	1.1
• Surveyors	3.7	4.0	0.1	0.1	0.3
• Draftsmen & Designers	16.1	18.2	0.3	0.3	2.1
• Other Engineering Technicians	22.8	25.4	0.4	0.4	2.6
Others	601.3	654.3	10.5	10.9	53.0
• Chemists & Physicists	5.4	5.8	0.1	0.1	0.4
• Other Professional Natural Scientists	6.1	7.3	0.1	0.1	1.2
• Natural Science Technicians	10.9	12.6	0.2	0.2	1.7
• Accountants	39.8	43.6	0.7	0.7	3.8
• Economists, Statisticians, Mathematicians, Systems Analysts and Computer Programmers	62.2	67.5	1.1	1.1	5.3
• Medical & Health Workers	125.0	135.1	2.2	2.3	10.1
• Professors, Teachers & Instructors	192.2	208.1	3.3	3.5	15.9
• Other Professional Workers	159.7	174.3	2.8	2.9	14.6
ADMINISTRATORS AND MANAGERS	86.6	120.2	1.5	2.0	33.6
CLERICAL WORKERS	575.7	637.1	10.0	10.7	61.4
• Bookkeepers	45.0	51.1	0.8	0.9	6.1
• Cashiers	71.5	78.2	1.2	1.3	6.7
• Secretaries, Stenographers & Typists	82.4	91.6	1.4	1.5	9.2
• Receptionists & Telephone Operators	24.0	26.0	0.4	0.4	2.0

TABLE 6.3 (Continued)

Civilian Employment by Occupation

Occupation	Employment		Percent Distribution		Net Change
	1409/10 (000)	1414/15 (000)	1409/10 (%)	1414/15 (%)	
• Office Machine Operators	5.5	6.0	0.1	0.1	0.5
• Data Processing Machine Operators	3.8	4.2	0.1	0.1	0.4
• Other Clerical Workers	343.5	380.0	6.0	6.3	36.5
SALES WORKERS	527.5	563.1	9.1	9.4	35.6
SERVICE WORKERS	1314.1	1269.5	22.8	21.2	(44.6)
AGRICULTURE AND RELATED WORKERS	458.7	469.9	7.9	7.9	11.2
PRODUCTION, CONSTRUCTION, TRANSPORTATION, AND RELATED WORKERS	2079.4	2127.1	36.0	35.5	47.7
• Carpenters & Joiners	78.9	79.9	1.4	1.3	1.0
• Electricians	75.7	76.3	1.3	1.3	0.6
• Plumbers & Pipefitters	55.4	55.7	1.0	0.9	0.3
• Mechanics	31.4	32.6	0.5	0.5	1.2
• Auto Mechanics	80.9	84.0	1.4	1.4	3.1
• Machinery Mechanics	43.0	44.5	0.7	0.7	1.5
• Other Occupations	1714.1	1754.1	29.7	29.3	40.0
Total	5771.8	5985.3	100.0	100.0	213.5

6.4 THE SAUDI CIVILIAN LABOR FORCE

6.4.1 Aggregate Labor Supply

The overall supply of Saudi civilian labor is determined by two factors -- the size of the working-age population, and the participation rates of individuals in these age groups in the civilian economic sectors. As Table 6.4 indicates, the total Saudi population of working-age (persons over 12 years of age) is projected to increase from about 6.4 million in 1409/10 to over 7.8 million in 1414/15. This represents an average annual rate of increase of 4.1 percent during the Fifth Plan period, slightly higher than the growth rate of just under 4 percent in the Fourth Plan years.

The participation rates of Saudis in the civilian labor force, after declining in the earlier years, had recovered in the second half of the Fourth Plan period. The projections for the Fifth Plan assume a stabilization of this trend. As a result, the total Saudi national labor force is projected to increase by 433,900, or at an average annual rate of 4.2 percent during the Fifth Plan period.

TABLE 6.4

Saudi Working Age Population and Civilian Labor Force

	Working Age Population (000)	Labor Force Participation Rate (%)	Civilian Labor Force (000)
1409/10			
Males	3223.7	54.4	1754.3
Females	3200.5	5.3	168.9
Total	6424.2	29.9	1923.2
1414/15			
Males	3937.6	54.4	2142.1
Females	3909.1	5.5	215.0
Total	7846.7	30.0	2357.1
Net Increase:			
1409/10 - 1414/15			
Males	713.9		387.8
Females	708.6		46.1
Total	1422.5		433.9
Average Annual Growth Rate (%):			
1409/10 - 1414/15			
Males	4.1 %		4.1 %
Females	4.1 %		4.9 %
Total	4.1 %		4.2 %

6.4.2 Labor Supply by Education

Projections of labor force growth provide only a partial picture of changes within the labor force because they merely reflect changes in the stock between two points in time. In reality, however, there is a continuous flow of individuals into and out of the labor force. People withdraw from the labor force because of retirement or death, to return to school, or because of illness, family responsibilities, or personal reasons. People entering the labor force come from a variety of sources: students who have finished their education and have entered the labor market full-time, people from households who have decided to enter or re-enter the labor force, and former armed forces personnel returning to civilian life.

During the Fifth Plan period, the total number of Saudis entering the labor market from all sources is estimated to be about 574,800 (see Table 6.5). Of this, 83.6 percent will be supplied by the formal education and training system, with the remainder coming from the household sector and other sources. The number of Saudi nationals leaving the labor force due to retirements and deaths during the Fifth Plan period is estimated to be 140,900, which would result in a net increase of 433,900 in the Saudi national labor force.

The number of Saudi females who could enter the labor market during the Fifth Plan years is estimated to be 60,200, or 10.5 percent of the total Saudi labor supply. Just over half of these Saudi females will be university graduates. In some fields of study, such as natural and social sciences, the number of Saudi female university graduates exceeds the number of Saudi males. In these areas, Saudi females now represent a major human resource.

In terms of the level of educational attainment of the 574,800 Saudis who are expected to enter the labor market during the Fifth Plan period:

- 12.0 percent, or 68,600, will have completed a university degree. Saudi females will account for 44 percent, or 30,300, of this total.
- 1.3 percent, or 7,400, will have completed a post-secondary technical education program.
- 25.8 percent, or 148,500, will have completed secondary school or will have an incomplete post-secondary education.
- 10.5 percent, or 60,500, will have completed intermediate school or will have an incomplete secondary education.
- 22.1 percent, or 127,000, will have completed elementary school or will have an incomplete intermediate education.

- 15.7 percent, or 90,400, will have less than an elementary school education.
- 12.6 percent, or 72,400, will have completed a short-term adult vocational training program.

TABLE 6.5

**Saudi New Entrants to the Labor
Force by Level of Education**

Highest Level of Education Completed	New Entrants to the Labor Force			
	Male	Female	Total	
	(000)	(000)	(000)	(%)
University	38.3	30.3	68.6	12.0
Engineering	4.7	0.0	4.7	0.8
Natural Sciences	4.1	4.7	8.8	1.5
Medical Science and Health	2.3	1.0	3.3	0.6
Statistics, Mathematics, Computer Science	3.0	2.1	5.1	0.9
Economics and Business	3.7	1.6	5.3	0.9
Social Sciences	8.6	10.4	19.0	3.3
Teacher Education	5.4	5.2	10.6	1.9
Religious Studies	6.5	5.3	11.8	2.1
Junior Colleges: Technical	7.4	0.0	7.4	1.3
Industrial	5.7	0.0	5.7	1.0
Commercial	1.7	0.0	1.7	0.3
Secondary School *	139.5	9.0	148.5	25.8
General	103.1	7.5	110.6	19.2
Technical and Vocational	36.4	1.5	37.9	6.6
Intermediate School *	56.7	3.8	60.5	10.5
Elementary School *	114.8	12.2	127.0	22.1
Less Than Elementary	85.5	4.9	90.4	15.7
Pre-Service Adult Vocational Training	72.4	0.0	72.4	12.6
Total	514.6	60.2	574.8	100.0

* Includes students who have withdrawn without completing the next level of education or training program.

6.5 BALANCE BETWEEN THE SAUDI LABOR SUPPLY AND JOB OPENINGS

The number of job openings that become available in an occupation is the sum of the net changes in employment in the occupation, and the replacement needs resulting from retirements, deaths, and inter-occupational mobility. In the case of Saudis entering the labor market, however, all jobs that are currently filled by non-Saudi workers are also potentially available to Saudis if their education, skills, and expectations effectively match the requirements of these jobs. Given the size of the non-Saudi labor force, at least theoretically, all the Saudi new entrants to the labor market could be productively employed, unless there are serious mismatches between the needs of the marketplace and the capabilities of the Saudi new entrants to the labor force.

Table 6.6 presents an analysis of the balance between the number of job openings in different occupations that are expected to become available as a result of changes in the level of economic activity in the different sectors of the economy, and the number of Saudis in different skill categories who are expected to enter the labor market during the Fifth Plan period. A comparison of the two indicates the job classifications in which changes in the size and composition of the non-Saudi labor force can be expected.

TABLE 6. 6

Job Openings and the Saudi Labor Supply

Occupation	Job Openings (000)	Saudi Labor Supply (000)	Demand in Excess of Supply (000)
Professional and Technical	81.5	83.6	(2.1)
Administrators and Managers	36.5	38.7	(2.2)
Clerical Workers	71.7	129.6	(57.9)
Sales Workers	52.0	82.8	(30.8)
Service Workers	(23.9)	128.4	(152.3)
Agricultural and Related Workers	69.4	33.1	36.3
Production, Construction, and Related Workers	67.2	78.6	(11.4)
Total	354.4	574.8	(220.4)

The sectoral GDP and GDP per worker growth targets in the Fifth Plan are projected to provide a total of 354,400 job openings during this period. As Table 6.6 shows, nearly 23 percent, or 81,500 of these job openings are expected to be in professional and technical occupations. The teaching, medical, and health-related professions will account for around 40 percent of the positions in the professional and technical category.

The data indicate that a net 220,400 non-Saudi workers will need to be replaced with Saudis who are expected to enter the labor market during the Fifth Plan period. The achievement of these targets for increased Saudi employment is contingent on 60,200 Saudi females finding employment.

6.6 LABOR MARKET POLICIES AND MEASURES

To achieve these employment targets, and to ensure the successful placement into employment in the private sector of increasingly larger numbers of Saudis, a comprehensive set of labor market policies and measures will be implemented.

Efforts to ensure the development of Saudi national manpower will be reinforced through the implementation of the following policy measures:

- Shifting emphasis from expansion to enhancement of quality, by continuing improvement in curriculum and quality of teaching staff, and through the introduction of new technologies in the learning process.
- Giving a high priority to the development of technical manpower through expansion of technical post-secondary education.
- Establishing standards which will ensure the preparation of graduates of acceptable quality.
- Placing special emphasis on improvement of the internal efficiency of the education and training system by reducing dropout and repetition rates, increasing the utilization of available resources, and strengthening coordination between and within agencies providing education and training services at the national, regional, and local levels.
- Establishing career counselling centers in the secondary and post-secondary education and training institutions, and strengthening the linkages between employers in the private sector and the education and training institutions to ensure that graduates of these institutions meet the requirements of the employers.

- Developing a policy framework or a 'Master Plan' for a coordinated development and expansion of the various segments of the education and training system.
- Developing a comprehensive policy framework for the coordinated development of the universities over the long-term and to ensure that the activities of these institutions are geared to meet the manpower requirements of the private sector.
- Developing a comprehensive policy framework for the expansion of the technical and vocational training programs at the secondary and post-secondary levels.

To facilitate the successful placement into employment in the private sector of Saudis seeking jobs, the appropriate government agencies will:

- Review the Labor and Workmen Law to ensure that its provisions are appropriate for dealing with the current labor market conditions and that they provide for increased participation of Saudi nationals in the private sector.
- Establish annual targets for the enforcement of the provisions of the Labor and Workmen Law. The related agencies, in conjunction with the Ministry of Planning, will prepare annually a Saudiization plan establishing targets for the minimum number of Saudi nationals that private sector business establishments of various sizes must employ.
- Expand labor market services to improve the matching of Saudi workers looking for work in the private sector with available jobs. The Ministry of Labor and Social Affairs will:
 - establish independent units within its Labor Offices to provide employment placement and job counselling services to Saudis looking for work in the private sector. These units will be linked through a central computerized job vacancy information system.
 - issue licenses to private sector entrepreneurs to establish companies to provide employment placement services to Saudis, and will be responsible for regulating and monitoring the activities of these companies.
- Consider regulations requiring contractors to increase the number of Saudis employed on government contracts, which take into account the cost implications of increased participation of Saudi nationals in the execution of the contract, especially in the area of operations and maintenance.

- Develop and periodically disseminate to job seekers, employers, and students labor market information and analyses on such topics as average wages and salaries by occupation, job vacancies by location, and employment prospects for various occupations.
- Study the feasibility of providing wage subsidies to employers in the private sector who are willing to provide on-the-job training in designated occupations; and resumption of the Private Sector Subsidies Committee activities so as to encourage the private sector to provide training to Saudi employees.

To improve the utilization of available Saudi manpower in the public sector and to affect an orderly replacement of non-Saudi workers with Saudis, the Civil Service Bureau will:

- Undertake a comprehensive review of the utilization of manpower in each ministry and agency to establish levels of manpower needed to efficiently deliver programs and services.
- Develop annual Saudiization plans in consultation with each ministry and agency. The Saudiization plans should identify specific positions targeted for replacement, training requirements for the Saudi employees, and the time period and resources required to implement the plans.

To enhance the participation of Saudi women in the development of the Kingdom, the following policy measures will be implemented:

- A Saudiization plan will be prepared each year to gradually increase the employment of Saudi women in the public sector.
- Periodic reviews of the occupations, in both the public and private sectors, in which employment of women is deemed to be in accordance with the Sharia, will be undertaken. This information will be disseminated widely to the public through the media.
- A study examining the feasibility of allowing women to teach boys up to grade four at the elementary school level will be carried out.

CHAPTER 7

PRIVATE SECTOR DEVELOPMENT

7. PRIVATE SECTOR DEVELOPMENT

The 'private sector' encompasses all economic activity which is not performed by the government or government owned companies. This includes all private firms operating for profit, whether formal or informal, in the industrial, agricultural or service sectors, as well as non-profit private organizations such as chambers of commerce and cooperative societies, insofar as those groups are engaged in economic activity. The private sector at present accounts for about 58 percent of the non-oil economy. Therefore, many of the national development objectives can be achieved only by and through the private sector.

The Fifth Plan strategy presents major challenges and opportunities to the private sector, which is expected to play a key role in the diversification and expansion of the economy, in technology upgrading, and in the generation of new employment opportunities for the Saudi labor force. In support of this major role, the government will create a favorable environment for private sector investment and growth. In addition to establishing a broad set of policies, providing necessary incentives and developing institutional support systems, the government will attempt to ensure a gradually increasing level of expenditure throughout the Fifth Plan period, and will avoid any major changes in expenditure levels.

7.1 PRIVATE SECTOR CONDITIONS AND GROWTH OUTLOOK

7.1.1 Current Conditions

The private sector has emerged from the economic difficulties of recent years in a reasonably positive position. Business surveys in recent years have consistently shown a strengthening of business optimism. The structural changes in the economy during the Fourth Plan years have also spurred the diversification thrust of the private sector. The earlier concentration of private businesses in the construction and trade sectors has widened to include major agricultural enterprises and a proliferating array of manufacturing firms. Assisting the establishment of these new manufacturing companies has been the creation in recent years of a number of new investment companies which pool the resources of individual businessmen and combine aspects of venture capital, portfolio investment, and project development. Four such companies are the National Industrialization Company (NIC), the Saudi Advanced Industries Company (SAIC), the Saudi Venture Capital Group (SVCG), and the Saudi Industrial Development Company (SIDC).

These investment vehicles represent an important development for Saudi Arabia. In only three years, the NIC alone has been involved in establishing eleven manufacturing companies, and has another twenty companies at the planning stage which are scheduled for operation in

the early 1410s. SAIC was formed in 1407 to facilitate private sector participation in the Offset Programs. The Peace Shield Offset Program has resulted in private sector participation in four major joint venture projects in a variety of high technology-based areas. In 1409, the Al Yamamah Offset Program Committee announced their first three projects. SVCG has proposed establishing a number of petrochemical plants, and in 1409, it announced plans to establish a 250,000 ton per year paraxylene plant in Jubail, based on naphtha refinery feedstock. SIDC is a newly created entity to undertake investment in secondary petrochemicals, other manufacturing activities involving import-substitution based on local raw materials, and activities associated with the Peace Shield and Al Yamamah Offset Programs.

Several other major private sector activities underway include the establishment of a 220,000 ton aluminum smelter complex to be located in Yanbu. The proposed aluminum smelter will open up important private sector secondary manufacturing opportunities. In addition, the Saudi Industrial Export Company has been established in the field of international marketing.

At the onset of Fifth Plan, many studies and surveys show that the private sector has developed rapidly and now enjoys several strengths and advantageous conditions that will enhance private investment, productivity and organizational capabilities. These include:

- the existence of a large number of diversified companies with experienced management;
- extensive capital resources for investment;
- efficiency (in investment, productivity, organization and management) resulting from competition during the recent economic downturn;
- a favorable environment that has laid the foundation for more extensive efforts to strengthen growth and diversification during the Fifth Plan period.

On the other hand, several constraints now face the private sector. Further efforts and initiatives are required from both private and public sectors to overcome these constraints, which include;

- the private sector's historical dependence on government expenditure, particularly on the part of contracting companies, which affects its ability to diversify into production activities that are independent of government expenditures;
- under-utilization of existing capacity because of the small domestic market and problems related to the development of non-oil exports;

- high average production costs and the lack of internal and external economies of large-scale production, in addition to marketing problems, particularly for agricultural products.

7.1.2 Private Sector Growth During the Fifth Plan

Although the progress of the private sector over the past two decades is beyond dispute, accurately measuring this progress is difficult within the context of national economic statistics. The 'non-oil private' sector of the economy in the national accounts, in line with United Nations international statistical conventions, includes government owned companies/activities. In Saudi Arabia, approximately 28 percent of the 'non-oil private' GDP in the national accounts is accounted for by government owned companies and activities in hydrocarbon processing, electricity, gas, and water, transportation and communications, finance, etc. This functional definition based on sector classification overstates the size of the private sector and masks important differences between private and government controlled enterprises regarding investment, access to finance, productivity, efficiency and diversification.

An institutional definition in which the term 'private sector' is based on the concept of private majority control of an enterprise provides a more relevant framework for private sector policy analysis and development. Official sectoral data based on an institutional classification do not exist. As a first step in developing a more useful private sector data base, the Ministry of Planning has developed an independent estimate of private sector GDP.

The private sector (excluding government companies and activities) is estimated to account for about 77 percent of the value added in the producing/service sectors, 58 percent of the non-oil GDP, and 38 percent of total GDP in 1409/10 (Table 7.1). As shown in Table 7.2, the private sector is projected to increase its share of value added during the Fifth Plan in real terms by 0.3 percent in the producing/service sectors, about three percent in the non-oil GDP, and about two percent in total GDP. These percent shares could be considerably increased through implementation of the privatization concept.

Although both private sector output and investment (capital investment is discussed in Chapter 5) are targeted to increase strongly, these aggregate measures hide the crucially important element of diversification that is expected to take place during the Plan period. The current momentum toward a broader range of industrial and service activities, coupled with greater attention to competing with imports and expanding export markets, will produce a much stronger private sector. Therefore, the goal of private sector development in the Fifth Plan is not just to achieve faster growth; more importantly, it is to build the foundations to support a much more broadly based, stronger, efficient, and competitive private sector for the future.

TABLE 7.1

Estimated GDP Contribution by the Private Sector
(in constant 1404/05 prices)

	Value Added (SR billion) 1409/10	Estimated Private Sector Share (%)	Estimated Private Sector Value Added (SR billion)	
			1409/10	1414/15 [*]
Producing Sectors	88.0	79.4	69.9	92.1
Agriculture	22.2	99.0	22.0	30.9
Other Mining	1.7	95.0	1.6	1.9
Manufacturing	33.1	48.6	16.1	22.9
Petroleum Refining	17.9	18.0	3.2	4.2
Petrochemicals	4.9	63.0	3.1	4.6
Other Manufacturing	10.3	95.0	9.8	14.1
Public Utilities	(0.8)	18.0	—	—
Construction	31.8	95.0	30.2	36.4
Service Sectors	82.8	74.9	62.0	74.0
Trade	28.2	99.0	27.9	32.3
Transport, Communications	21.7	15.0	3.3	3.9
Finance, Real Estate	23.0	95.0	21.9	28.1
Community and Personal Services	9.9	90.0	8.9	9.7
Sub-total : Non-Oil Producing/ Service Sectors	170.8	77.2	131.9	166.1
Government Services	56.2	—	—	—
Sub-total : Non-Oil Sectors	227.0	58.1	131.9	166.1
Crude Oil/Gas Sector	122.3	—	—	—
Gross Domestic Product	349.3	37.8	131.9	166.1

* Private sector value added excludes the impact of potential privatization.

TABLE 7.2

Estimated Private Sector Share in Value Added*
(in constant 1404/05 prices)

	Value Added (SR billion)		Average Annual Growth (Percent)
	1409/10	1414/15	
Non-Oil Producing/Service Sectors	170.8	214.2	4.6
Private Sector	131.9	166.1	4.7
Percent Private Sector	77.2%	77.5%	
Non-Oil Sector	227.0	272.6	3.7
Private Sector	131.9	166.1	4.7
Percent Private Sector	58.1%	60.9%	
Gross Domestic Product	349.3	409.2	3.2
Private Sector	131.9	166.1	4.7
Percent Private Sector	37.8%	40.6%	

* Private sector shares of value added exclude the impact of potential privatization.

7.2 CHANGING ROLE OF THE PRIVATE SECTOR

The importance of the private sector's role in the economy and in the broader development of the Kingdom has been a consistent feature throughout the past two decades. Initial leadership in economic development was provided by the government, particularly in the establishment of physical infrastructure. This was amplified during the period when rising oil revenues permitted the rapid implementation of a broad range of economic development programs. The private sector played two major roles during this phase of development -- as a participant in development projects, and as a provider of services to government, consumers and businesses.

This stage of infrastructural development in the Kingdom has largely ended, and with the emergence of a new phase both the government and the private sector are adopting new roles. The need for economic diversification and greater mobilization of private capital will require the private sector to assume a more leading role in future economic development. The principal driving sectors of the economy in the Fifth Plan -- manufacturing, finance, construc-

tion and agriculture -- are all firmly in the private domain. To facilitate a stronger and more diversified private sector, the government will create a positive environment for private sector activity, implement a wide range of policies and incentives to support the private sector, and establish new institutions to further private sector interests.

At the same time, the private sector will be expected to undertake some new roles. The primary role of the private sector has always been to seek out, invest in, develop and manage profitable enterprises; but the private sector will also need to extend and strengthen its existing productive and export capacities. This will require greater efforts within both private and public sectors, improved coordination between the two, and new initiatives during the Fifth Plan period. The private sector must place more emphasis on manpower development through training, and on developing non-oil exports. In the past, these roles have been performed mainly by the government, but the private sector has increasingly taken on a more direct participation, mainly through the Chambers of Commerce and Industry.

7.3 DEVELOPMENT OBJECTIVES OF THE PRIVATE SECTOR

The evolving structure of the economy places greater responsibilities on the private sector during the Fifth Plan. The long term private sector-oriented strategic objectives dictate that this sector should continue to expand its share in the economy, and its position as a leading force for economic growth and progress beyond the years of the Fifth Development Plan.

The Fifth Plan identifies four principal contributions to the long term economic objectives of the Kingdom which are expected to be fulfilled by the private sector:

- **Diversify the Economy**

Economic diversification is an essential requirement for long term economic progress. Earlier efforts to achieve greater diversity in the economy centered on government initiatives in petrochemicals and oil refining, and government support for private sector investment in agriculture, and manufacturing. The creation of the industrial cities of Jubail and Yanbu has provided a base for broader private sector participation in downstream petrochemical-related industries. Beyond this, the establishment of a much wider range of vigorous and growing industries will depend upon private sector investment. Furthermore, the private sector will strengthen its general business capabilities to be able to identify and pursue attractive opportunities in a rapidly changing global competitive environment.

- **Provide Productive Employment for the Saudi Labor Force**

During the past twenty years, a growing proportion of the Saudi workforce has been employed in the government sector. At the infrastructure development stage this was a logical division of labor between the Saudi and non-Saudi components of the labor

force, with Saudis involved in management of the government and providing government services, and non-Saudis involved in the construction of the infrastructure, as well as providing maintenance and community services. The Fifth Plan establishes a marked departure from this pattern, with tight limits on further growth in government employment and the expectation that over 95 percent of the employment growth during the Plan years will take place in the private sector. Thus, in this new stage of development, the private sector will increasingly be the locus of employment opportunities and longer term career aspirations of Saudi nationals.

- **Deploy Private Capital in the Economy**

Over the last four plan periods, the government sector has accounted for between 55 percent and 75 percent of total investment in the economy. Furthermore, much of the remaining investment, which was undertaken by the private sector, was financed by government development agencies through loans. Although the private sector has accumulated substantial financial assets as a result of strong economic growth in the past, only a relatively small fraction has been invested within the Kingdom. This has been a natural response to the general availability of funding for private sector activities from government sources, and to the difficulties of finding viable new investment opportunities, given the relatively small domestic market. However, private sector capital represents a very important underutilized resource for the Kingdom, and the success of future economic development depends on inducing a much greater deployment of this resource in the Saudi and GCC economies.

- **Strengthen the Adaptive Capacity of the Economy**

As the past decade has shown, future economic conditions are difficult to predict. The economies that are best able to cope with unpredictable conditions are those that have the ability to adapt quickly to changing circumstances and where the government provides a stable policy framework. In all countries, successful adaptability is largely a characteristic of the private sector, where a large number of independent decision makers continually act based on their expectations and assessments of opportunities and risks. Therefore, the Kingdom's future economic strength in facing the new external and internal circumstances depends on a broadly based, highly skilled, knowledgeable, entrepreneurial, and competitive private sector. Such a private sector will be a source of growth, diversification, and attractive employment opportunities for the Saudi labor force, and will foster greater economic efficiency, the upgrading of technology capabilities in the Kingdom, and thereby the capacity to innovate and adapt to new challenges.

7.4 LONG TERM DEVELOPMENT STRATEGY FOR THE PRIVATE SECTOR

Achieving the development objectives of the private sector will require policy and institutional initiatives and some innovations within both the government and the private sector. These in turn will evolve over a period extending far beyond the Fifth Plan. The strategy for achieving the private sector development objectives has four major elements:

A. Encourage Private Sector Participation in a Broader Range of Activities

The government needs to be active only in economic functions where private sector participation is impossible or impractical, such as national defense, or where the provision of public services is an essential part of the bond between the public and the government, such as primary and secondary education. Most other economic functions in principle can be performed wholly or partly by the private sector. Therefore, an important aspect of government policy is to progressively open to the private sector areas that are currently in the government domain. Such privatization measures should lead to improved performance, efficiency and better quality, reduced costs and the provision of job opportunities to Saudi citizens.

B. Encourage Competitiveness among Saudi Producers

The private sector must strengthen its competitiveness in the producing sectors. Adequate growth in these sectors cannot be achieved through expansion of the overall economy alone. Saudi producers must be able to compete more successfully against imports in a wider range of products in both the domestic and GCC markets. In addition, Saudi companies must also enhance their ability to produce a more diversified range of quality goods for export to regional and global markets. On the export side, growth during the Fifth Plan will occur largely in petrochemicals, industrial and agricultural products, as in the Fourth Plan years. However, to set the stage for greater achievements in the future, programs will be introduced in the Fifth Plan to enhance the overall competitive position of the private sector through macroeconomic and sectoral policies, including export promotion, encouraging joint ventures, investment to upgrade the technology base, and expansion of productivity focused business services.

C. Develop Domestic Financial Markets

Efficiently functioning financial markets are a prerequisite for achieving the Fifth Plan's investment objectives, and hence, those of economic development and diversification. This requires a more competitive private sector and a wide range of financial services and sources of capital. Although the Kingdom's financial system has undergone some important changes in recent years, existing institutions and markets will need to be expanded. Furthermore, private sector growth will

depend on private capital to finance future expansion to a much greater extent than in the past. This requires changes in the financial investment opportunities in the Kingdom and encouragement of mobilization of savings through proper channels, as well as institutional changes to channel these sources of capital to businesses in need of capital to support growth.

D. Strengthen Private Sector Business Capabilities

A strong private sector depends on both attractive investment opportunities and on the ability of private sector companies to effectively operate in a competitive environment to pursue these opportunities. The Kingdom has a number of large companies that are fully capable of competing with businesses anywhere in the world. However, the skills and business sophistication necessary to do so are not widely spread in the private sector. Therefore, policies will be pursued to strengthen business capabilities broadly within the private sector. Policy measures in this direction to be implemented during the Fifth Plan period include: creation of information programs to help the business community identify general opportunities, education programs to increase knowledge of business issues and practices, measures to increase the absorption of technology into the economy, and technical assistance support programs for small/medium scale enterprises.

7.5 DEVELOPMENT OPPORTUNITIES FOR THE PRIVATE SECTOR

The achievement of the private sector development objectives will require an expansion in private investment. Many opportunities for investment exist where Saudi entrepreneurs have actual or potential comparative advantage. In broad terms, these include:

In the **producing** sectors:

- Petrochemical activities.
- Primary metals and fabrication.
- High technology defense-related projects through the Offset Programs.
- Agro-industry processing and high-value added agriculture.
- Intensified export marketing (building materials, food and beverages, plastic and chemical products, fabricated metal products, and agricultural products).
- Competitive import substitution (components and input supplies which provide linkages among industries).

- Natural resource development.
- Establishment of new industries in cooperation with GCC investors.
- Privatization (hydrocarbon processing, etc.).

In the **service** sectors:

- Business services focused on efficiency and productivity improvement.
- Financial industry diversification (leasing companies, venture capital firms, insurance companies, export bank, etc.).
- Manpower training systems.
- Business, financial and economic information services.
- Operations/maintenance/contract services.
- Domestic tourism development.
- Private sector participation in communications, health care, transportation, and education.

7.6 INSTITUTIONAL MEASURES TO SUPPORT PRIVATE SECTOR DEVELOPMENT

An essential precondition for broadening and strengthening the private sector is the establishment of a favorable overall economic environment for private enterprise. To achieve this, macroeconomic policies in the Fifth Plan are focused on a steady expansion of government expenditure, growth in investment in both the public and private sectors, and careful management of economic conditions to support the competitiveness of Saudi industries. Beyond this macroeconomic framework, a number of more specifically targeted initiatives will be considered to achieve the expected progress of the private sector during the Fifth Plan years. The institutional measures for the further development of the Kingdom's private sector form four major thrusts:

- Establishment of a Department for the Private Sector;
- Privatization;

- Expansion of business services;
- Other institutional initiatives.

In addition, an essential requirement of private sector development is the establishment of more comprehensive and advanced financial institutions and markets. This subject is discussed in Chapter 8.

7.6.1 Private Sector Department in the Ministry of Planning

For the private sector to play a leading role in the planning and implementation of the Kingdom's future development, initiatives are required in both the private and government sectors. For the government's part, the sensitivity to private sector issues will be elevated and the range of supporting policies and institutional structures widened. At present, the government realizes the importance of rationalizing the approach of dealing with the private sector and its issues, since private enterprise activities cut across almost all sectors of the economy. To overcome this limitation, a high level policy coordinating body -- such as a Private Sector Department in the Ministry of Planning -- will be considered. The main function of the Department will be to ensure the coordinated development and implementation of policies affecting the investment climate and operations of the private sector in the Kingdom. The Department will provide a forum for consultation and dialogue between the government and leaders of the private sector, sponsor policy research on private sector issues which cross ministry and agency functions, and initiate actions within the government sphere to facilitate the development of the private sector.

The Department will be supported by staff to carry out policy evaluations and research, monitor the continuing development of the private sector and the implementation of private sector policies, and disseminate information on private sector strategic issues to ministries and private sector organizations. The Department will conduct research and policy analyses and will contribute to better policy and program coordination between government ministries and the private sector. Attention will be paid to the following key functions:

- **Evaluation of Private Sector Conditions**

In accordance with the greater role that the private sector is expected to assume in the future, ministries with economic and public service responsibilities will require information on the private sector's composition, capabilities, limitations, and opportunities. Analysis and assessment of the factors that affect the private sector's ability to contribute to more broadly based economic growth are needed. These will include: government policies and regulations; managerial, technical, and entrepreneurial capacity; labor supply and quality; credit availability; specialized infrastructure; and information needs.

- **Policy Impact Assessments**

The most important incentive any government can provide to the private sector is a stable and favorable regulatory and economic environment which makes it easy to invest and conduct business. Existing regulations and procedures which are constraints to private enterprise growth will be identified and evaluated, and corrective actions proposed.

- **Business, Financial and Economic Information Services**

Programs to disseminate information of importance for private sector decision making will be encouraged. As recognized in the Fifth Plan strategy, commercial, financial, market, and economic information is critical to private sector development, and especially in making investment decisions.

- **Proposals for Action Programs**

In addition to providing information, there is a need to develop specific action programs, such as: the formulation of a privatization plan; specialized, low cost business advisory programs for medium size enterprises; regulatory impact assessments; a business information policy; detailed sectoral studies for the private sector; identification of export opportunities and promoting competitiveness in external markets.

7.6.2 Privatization

The objective of reducing government involvement in economic activities that can be efficiently and profitably performed by the private sector was a feature of the Fourth Plan and is given renewed emphasis in the Fifth Plan. The appropriateness of public versus private sector ownership and management control for many economic enterprises should be determined on the basis of which sector is more likely to produce a higher level of efficiency and innovation, and therefore, the greater economic benefit to the Kingdom. Experience around the world has demonstrated that private enterprise, operating in a competitive environment, is usually more likely to meet goals of economic efficiency and growth. An effective privatization program can contribute to a number of key goals of the Plan: increasing private sector investment in the economy; increasing economic efficiency and innovation; increasing competition; reducing subsidies; and encouraging a wider distribution of ownership of economic resources.

The feasibility of implementing a broad range of measures to increase private sector participation will be studied. These measures will include:

- increasing the number of leading businessmen on the governing boards of government-owned enterprises;
- selling selected government enterprises to the private sector;

- selling shares in selected government enterprises to private investors;
- encouraging the private sector to compete with certain government monopolies;
- contracting with private businesses for services currently provided by the government, where possible;
- encouraging the private sector to offer new services in sectors such as communications, that traditionally have been provided only by the government;
- identifying projects that can be undertaken through lease-purchase or build-and-operate agreements with the private sector, or other creative forms of private sector participation in development financing.

During the early years of the Fifth Plan, the government will establish a privatization strategy and implementation plan in consultation with representatives of the private sector. Government-owned companies and functions will be classified into four categories, according to the scale of possible private sector participation:

- strategic activities that will remain as a government responsibility;
- government activities to be transferred completely to private sector ownership and management;
- government activities where joint venture ownership and management with the private sector will be encouraged;
- service activities that can be contracted out to the private sector, or where other private sector participation methods can be implemented.

The implementation of privatization programs requires that the associated process and procedures be institutionalized effectively and at a gradual pace. In some cases, the initial step will be the establishment of joint operations and companies between the private sector and the government, in which the private sector will initially hold a minority share, but will participate actively in their management. The longer term objective is for the private sector to have 70 to 80 percent ownership in most joint venture enterprises. The most important goal is to introduce commercial discipline to the operation of joint venture and government-owned companies.

7.6.3 Business Services

A necessary condition for enhancing the competitiveness of the producing sectors is the availability of modern business services. The increasing complexity of industrial activity around

the world and the employment of more sophisticated technologies has created a growing demand for associated business services. These services include a wide range of specialized expertise in marketing, finance, accounting, management, business law, information technology, research and development, exporting, business strategy, and other important business functions, as well as technical knowledge in areas such as agro-technology, medicine, and engineering. Successful producing industries will become increasingly dependent on business services expertise to meet competitive challenges in both traditional and new markets.

As a key element in the diversification strategy of the Fifth Plan, the emphasis on improved competitiveness for Saudi industry in national, regional, and world markets requires that the business services sector be strengthened. An in-depth analysis of the incidence of business services in the economy will be considered in the Fifth Plan period, and will include their technical capacities, government regulatory and administrative constraints, incentives available, financing requirements, skill needs, and linkages to customers. Based on the findings, policies and development strategies can then be recommended to foster the integration of these business services more effectively with the development process. The objective is to enhance and improve expertise already present in many of these services, and to create a comprehensive infrastructure of business services in support of an expanding, efficient and competitive private sector.

Several initiatives will be evaluated during the Fifth Plan period, including:

- simplifying registration procedures for new business services firms and permitting existing firms to diversify their service activities without re-registration;
- simplifying regulations for offering small government contracts to small businesses, on a preferential basis for example;
- modifying procedures to attract international business services companies to establish joint ventures in the Kingdom, through revision of the Foreign Capital Investment Law and a focused promotional campaign to encourage foreign investment.

7.6.4 Other Institutional Initiatives

The government and private sector institutions, such as the Chambers of Commerce and Industry, have an important role in providing specialized services to support private sector expansion. Seven specific facilitation initiatives are identified below as important factors in the development of the private sector during the Fifth Plan and beyond. These initiatives may be implemented by the government, or by a private sector institution, or through joint efforts by both, as appropriate.

- **Export Promotion and Development**

Saudi Arabia produces a diversified range of industrial, consumer, and agricultural products which are sold primarily in the domestic market. To achieve further expansion and to overcome the limitations imposed by the size of the domestic market, private sector producers must move toward developing the capability to serve larger regional and global markets.

A number of support measures have already been introduced to assist Saudi producers increase their exports. The feasibility of implementing additional measures in the following areas will be evaluated during the Fifth Plan.

- **Export Financing**

The availability of export financing is a key policy instrument used by most countries to support the competitiveness of their exporters in international markets. The shortage of export financing has been rated by the Council of Chambers of Commerce and Industry as an important competitive disadvantage constraining private sector exports. Although, the Islamic Development Bank has expanded its trade financing program for Saudi products, and the Saudi Industrial Export Company has been established, additional efforts will be needed to implement broader export financing mechanisms. This issue is discussed further in Chapter 8.

- **Trade Relations**

Most countries require recipients of their foreign aid to use a portion of aid funds in purchasing exports of the donor country. Since Saudi Arabia's foreign aid donations are amongst the highest in the world as a percentage of GDP, the government will evaluate whether such aid might be a useful mechanism for expanding export opportunities. In addition, current and potential Saudi exporters are greatly affected by tariff and non-tariff barriers in export markets. Therefore, the government will increase its efforts, within the framework of the GCC, to assure that fair access for Saudi goods in foreign markets is obtained.

- **Foreign Investment Promotion**

Foreign direct investment in the Kingdom provides a means to acquire new production and service facilities, and an infusion of technology and managerial expertise. Therefore, the government will continue to encourage and facilitate cooperative business relationships and joint ventures between Saudi and foreign enterprises (such as joint ownership ventures, licensing, contract manufacturing and assembly, management contracting, and supplier agreements). These types of business relationships also

serve to promote trade linkages between private enterprises, and are based on the mutual objective of both parties to improve their competitive position in the domestic and world markets. Foreign investment in the Kingdom provides a number of benefits: the transfer of technology, managerial techniques, marketing expertise, and market information to the Saudi entrepreneur; cost reductions and the sharing of risks; and access to new markets and channels of distribution. It also provides a conduit for information on world market conditions for specific products, which is often beyond the ability of domestic companies to develop on their own.

The Offset Programs are expected to provide an important stimulus to foreign direct investment. Other programs will also be developed to attract foreign investment into the economy. The feasibility of establishing a 'one-stop' foreign investment agency will be studied, along with the introduction of investment incentives to foreign companies that establish export operations in the Kingdom. Means to further facilitate contact between potential foreign investors and experienced Saudi partners will likewise be evaluated, with a view to promoting the formation of joint ventures.

- **Technology Commercialization**

The institutions, resources and expertise that enable effective access to new technologies are increasingly essential to the Kingdom's economic development. Together, these three elements comprise the infrastructure necessary to transfer technology as a major force for new economic growth. Because technology information is very mobile, manufacturers can capture the returns on innovations generated elsewhere. Saudi industry will be encouraged to pursue technology adaptation by taking advantage of currently available 'off-the-shelf' technology products and processes needed to remain competitive, as well as to develop new products and processes that give them a competitive advantage. This process of technology adaptation requires private and government initiatives to develop, test, and implement new applications using advanced technologies. More effective ways of coordinating the technology programs and capabilities of the private sector, the universities, and appropriate government agencies, will be assessed.

- **Business Education**

As the private business sector becomes more diversified and competitive, the demand for personnel with a sound understanding of international business will become even more critical than at present. Initiatives to strengthen the teaching of business related subjects at both the secondary and university levels, and to increase the range of short training programs that provide practical business skills, will be evaluated and

implemented. The establishment of a postgraduate business school to provide advanced education and technical skills in business, will also be evaluated. Consideration will be given to having this institution privately endowed and according the opportunity to the private sector to participate in its management.

- **Small Business Development**

In many countries the leading sources of growth, employment, and innovation are the small, rather than large, businesses. The successful nurturing of small businesses requires appropriate government policies, in addition to financial, technical, and advisory assistance. During the Fifth Plan, new measures will be evaluated and targeted at small businesses that provide inputs to the producing sectors or support export expansion. One area for consideration is the possibility of additional funding and low cost technical assistance programs by the Saudi Credit Bank, which currently has a limited program of financial assistance to a narrow range of small businesses. In addition, consideration will be given to the establishment of a new specialized bank to serve the needs of small businesses.

- **Private Sector Associations**

As the economy develops and becomes more complex, there is a need to establish specialized non-profit associations that provide professional services to their membership, and act as centers for specialized information on industry and professional issues. The Saudi economy has reached a scale where a number of new business organizations could be supported. The establishment and registration of such non-profit organizations will be encouraged, if the business community is interested in supporting such activities.

- **Improving Private Sector Business Opportunities for Women**

Saudi women represent a significant entrepreneurial and financial resource for the economy. While many women already own and manage businesses, specialized and expanded assistance programs will be required, both by the government and the private sector, to fully develop business opportunities for women in accordance with the Sharia. Accordingly, during the Fifth Plan, initiatives will be taken to: identify potential business opportunities for women; review regulations affecting investment by women; investigate new business education courses for women at the schools and universities; explore methods to provide financial and technical assistance to women entrepreneurs who want to start new businesses; study the feasibility of establishing a venture capital company, operated and managed by women, through which women can channel their capital for investment and obtain commercial loans.

CHAPTER 8

FINANCIAL SERVICES SECTOR

8. FINANCIAL SERVICES SECTOR

As the focus of development shifts to private sector activities, the financial sector will have much greater significance for achieving the Fifth Plan's objectives than in previous development plans. Non-oil private sector investment is projected to grow in real terms at an average annual rate of 6.8 percent during the Fifth Plan period. At the same time, the supply of new loans from the specialized credit institutions (SCIs) will be limited to the recycling of repayments on past loans. As a result, private sector growth and diversification will become increasingly dependent on the availability of finance from the commercial banks and other financial institutions. Furthermore, the financial sector is expected to play the paramount role in the financing of development bonds.

8.1 KEY CHALLENGES FACING FINANCIAL SERVICES

Any financial system has three basic economic functions: first, to mobilize resources by offering investment opportunities to savers and holders of financial assets; second, to disburse funds to productive uses in the economy, primarily through loans or equity investments; and third, to ensure efficient intermediation between sources and users of funds.

Although the financial system in the Kingdom has developed dramatically during the last two decades, it needs further strengthening in each of these dimensions to meet the investment requirements of the Fifth Plan more effectively. In this regard, there is a need to expand the range of investment alternatives for savers and asset holders. Opportunities for individuals to invest their personal savings in productive enterprises in the Kingdom rather than in the international money market or in physical assets, such as land and gold, need to be developed. An important step in this direction was taken in the last two years of the Fourth Plan with the issuance of government development bonds, thereby promoting both savings and opportunities for individual investors to increase their participation in the development process. The development of long term debt instruments and equity markets will create more investment opportunities and will add to the development of a domestic capital market.

The financial system is expected to play an increasingly important role in financing productive facilities and equipment. Total investment in the Fifth Plan period is targeted to be SR 386 billion, which represents an average annual real growth rate of 7.0 percent. It is projected that private sector financing will account for 37 percent of this aggregate investment, or SR 144 billion, in addition to the private sector's purchases of government development bonds.

Thus, a need arises for a growing share of the banking system's financial assets to be invested in the Kingdom, and for the range of financial services supporting the business sector to be expanded.

To achieve this ambitious investment target the following initiatives will be pursued:

- Attracting a higher proportion of private savings for investment in the domestic economy by providing profitable, safe, and marketable financial investments.
- Encouraging banks to expand their domestic lending and to provide a wider range of financial services.
- Developing a more broadly based private financial system, through the growth of non-bank financial intermediaries whose services compete with and complement the commercial banks, especially those which are potential sources of long term credit, such as equipment leasing companies and cooperative insurance companies.
- Encouraging the development of efficient capital markets, particularly a more active and efficient equity market.

8.2 FINANCIAL SECTOR DEVELOPMENT DURING THE PREVIOUS PLANS

As the number of banks and bank branches increased, and with the steady improvement in customer service, the volume of bank deposits rose sharply, while at the same time the banks continued to strengthen their capital base and reserves. Over the past twenty years, the total assets of the banking sector have grown rapidly (see Figure 8.1).

The large increase in the deposit base of the banks, however, has not been matched by their local lending and investment activities, as the proportion of loans to total deposits began to decline at the outset of the Third Plan, after peaking at 59 percent in 1400/01. This ratio declined to a low point of 46 percent in 1407/08, but rose again the following year to 49 percent. At the same time, bank assets held abroad increased substantially (see Figure 8.2). This trend away from local lending was caused partly by the slowdown in economic activity during the Fourth Plan, and partly by default and collection difficulties on some outstanding loans, which adversely affected the profitability of most banks. In response to these difficulties, the commercial banks increased their reserves and bad debt provisions substantially and adopted a mortgage debts system, which assisted in rescheduling several loans.

8.3 FINANCIAL SECTOR GROWTH DURING THE FIFTH PLAN

The financial services sector (banking, insurance, business services) accounted for 6.2 percent of non-oil GDP in 1409/10, and this share is targeted to increase to 7.2 percent in 1414/15, with an average annual growth rate of 6.6 percent in the Fifth Plan period.

Figure 8.1

Commercial Bank Assets 1390 - 1408

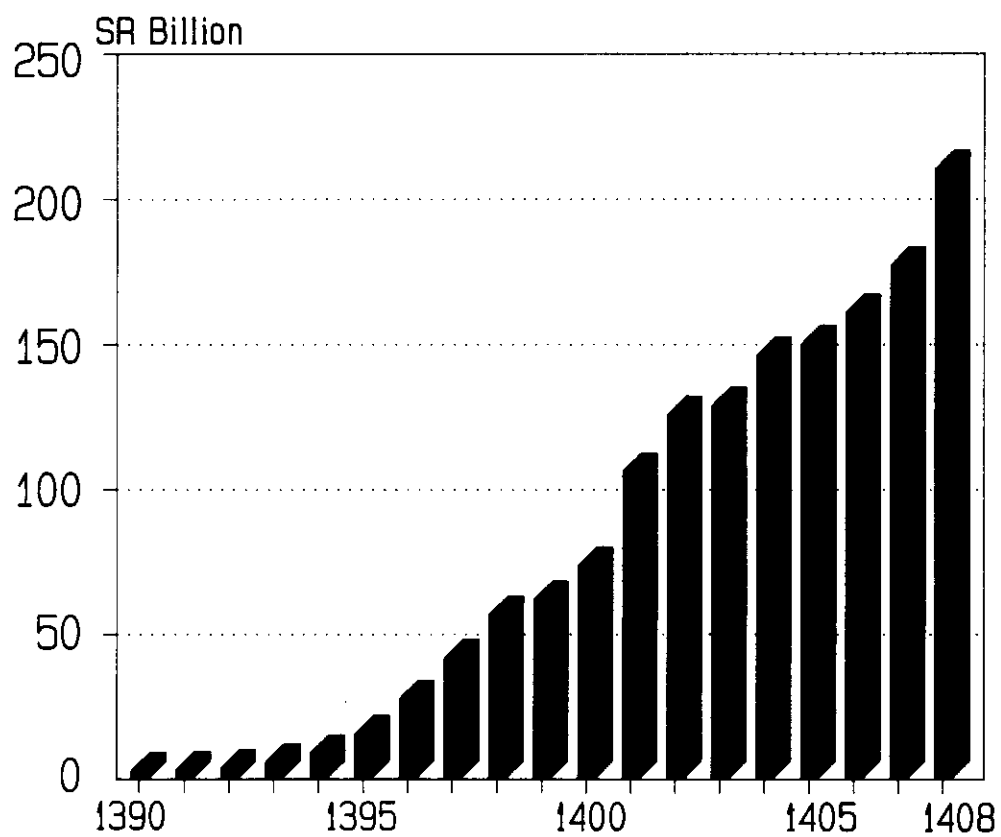
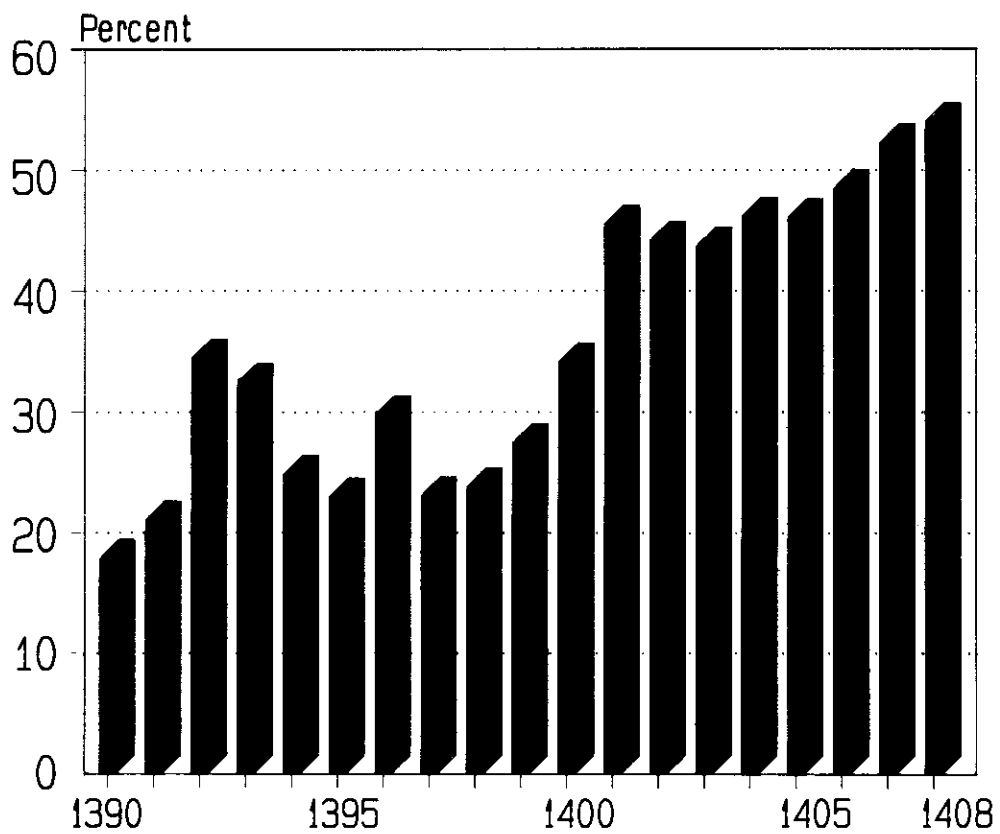


Figure 8.2
Commercial Banks: Foreign Assets
as a Percentage of Total Assets
1390 - 1408



8.4 POLICIES AND INSTITUTIONAL DEVELOPMENT

The need to induce higher levels of private sector investment to achieve the diversification objectives of the Fifth Plan is clear. Two key elements of this policy are the repatriation of Saudi private sector financial assets held abroad and higher levels of new foreign direct investment in the Kingdom. In addition to investment activities already undertaken by the private sector, a key aspect of the private sector development strategy is to expand profitable opportunities for private sector investment in petrochemicals, in export-oriented diversified manufacturing, in selected government enterprises, and in new import substitution activities. In support of this strategy, a number of improvements in the financial system will be necessary in the Fifth Plan period.

8.4.1 Commercial Banks

It is common practice for the commercial banks to concentrate their activities on short-term loans, because 90 percent of their financial base is in short term liquid deposits. Greater participation by the banks in medium and long-term financing requires the introduction of debt instruments that could be easily bought and sold in secondary markets, thereby helping banking institutions to maintain their liquidity ratios.

The objective of increasing the availability of medium to longer term finance in the private sector can be achieved through the establishment of specialized banks or financing companies, owned by the private sector, that will issue bonds on the capital market to cover the long-term financing needs of industrial, commercial and business enterprises. The experience of such private development banks has been a success in many developing countries. The establishment of these specialized private sector credit institutions would require some changes in the banking supervision system, particularly with respect to allowing commercial bank participation in the capital of other companies and banks.

It is widely acknowledged that Saudi commercial banks enjoy a sound financial position, with an average 'core' capitalization of 10 percent (reserves, shareholder capital and retained earnings) compared to 4 percent for international banks generally. Consequently, the potential exists for these banks to establish specialized long term credit vehicles.

8.4.2 Non-Bank Financial Institutions

Non-bank financial intermediaries, such as specialized credit institutions, export development banks, capital markets (equity and bonds), leasing companies, insurance companies, and venture capital companies, need to be developed into important sources of long term finance.

Specialized Credit Institutions (SCIs)

The specialized credit institutions provide long term credit at a relatively low cost and in the past, they have been financed by budgetary appropriations. During the Fifth Plan period, it is expected that most of these institutions will achieve a higher level of self-financing, whereby outstanding loan repayments will be sufficient to meet their new lending activities to the various sectors of the economy.

The assets of these institutions amounted to SR 197 billion in 1408/09, about ten percent less than the combined assets of all commercial banks, and since their inception, loans have exceeded SR 234 billion (see Table 8.1).

TABLE 8.1

Specialized Credit Institution Loans: Cumulative Value to the end of 1408/09

	Value (SR billion)	Share (Percent)
Real Estate Development Fund	91.7	39
Public Investment Fund	63.5	27
Saudi Industrial Development Fund	49.4	21
Saudi Arabian Agricultural Bank	22.8	10
Saudi Credit Bank	3.0	1
Specialized Credit Programs	3.7	2
Total	234.1	100

The Fifth Plan lending objectives of the SCIs have been established to reflect economic conditions and the development stage reached by the various sectors of the national economy, in addition to the SCIs' projected income from loan repayments, which will constitute the major source for new credit throughout the Fifth Plan period. A summary of the SCIs' new loan targets for the Fifth Plan is shown in Table 8.2.

TABLE 8.2

Specialized Credit Institution Loans during the Fifth Plan

	Loans (SR billion)
Saudi Arabian Agricultural Bank	6.9
Saudi Industrial Development Fund	4.5
Real Estate Development Fund	18.4
Saudi Credit Bank	1.7
Public Investment Fund	5.0
Special Credit Programs	0.4
Total	36.9

Proposed Export Development Bank

The feasibility of establishing a private sector-managed specialized institution to promote Saudi exports will be studied. This proposed institution will seek to provide commercial loans to finance local working capital and export operations. Currently, this type of service is not provided by the commercial banks, who currently confine their financing activities to the transfer of payment when delivery actually takes place. An export development bank could offer Saudi exporters:

- A program to guarantee working capital loans needed before actual export delivery occurs. These loans would be made by a commercial bank to a Saudi exporter and the export bank would guarantee repayment of, for example, 80 percent of the principal. Thus, the commercial banks would retain only a 20 percent risk on the loan.
- Credit insurance to fully cover export losses resulting from war, expropriation, currency inconvertibility and to partially cover commercial losses arising from nonpayment by the buyer because of insolvency or default.

Development of a More Effective Stock Exchange

The Saudi corporate securities market has expanded significantly in recent years. The value of shares traded through the commercial banks reached SR 1.9 billion in 1408/09 (see Table 8.3). However, the percentage of the value traded each year relative to the total value of the shares listed, has decreased.

A properly regulated active stock exchange could play a critical part in the Kingdom's economic development, through:

- stimulating the supply of stock capital to business enterprises;
- creating opportunities for the public to participate in the ownership of companies, thus leading to a more broadly based contribution in support of private sector development;
- greater use of financial vehicles whereby an adequate range of risk/profit opportunities is made available to private investors, thereby also helping to expand domestic savings and investment;
- establishing fair prices for securities and minimum trading costs, thus leading to a more efficient distribution of capital.

TABLE 8.3

**Shares Traded through Commercial Banks
and Joint Stock Companies Listed**

	1408/09
Shares Listed (SR billion)	80.6
Shares Traded (SR billion)	1.9
Value Traded as Percent of Listed Value	2 %
Number of Shares Traded (millions)	14.6
Number of Joint Stock Companies Listed	52

The current stock exchange mechanism is rather slow and very complicated, as the processing of a stock issue can take up to two years. Individual stock transactions require between one week and two months to complete and, more often than not, the buyer must reach the seller by his own means. Thus, blocks of shares may not be broken up to match the needs of buyers. These obstacles result in significant gaps between bid and asking prices, thus indicating that the price mechanism is not working efficiently. Therefore, consideration will be given to the establishment of a more effective stock exchange, with appropriate state regulation and control to avoid detrimental speculation. Given rapid technology improvements in computer based stock transactions, there is an excellent opportunity to introduce state-of-the-art systems that would be compatible with other GCC stock exchanges.

Prerequisites for an effective stock exchange are the uninterrupted availability of comprehensive financial data and the assurance of equal opportunities for all investors. An efficiently functioning stock exchange, operating under state regulatory controls, will have important developmental impacts on the entire financial sector. It would endeavor to improve financial and legal procedures, induce the establishment of intermediary institutions, and improve the availability of business and financial information. It would constitute an important vehicle for acquiring practical knowledge of finance, industry, technology and economics in general. Furthermore, it would lead to the creation of employment opportunities for Saudi citizens in the financial sector.

Leasing Companies

The lack of finance needed for the direct purchase of plant and equipment can be a major obstacle facing new companies, particularly smaller ones. In this regard, capital equipment and plant leasing companies can be an important source of long-term finance for enterprises. By leasing plant and equipment, enterprises can obtain the immediate benefits from its use without the need to raise the required capital. Therefore, plant and equipment leasing can promote rapid growth in private investment. The success of this form of finance depends on the availability of a legal framework that will enable the leasing company to repossess its equipment in the event of a leaseholder defaulting on repayments. Such a framework requires modifications and clarifications to some existing regulations.

Leasing could also provide an effective mechanism for private sector participation in financing the construction of school buildings and other public facilities, to be leased subsequently to the government. A part of the annual installment payment would constitute the rental equity, and when all payments had been completed, ownership of the facility would be transferred to the government.

Insurance Companies

In the developed countries insurance companies extend direct loans and mortgages to their policyholders and are a major source of long term finance. In the Kingdom, the insurance sector makes an important contribution to the development of the financial sector. However, the role of the insurance companies in development could be greatly expanded if they were to invest a greater proportion of their premium income domestically, instead of overseas where the bulk of collected premiums are currently invested. Furthermore, reinsurance operations are mostly located in the main international insurance centers. To rectify this situation and to develop the domestic insurance market, the government established the National Company for Cooperative Insurance as a Saudi joint stock company (paid up capital SR 250 million).

The insurance sector should be developed by consolidating through mergers the smaller private sector insurance companies into a larger cooperative insurance company to operate

according to Sharia principles, and by the creation of a reinsurance industry composed of large joint stock companies with adequate capital, reserves and technical trained staff.

Venture Capital Companies

Venture capital is temporary start-up financing in the form of equity capital or loans, with returns linked to profits and with some measure of managerial control. Venture capital is ideally suited to projects involving uncertainty, poor information, and lack of collateral on the part of the owners. The operations of venture capital companies require a pool of entrepreneurs and an environment conducive to private sector initiatives. In addition, an active stock exchange or an adequate network of business investors is essential, so that stocks and shares can be traded.

During the Fourth Plan, a number of venture capital companies came into being to establish new manufacturing enterprises. In the Fifth Plan period, non-bank financial enterprises could offer attractive investment opportunities for new specialized venture capital companies.

CHAPTER 9

NATURAL RESOURCES

9. NATURAL RESOURCES

This chapter outlines the main objectives, policies and programs for the development of the Kingdom's water, energy and mineral resources. Included in this chapter is a discussion of the key issues that must be addressed in each sector in order to attain the longer term development goals.

9.1 WATER

9.1.1 Role and Development Objectives

In a desert climate, such as that pertaining in Saudi Arabia, water is the most important of all natural resources. This fact has been clearly recognized throughout the development planning process, and the availability of water has been a key element in determining the scale of longer-term development. The strategic role of the water sector is to meet the water demands of the various user categories through efficient exploitation of available water resources at the least cost and without unnecessary depletion of non-renewable fresh water resources.

Development of the water sector will be guided by the following longer term objectives:

- To provide sufficient quantities of good quality water, in keeping with recognized international health standards, to meet the needs of urban and rural communities;
- To secure sufficient water supplies to meet the demand of industrial development activities;
- To satisfy the water requirements of modern agricultural operations that aim to attain a prudent degree of basic food self-sufficiency;
- Endeavor to reduce water consumption by agriculture, without affecting its targeted growth rates;
- To conserve and develop currently proven water resources efficiently, and to seek new water resources;
- To generate sufficient revenues to cover operating costs for water production and distribution.

9.1.2 Achievements and Key Issues

During the Third and Fourth Development Plan periods a considerable increase in water production was achieved throughout the Kingdom in meeting citizens' needs for potable water supplies. During the Fourth Plan, eight desalination plants were constructed with a combined capacity of 374,000 cubic meters per day, thus bringing to 27 the total number of desalination plants in operation, with a total capacity of 1.9 million cubic meters per day. During the Fourth Development Plan, the Water and Sewerage Departments completed a water supply network amounting to 4166 kms and involving 136,000 new house connections. Total sewerage networks completed amounted to 2975 kms, with a further 122,000 house connections added during the Fourth Plan. Furthermore, the availability of large water supplies for irrigation has contributed to the successful development of agriculture.

As a result of an intensive dam construction program, particularly in the Western and South-Western planning regions, the utilization of the Kingdom's renewable water resources (surface water and shallow aquifers) has almost doubled since the year 1400. Further development of renewable water resources is an important element of the water supply augmentation process in the future. Table 9.1 shows the progress made in the development of water resources over the past 10 years.

TABLE 9.1

National Water Balance
(million cubic meters per year)

	1400	1405	1410
Water Demand			
Municipal & Industrial	510	1,200	1,650
Irrigated Agriculture	1,850	7,400	14,580
Total	2,360	8,600	16,230
Resources Utilized			
Surface Water & Shallow Aquifers (Renewable Water)	1,140	1,850	2,100
Desalinated Water	50	330	540
Reclaimed Waste Water	—	100	110
Non-renewable Water (deep aquifers)	1,170	6,320	13,480
Total	2,360	8,600	16,230

Key Issues

Notwithstanding the great achievements in developing the Kingdom's water resources, several key issues remain unresolved at the end of the Fourth Plan period, and have hindered the orderly development of a rational utilization program for the Kingdom's scarce water resources. In the last ten years, only limited field investigations have been undertaken to increase the proven reserves of non-renewable water contained in seven principal and eight secondary aquifers. Over this period, annual water extraction of non-renewable ground water has increased more than tenfold, mostly because of the rapid expansion of agriculture, and of wheat production in particular. This high growth rate in wheat production has been closely linked to high depletion rates of non-renewable water resources.

Other obstacles that hamper efforts to establish rational water management in the Kingdom are:

- the delay in completing the National Water Plan, halted in 1403 after an intensive 3-year effort by the Ministry of Agriculture and Water;
- the failure to complete some of the hydrogeological studies necessary to form a sound data base for completion of the National Water Plan and the updating of estimates of proven water reserves in principal and secondary aquifers;
- inadequate institutional arrangements for the effective management of the Kingdom's water resources development, and lack of effective coordination between concerned agencies;
- the lack of progress in transferring some water supply functions from MOAW to MOMRA;
- lack of incentives for less water intensive industrial development;
- little progress made in reclaiming waste water for agricultural, recreational and industrial purposes and for ground water recharge.

9.1.3 Role of the Government and the Private Sector

The government will continue to play a dominant and decisive role in planning, allocating and managing the utilization of the Kingdom's water resources. This role will require a review of the water sector's institutional arrangements that will be most appropriate to its responsibilities.

Furthermore, to meet the need for long term sustainable supplies of water, additional investment in some water treatment and distribution systems, and desalination plants, is expected during the Fifth Plan. The private sector will be encouraged to participate in financing some of these investments.

9.1.4 Policies and Main Programs

The principal policies that will govern water development both during the Fifth Plan period and further into the future are:

1. A phased conservation program will be established through the implementation of a water fee structure and revenue collection system, that will eventually generate sufficient funds to cover all operating costs of producing and delivering water to the various user categories.
2. Regulations concerning the conservation of water will be fully enforced, and water consumption for agricultural purposes regularly monitored.
3. Subsidies towards the cost of well drilling and pump purchases should be re-evaluated. Subsidies for irrigation equipment and water saving technology applications (e.g. increased use of greenhouses for production of vegetables), will be retained.
4. Hydrogeologic studies of principal and secondary deep aquifers will be resumed, in order to increase knowledge of the proven non-renewable water resources in the Kingdom. These studies will include the drilling of exploration and observation wells, pumping tests, water quality determination, and monitoring the aquifers under exploitation by means of field observations and ground water model simulations. Likewise, water management studies of renewable water resources utilization, and feasibility studies for proposed desalination and waste water reclamation projects, will be continued. These study programs will serve to establish a sound data base for completing the National Water Plan.
5. The National Water Plan will be completed, along with the National Water Code and related legal documents for enforcement. The primary aims of the National Water Plan are to maintain a strategic reserve of non-renewable water resources, by emphasizing secure water supplies to the Kingdom's population, its industrial enterprises, and water-efficient agricultural undertakings. Adverse effects on the environment must be minimized.

Main Programs

The main programs in the water sector will be undertaken during the Fifth Plan by three government ministries and agencies. The **Water Affairs Department of MOAW** has three major programs:

- (i) Water resources development, which aims at the development of surface water resources, reclaiming of waste water, and preparation of the National Water Plan based on comprehensive water resources assessment;
- (ii) Drinking water supply systems;
- (iii) Operation and maintenance.

The **Saline Water Conversion Corporation (SWCC)** operates and maintains the desalination plants throughout the Kingdom. SWCC will continue its further development and construction of desalination plants. The most important projects to be undertaken during the Fifth Plan will be the Jeddah-Makkah-Taif plant, the Qunfudah plant, phase three of the Jubail plant, phase two of the Yanbu-Al Madinah plant and the third phase of the Al Khobar plant. The possibility of mobilizing private sector resources for the realization of one or more of these plants, on the basis of build-operate-transfer agreements, will be actively pursued.

Al-Hassa Irrigation and Drainage Authority (HIDA) programs will include operation and maintenance of irrigation and drainage facilities in Al-Hassa and Al-Qatif areas.

The main programs of the **Ministry of Municipal and Rural Affairs (MOMRA)** will include the further expansion, operation and maintenance of the water network, the waste water collection and treatment system, and the installation of water meters.

9.1.5 Fifth Development Plan Targets

A major objective in the water sector during the Fifth Plan period is to reduce the rate of water consumption in the Kingdom. This can be achieved through conservation measures, higher efficiency in the use of water and by switching agricultural production away from highly water intensive crops, especially in areas that depend almost exclusively on non-renewable water resources. In this regard, water pricing has the important dual purpose of promoting much needed water conservation within the various user sectors and of generating additional revenues for the government.

The Fifth Plan will seek to achieve the following targets:

Water Conservation

Total water use in the Kingdom will be reduced by 8 percent, from 16.2 billion cubic meters per year in 1410 to 14.9 billion cubic meters per year in 1415, compared with a total increase of 89 percent during the Fourth Plan period. The reduction in water consumption will be the result of the projected decline in agricultural consumption from 14.6 billion cubic meters per year at the beginning of the Fifth Plan to 12.7 billion cubic meters per year at the end of the Plan period. The change in the consumption rate by agriculture is expected to take place through changing crop patterns, the intensification of water saving techniques and other appropriate measures, all of which will not affect the desirable growth rate of agricultural production or its value added.

Change in Water Balance

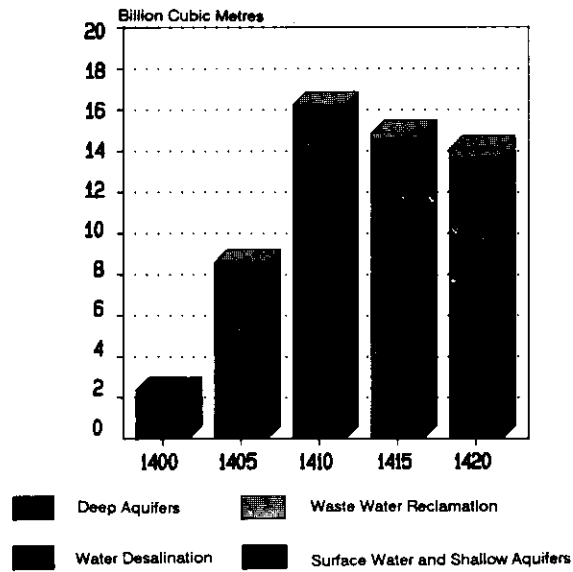
Table 9.2 shows the anticipated change in the national water balance as a result of the conservation measures, with emphasis on a reduction in the consumption of non-renewable water resources, and an increase in the share of all other water resources.

TABLE 9.2

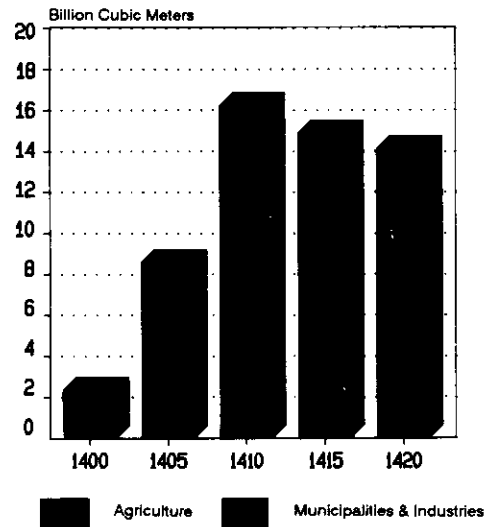
Water Conservation Impact on National Water Balance
(million cubic meters per year)

	1410	1415
Water Demand		
Municipal & Industrial	1,650	2,200
Agriculture	14,580	12,675
Total	16,230	14,875
Resources Utilized		
Surface Water & Shallow Aquifers (Renewable Water)	2,100	2,200
Desalinated Water	540	840
Reclaimed Waste Water	110	290
Non-renewable water (deep aquifers)	13,480	11,545
Total	16,230	14,875

Figure 9.1
National Water Balance
Water Resources Utilized



Water Demand



The targeted decrease in water consumption can be achieved, notwithstanding the expected increase in agricultural output, as a result of:

- a rationalization of water consumption patterns;
- the adoption of water-saving techniques, such as drip irrigation and greenhouses;
- a shift to less water-intensive crops.

Water Revenues

Given the effective implementation of related programs and policies, water revenues are projected to reach SR 4 billion in 1415.

Saudiization

In the area of manpower development, non-Saudi manpower will be replaced by Saudis, who will make up 96 percent of total manpower in 1414/1415, compared with 95 percent in 1409/1410.

9.1.6 Financial Allocations: Water Sector

The financial allocations for the water sector during the Fifth Plan are shown in Table 9.3:

TABLE 9.3
Fifth Plan Financial Allocations: Water Sector
(SR million)

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
Ministry of Agriculture And Water (Water Affairs)	— *	1,240	3,425	4,665
Saline Water Conversion Corporation	220	3,590	12,988	16,798
Al-Hassa Irrigation and Drainage Authority	595	85	50	730
Total **	815	4,915	16,463	22,193

* Administration expenditures for salaries, supplies and services are included in the agriculture sector (Section 10.1).

** MOMRA expenditures on water, sewerage, rainwater drainage and flood control are shown in Chapter 15.

9.2 ENERGY

9.2.1 Role and Development Objectives

As a result of its eminent position amongst the world's oil producing and exporting countries, the Kingdom has assumed an important role in international trade. In the context of this role and in the conduct of its oil policy, the Kingdom seeks to maintain stable world oil prices and continued supplies of oil to the industrialized countries, with the aim of attaining a balance between producer and consumer interests.

Although the Kingdom's long term objective is to bring about structural change in the economy, by means of a gradual transformation from dependence on oil as a primary source of national income to a multi-resource economy, oil revenues will continue to be the government's main source of income for many years to come. The oil sector will, therefore, continue its development. Although Saudi Arabia possesses the largest share of hydrocarbon proven reserves in the world, the build-up of knowledge about alternative energy technologies and their development are important elements in the Kingdom's long term development strategy. This is particularly true in the case of solar energy for desalination activities and for some agriculture-related ventures.

The following general objectives have been established for energy sector development during the Fifth Plan:

- To conserve and manage hydrocarbon resources for the maximum long term benefit of the Kingdom with due regard to the environmental dimension;
- To rationalize oil companies' activities and to attain greater efficiency and optimal use of resources;
- To ensure that international trading relations and the Kingdom's marketing policies are compatible with the national objectives for oil and gas development;
- To achieve maximum returns from refining and other downstream activities;
- To develop a domestic marketing strategy for lubricating oils and to promote the exports of those lubricants that can be profitable;
- To develop or acquire technologies of renewable and other energy sources which contribute to the realization of national goals;
- To conserve energy and to induce efficiency in the use of oil products on the part of local consumers.

9.2.2 Achievements and Key Issues

Successful exploration activities undertaken during the Fourth Plan period and a re-assessment of existing oil fields have resulted in an increase in the Kingdom's proven oil reserves to an estimated 315 billion barrels in 1989. This has considerably strengthened Saudi Arabia's position as the world's largest holder of oil reserves. Furthermore, Saudi Arabia has played its full part within OPEC in bringing stability to the world oil market.

On the domestic front, the Kingdom has pursued a vigorous policy throughout successive development plans to make optimal use of its oil resources. Nine refineries have been constructed serving both domestic and export markets, in addition to a Kingdomwide distribution network. A modern petrochemical industry has also been established through the construction of 15 industrial complexes which, despite various hurdles, have managed to successfully penetrate world markets with their high quality products. The Kingdom's oil resources have therefore been used to generate higher value added activity and have contributed to the emergence of an industry-oriented generation of Saudi citizens who shoulder a major portion of the tasks of management, operation, maintenance, and development of these industrial complexes, as well as marketing of their products. In order to complete the vertical integration process and to secure essential feedstock supplies for the Kingdom's industrial complexes, the second stage of the non-associated gas gathering program has been completed and further exploration activity undertaken.

Measures were also taken during the Fourth Plan years for completing the transfer of the assets of the Arabian American Oil Company (ARAMCO), which has now become the Saudi Arabian Oil Company (Saudi ARAMCO). In addition, the Saudi Arabian Marketing and Refining Company (SAMAREC) was set up in 1408, as part of the re-organization of the Kingdom's oil industry. Another successful achievement in expanding various aspects of the Kingdom's oil industry has been the joint venture formed by Saudi ARAMCO with the leading U.S. refined oil marketing company 'TEXACO'. The integration of oil production stages achieved through this joint venture, has secured additional marketing capability for the Kingdom's oil sector, which can guarantee its market share, ensure sufficient supplies to consumers and upgrade profitability of the oil refining sector. The achievement made in this respect has, therefore, unequivocally demonstrated the Kingdom's ability to shoulder its responsibilities at domestic, regional and international levels.

During the Fourth Plan, a series of solar energy applied research projects was conducted under the supervision of the King Abdul Aziz City for Science and Technology (KACST). A photo-voltaic solar electric power plant supplying energy to three remote villages was monitored and evaluated. Studies on solar hydrogen production and solar powered desalination were completed. As part of the Kingdom's activities in nuclear energy, a research program on the prevention of radiation was conducted.

Key Issues

Prices and Energy Consumption

Throughout successive development plans it has been the Kingdom's policy to make refined oil products available to domestic consumers at subsidized prices. However, the level and structure of oil product prices in the domestic market are not conducive to energy conservation or rationalization of energy use. Consequently, domestic consumption has been growing at a relatively high rate. Furthermore, under the terms of OPEC agreements, if this trend were to continue it would reduce the share of oil exports in total production, thereby leading to lower potential export revenues. These issues call for a review of the present pricing policy for domestic energy consumption.

Refineries' Product Slate

The demand for refined oil products, both in terms of quantity and quality, is governed by domestic and international market forces, which have recently led to a marked growth in demand for lighter products. This trend requires continued efforts to improve the technical design and increase the efficiency of oil refineries, in order to achieve greater flexibility and responsiveness to market needs for these products, and to improve the economic rates of return in the refining sector.

Consumption of Natural Gas

The past constraint on the availability of associated gas for domestic users has been greatly alleviated during the Fourth Plan period as a result of two factors -- the non-associated gas fields brought into production, and the completion of the second stage of the gas gathering program. Nevertheless, projected future growth in demand for natural gas over the medium to long term requires measures to increase the availability of natural gas, both as a fuel and as a feedstock. A further consideration in this regard is that flexibility in feedstock and fuel inputs can be a design feature of future domestic industries.

Domestic Product Distribution

A large proportion of oil products consumed domestically is being transported overland by tanker trucks. This is both a high cost mode of distribution and has undesirable road safety implications. Measures are therefore needed to develop a cost effective and safe method of distributing oil products, such as constructing additional product pipelines and bulk storage facilities.

9.2.3 Role of the Government and the Private Sector

The role of the Ministry of Petroleum and Mineral Resources in administering most activities in the energy sector will be continued, and will be further enhanced during the Fifth Plan period. However, the Kingdom's energy sector will undergo organizational changes, at

both local and international levels. The Saudi Arabian Oil Company (Saudi Aramco) will assume its role in exploration, development, production and marketing of crude oil. The Saudi Arabian Marketing and Refining Company (SAMAREC) will be responsible for the management and operation of the oil refineries and the marketing of refined products. Petromin subsidiaries currently engaged in blending and marketing of lubrication oil and lubricants will be merged into a single company, the Petromin Lubrication Oil Company ('Petrolube'), which will become the only Petromin company involved in the blending and marketing of lubrication oil and lubricants in both domestic and international markets.

As part of its privatization efforts the government will consider offering shares in SAMAREC for public subscription. The private sector will continue to expand in domestic gasoline and lubricant oil retailing, and in the supply of services, components, construction and equipment to the energy sector.

9.2.4 Policies and Main Programs

The energy sector objectives will be pursued through the following policies:

- Adopt a production policy which, in the long term, reflects the structure of hydrocarbon resources contained in the national reserves;
- Continue to restructure and consolidate the activities of existing companies in order to achieve greater efficiency;
- Apply commercial criteria in all downstream operations and related services;
- Revise domestic oil product prices to reflect production costs;
- Encourage private sector participation in the management and ownership of energy related services;
- Strengthen the Kingdom's role in the organization of the Arab Petroleum Exporting Countries (OAPEC) and the Organization of Petroleum Exporting Countries (OPEC);
- Implement design modifications to existing refineries to allow sufficient flexibility in meeting the level and structure of demand for oil products;
- Increase the availability of natural gas by developing additional sources of non-associated gas and expanding the capacity of the gas gathering program;
- Develop an adequate, efficient and safe domestic storage and distribution network for oil products;

- Conduct applied research in the fields of renewable and other energy resources deemed viable for development in the Kingdom.

Main Programs

These policies will be implemented through a set of programs, foremost among which will be: the operation and maintenance program; petroleum studies and research program; facility and support services development program; solar energy research; and petrochemical research.

9.2.5 Fifth Plan Growth Targets

The value added of the petroleum refining sector is expected to grow at an average annual rate of 5.4 percent during the Fifth Plan period. The other main targets of the energy sector are:

- to construct 334 kms of pipelines per year as part of the petroleum products distribution network;
- to raise the petroleum depots' bulk storage capacity from 21 million barrels in 1409 to 29 million barrels at the end of the Plan period;
- to develop a solar chimney and a solar greenhouse in the context of solar energy research and development, and to undertake seven diverse solar energy related research projects;
- in the area of manpower development, to replace non-Saudi manpower by Saudi nationals during the Fifth Plan period, thus increasing the number of Saudis from 92.5 percent of the total work force in 1409/10, to 95.5 percent in 1414/1415.

9.2.6 Financial Allocations: Energy Sector

The financial allocations for the energy sector during the Fifth Plan period are shown in Table 9.4.

TABLE 9.4

**Fifth Plan Financial Allocations: Energy Sector
(SR million)**

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
Ministry of Petroleum and Mineral Resources	379.0	20.0	224.0	623.0
General Organization for Petrol- eum and Mineral Resources (Petromin)	296.5	13.5	—	310.0
Total	675.5	33.5	224.0	933.0

Note : 1. No allocation is made on the government budget to cover Petromin's project expenditure which is estimated at about SR 11 billion.

2. Allocations for alternative energy R&D have been included in KACST allocations (Chapter 12).

9.3 MINERAL RESOURCES

9.3.1 Role and Development Objectives

The territory of the Kingdom contains abundant minerals and metals, as well as hydrocarbon mineral resources. Although non-oil mineral resources are far less significant than the latter, their development has the potential to contribute to the economic diversification of the Saudi economy. Exploration and development of non-hydrocarbon mineral resources has, therefore, been a consistent objective of the government throughout successive Development Plans. The fifth basic strategic principle states in this respect:

‘Developing economically promising natural resources, such as the exploration of mineral and sea resources, the mapping of their location, their further development and utilization, and the processing of available natural gas to the maximum extent possible.’

Further development of mining activities is both possible and desirable, as it will have several positive effects on the national economy:

- it will constitute a source of additional revenue for the government;
- it will generate additional exports and contribute to export diversification;
- it will create new opportunities for the creation of industrial activities in the Kingdom;
- it will attract private investment into mining activities and associated manufacturing industries;
- it will contribute to harmonious regional development and to an improvement in the regional balance.

There are two main components in the minerals sector:

- the quarrying of building materials for use in the construction industry;
- the extraction of metals for further processing and industrial use.

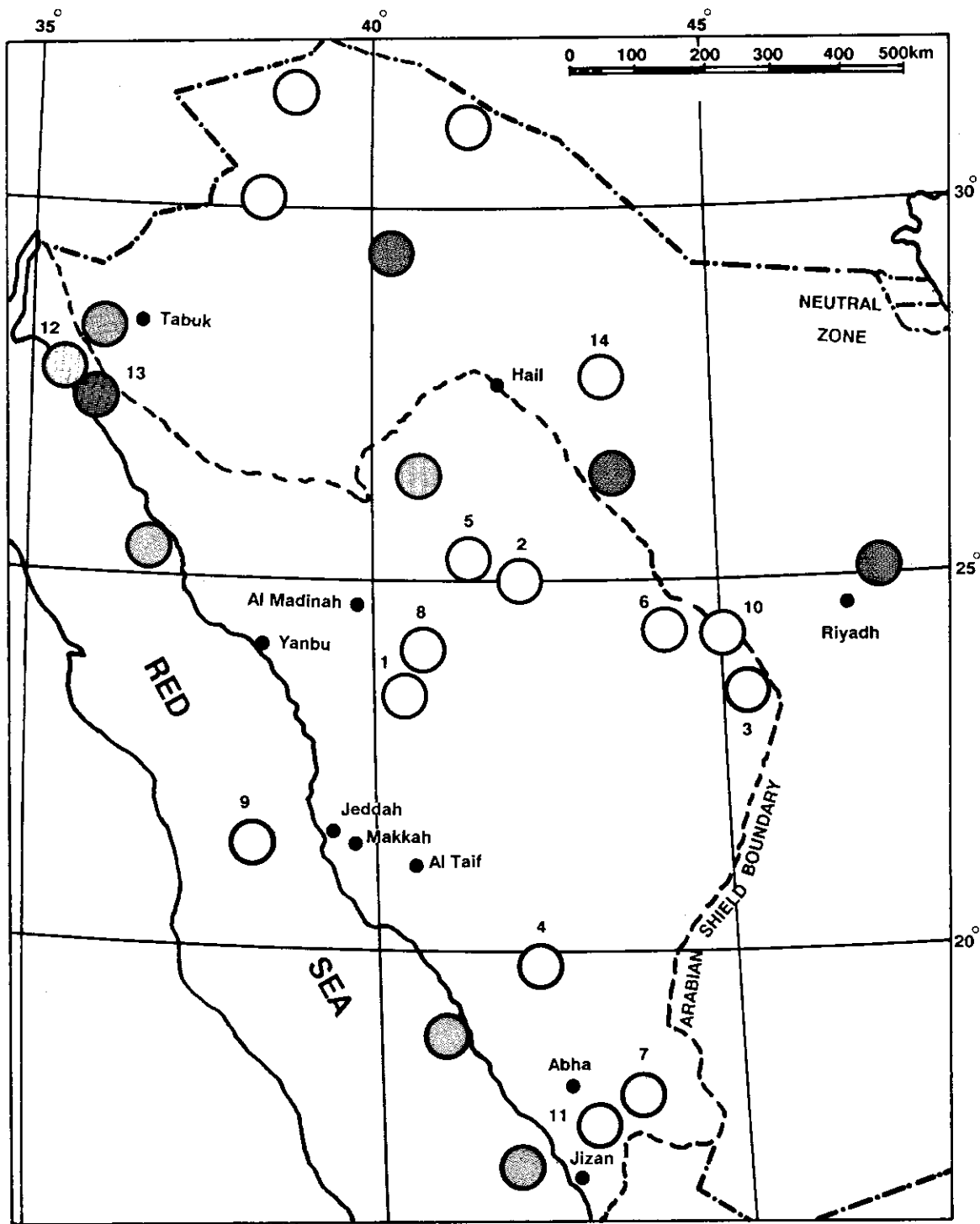
The first segment has received greater attention since the early stages of development, predominantly as a result of private initiative and in response to the needs of the domestic construction industry. The extraction of metals has also been supported by the government, and as a result, two mines started production during the Fourth Development Plan period. Together, these two activities accounted for 1.8 percent of non-oil GDP in 1409/1410, and employed some 3,500 workers.

9.3.2 Achievements and Key Issues

Through considerable government efforts during previous Development Plans, a sizeable number of mineral deposits have been explored. Within the context of these endeavors, enormous knowledge of the Kingdom's geology and mineral potential has been gained, and as a result, a data base has been established that has helped to identify a number of mineral projects and deposits that give a sound basis for the development of the Kingdom's mining industry.

A start was made at the end of 1408, when the first gold mine, Mahad ad Dahab, achieved full production. The second gold mine, Sukhaybarat, is scheduled to reach that stage in 1411.

Major Deposits



LEGEND

	GOLD-SILVER		COPPER-ZINC		NIOBIUM-TANTALUM-URANIUM		PHOSPHATE
	1. Mahad ad Dahab (Au,Ag,Cu,)		7. Al Masane (Zn,Ag,Cu,Au)		12. Ghurayyah (Nb,Ta,I,Th,U,)		
	2. Sukhaybarat (Au)		8. Jabal Sayid (Cu)		IRON		MAGNESITE
	3. Al Amar (Au,Zn)		9. Altantis II (Zn,Ag,Cu,Au,)		13. Wadi Sawawin		
	4. Al Hajar (Au)		10. Khnaiguiyah (Zn,Cu,)		ALUMINUM		POTASH
	5. Nuqrah (Ag,Au,Zn,Cu,)		11. Kutam (Cu,Au,Ag,)		14. Az Zabirah (Bauxite)		SILICA SAND
	6. Samrah (Ag,Au,Pb,)						
- Note: Producing quarries for Cement, Clays, Structural Materials

Note: Producing quarries for Cement, Clays, Structural Materials and Ornamental Stones are not shown.

Key Issues

In accordance with the directives of the Custodian of the Two Holy Mosques, as well as with the strategic principles, an effort will be made in the Fifth Development Plan period to overcome the administrative and legal complications that still constrain private sector participation in this sector. Issuance of the regulations governing mining activity, as well as the mining concessions that are currently under study, will be actively pursued.

Due to the fact that the Saudi mining industry is still at the infancy stage of its development and lacks the necessary know-how, every possible effort will be made to promote the participation of specialized international foreign companies in investment in the Kingdom to facilitate the transfer of know-how. Mining and tax laws will also be modified and a business-like approach will be adopted with a view to keeping abreast with on-going progress in this field.

9.3.3 Role of the Government and the Private Sector

The respective roles of the government and the private sector are determined by the Mining Code, which confirms that the government will continue to play an important administrative and regulatory role, but the driving force for the development of mining activities will be provided by private enterprise. The government will assume its role through the Ministry of Petroleum and Mineral Resources, which will undertake basic geologic works (like geological surveys), mineral exploration and development, in addition to supervision and follow up of quarrying and mining activities. The relative importance of the basic geological work will increase in the Fifth Development Plan period, as the private sector is expected to become increasingly involved in exploration activities, thus relieving the government of some of its current tasks.

The Ministry of Petroleum and Mineral Resources will promote and support private mineral investment, and regulate and monitor investment in order to assure its contribution to national economic development. The Third Basic Strategic Principle states in this respect:

‘Acquainting investors regularly with results of official studies relating to mining; encouraging investors to undertake the utilization and development of available minerals; allowing companies to invest in minerals that have been discovered; and encouraging investment in mining through such means as the provision of basic infrastructure.’

Mining activity in the Kingdom is at an early development stage. The government, therefore, through Petromin, has embarked directly into the production of minerals, as in the case of the Mahad ad Dahab project. The 100 percent government funded and managed Mahad ad Dahab project has so far not been able to fulfill all expectations, namely efficient performance and an acceptable level of profitability. Some problems in the gold project can be attributed to the fact that this is the first experience with a mining operation for a petroleum and refining organization.

Under the current legal system as well as in the proposed reform of the Mining Code, most mining ventures will have varying degrees of government equity participation. Such participation has to be held and exercised by a government body with special experience in and concentration on mineral investment. In line with the current reorganization in the role and functions of Petromin, its minerals branch activities will also be reassessed. In this context, and in view of the above mentioned need, consideration will be given to the establishment of a separate, independent 'MINCO' (mining company) to act as a holding company for government participation in mining projects.

9.3.4 Mineral Resources Policies and Main Programs

In order to meet the unresolved issues and eliminate obstacles to the attainment of the sector's long-term objectives the following policies will be implemented:

- Carry out the general geologic survey work and update geologic information; continue the search and exploration of mineral deposits applying modern methods and technologies; and evaluate the technical and economic feasibility of promising mineral deposits.
- Advise the community about risks that result from earthquakes, land subsidence, and volcanic activity.
- Encourage the private sector to participate in and invest in the exploration, development, and exploitation of mineral deposits; acquaint potential investors regularly with the results of public efforts in mineral exploration; promote policies, regulations, and laws governing mining and related activities to create a conducive environment for investments; and ensure compliance with laws and regulations.
- Promote small- and medium-scale mining by providing financial and technical assistance to private enterprises, and by purchasing mineral ores and concentrates; support the development of mining through assistance in the provision of the necessary basic infrastructure; and encourage mining development through support services and downstream processing industries.
- Develop the Sukhaybarat mine together with the joint-venture partner, and optimize production and improve profitability at the Mahad ad Dahab gold mine.
- Increase efficiency of the regulatory and supervisory functions.
- Continue to train Saudi nationals in all aspects of sectoral activities, thereby increasing their abilities and skills to replace non-Saudi manpower.

Main Programs

Implementation of the proposed policies will be pursued through several programs, including:

- **Geological Services**, whose objective is the production of the basic geological data and information, as well as the provision of the required geologic services to the community. It will include geologic mapping as well as geologic studies for civil engineering, hydrogeology, and geologic hazards. The probability of earthquakes, volcanic eruptions and land subsidence will be investigated and monitored.
- **Mineral Exploration**, whose prime objective is the discovery and investigation of mineral deposits.
- **Mining Development** will be carried out, under which ore reserves will be studied, and mining and beneficiation characteristics of selected deposits investigated, particularly those of special national interest that have not yet attracted private partners.
- **Regulatory Supervision**, under which mining policies, laws and regulations governing mineral activities will be enforced. The organization of the sector will be reassessed in the light of the revised Mining Code. An investment promotion department will be established. The DMMR Licence and Concessions Department will evaluate applications for reconnaissance permits, exploration licenses and mining leases and assist interested parties in the preparation of applications for the legal documents.

Other programs include the provision of Support Services and Manpower Development.

A special program is devoted to the reorganization of Petromin's minerals branch. The Mahad ad Dahab project will be transformed into an independent profit center with a totally commercial work approach. Petromin's role will be similar to its function in SAMAREC, that of a holding company. The same approach will apply to the Sukhaybarat gold project that is being developed by the Saudi Company for Precious Metals, a Petromin joint-venture with a Swedish mining company.

9.3.5 Growth During the Fifth Plan Period

The quarrying segment of the industry is expected to expand in the Fifth Plan period because of the expected recovery in domestic construction, as well as continuing substitution of imports of foreign construction materials. Value added growth is targeted to reach 4.0 per cent per year.

The other segment of the mining sector (i.e. extraction, transformation and utilization of metals) became active in 1408, when the first gold mine, Mahad ad Dahab, started full production. The second mine, Sukhaybarat, is scheduled to begin production in 1411, and one or two other locations that are already well explored might reach that stage before the end of the Fifth Plan period. Within the context of manpower development at the DMMR, Saudi nationals will replace non-Saudi manpower, and Saudiization will be increased from 99.5 percent in 1409/1410 to 100 percent in 1414/15.

9.3.6 Financial Allocation: Mineral Resources

The financial allocation for the mineral resources sector in the Fifth Plan is shown in Table 9.5 below:

TABLE 9.5

**Fifth Plan Financial Allocation: Mineral Resources
(SR million)**

	Salaries and Supplies	Operation and Maintenance	Projects	Total
Ministry of Petroleum and Minerals Resources (Deputy Ministry of Mineral Resources)	206.8	85.0	1,108.0	1,399.8

CHAPTER 10

PRODUCING SECTORS

10.

PRODUCING SECTORS

Within the framework of the overall development strategy, the government continues to give priority to the development of the producing sectors. These sectors constitute the driving force of the economy, and play an essential role in the process of economic diversification, which began to accelerate during the previous plan period and is expected to gain considerable momentum in the Fifth Plan.

The Fifth Plan aims at increasing the share of the producing sectors in GDP from 38.5 percent at the beginning of the period to 43.3 percent at its conclusion. This objective will be sought through the achievement of growth rates higher than those targeted for other economic sectors and for GDP as a whole.

Extensive interrelationships exist between the construction sector, which stands amongst the oldest producing sectors in the Kingdom, and other sectors in the economy. However, other producing sectors, particularly manufacturing industry and agriculture, having developed more recently, are characterized by poor linkages, both among themselves and with other economic sectors.

The extent of cross linkages between sectors within the economic diversification process is a qualitative as well as a quantitative phenomenon, and the Fifth Plan will focus on qualitative aspects. Effective policies will, therefore, be adopted in order to promote linkages among the various sectors of the economy, and, primarily, among the producing sectors.

The importance of developing forward and backward linkages in the producing sectors derives from the fact that growth in these sectors creates a momentum that spreads through the economy and fosters development. The Fifth Plan attributes substantial importance to this factor, so that balanced development among the producing sectors can be achieved.

This chapter discusses the development objectives and policies for the following producing sectors:

- Agriculture
- Industry
- Electricity
- Construction

The chapter also discusses the key issues that have emerged during the implementation process of the Fourth Plan, and which should be resolved through specific programs and policy measures during the Fifth Plan.

10.1 AGRICULTURE

10.1.1 Role and Development Objectives

The expansion of agricultural production over the past ten years has been one of the most remarkable successes of the entire development effort in the Kingdom. Contrary to the experience of many developing countries, the importance of establishing a viable agriculture sector that is capable of self-sustained growth over the long term, was recognized early in the Kingdom's development planning process. The private sector has responded positively to the range of support measures introduced by the government.

Agriculture has played a leading role in the national development strategy through its contributions to:

- the diversification of the Saudi economy and a reduced dependence on oil as the prime source of national income;
- the achievement of higher growth rates in other sectors of the economy, through the expansion of forward and backward linkages with other sectors, such as food processing industries, manufacturing of agricultural inputs and other agricultural services.
- combatting desertification and enhancing environmental equilibrium;
- raising the income level and welfare of rural inhabitants, thereby minimizing migration to the urban areas, and contributing to the achievement of regional population balance.

Agriculture will continue to play a vital role in the development process, particularly with the expected increase in the output of fisheries, in which the Kingdom possesses promising resources and has a comparative advantage. The following major objectives will guide the development of the agricultural sector during the Fifth Plan:

- To contribute to the security of the nation's food supply, through the diversified production of cereal, vegetable, animal and fish products, and commodities that are appropriate to the Kingdom's available natural resources and subject to the optimum long term use of water;
- To achieve satisfactory growth in yields for major farm products, so as to minimize costs and lower water consumption per unit of output;
- To achieve a satisfactory rate of growth in agricultural labor productivity;

- To make a significant contribution to the creation of job opportunities for rural citizens, and to improve their welfare;
- To attain a high level of efficiency in production and marketing throughout the sector.

10.1.2 Achievements and Key Issues

During the Fourth Plan period, value added in agriculture grew at the high average annual rate of 13.8 percent, compared to 8.7 percent during the Third Plan and the target rate of 6 percent for the Fourth Plan. As a result, agriculture's share of GDP increased from 3.4 percent in 1404/05 to 8 percent by the end of the Fourth Plan, while its share of non-oil GDP amounted to 10.4 percent in 1409/10. Significant employment opportunities were created in the sector, as total manpower increased from 538,000 in 1404/05 to 569,000 in 1409/10. Major output gains were recorded in wheat and poultry production, which rose at average annual rates of 15 percent and 18 percent respectively during the first three years of the Fourth Plan. Production costs per ton declined significantly for some crops, such as wheat, barley and vegetables grown in greenhouses. The average yield per hectare for several crops increased at rates exceeding 3 percent per annum. In 1408/09, wheat production exceeded domestic demand by 2.5 million tons, and the surplus in egg production reached 33,000 tons, while exports of dates amounted to about 26,000 tons. Rapid growth of domestic animal output, particularly in white meats, red meats and milk (including powdered milk) have led to an increase in self sufficiency rates, which in 1408/09 reached 75 percent, 72 percent and 73 percent respectively, of total demand (see Figure 10.1). Full self sufficiency was achieved in the production of fresh milk. Fish production has also increased from 46,000 tons in 1404/05 to 53,000 tons in 1408/09.

These achievements were made possible by the system of price support administered through the Grain Silos and Flour Mills Organization (GSFMO), and by the efforts of the Ministry of Agriculture and Water (MOAW). During the Fourth Plan, the MOAW evaluated and provided licenses to 3,267 agricultural projects; distributed over 1.2 million seedlings to improve vegetable, fruit and date production; and provided free crop protection for half a million hectares per year. In addition, the MOAW has implemented effective extension and research programs, which contributed significantly to the production increase.

Notwithstanding these positive achievements, the rapid expansion of agricultural output has itself led to a number of structural problems which will require specific policy attention during the Fifth Plan.

Spatial Expansion and Demand for Limited Water Resources

Over 1.1 million hectares of agricultural land were distributed through the Arable Land Distribution Scheme during the period 1400-1408. The rate at which this land was being allocated increased in recent years, so that of this total, about 0.5 million hectares were distributed

during the first three years of the Fourth Development Plan. This brought the total holdings of agricultural land to 3.1 million hectares by the end of 1408, one third of which was under crops.

With the exception of the South-Western region, the Kingdom has an arid climate and very low rainfall. Thus, the potential for renewable surface water supply is very limited. With the rapid expansion in farm holdings, large-scale agricultural projects have relied primarily on water supplies from non-renewable underground aquifers, which provided over 80 percent of the agricultural sector's water requirements. The demand for underground aquifers' water supplies has increased enormously over the past ten years. In 1407, agriculture consumed 14 billion cubic meters, about 90 percent of the total water demand in the Kingdom. Water consumption by wheat was estimated at 5.3 billion cubic meters, or 37 percent of agriculture's total water demand in the same year (Figure 10.2). This rate of water consumption is extremely high relative to the Kingdom's long term potential supply of non-renewable groundwater.

Further large scale spatial expansion of agriculture would lead to a critical imbalance between water demand and sustainable water supply, which might negatively affect the role of agriculture in the long term. Agriculture is generally thought of as an infinite activity with permanently renewable annual cropping patterns.

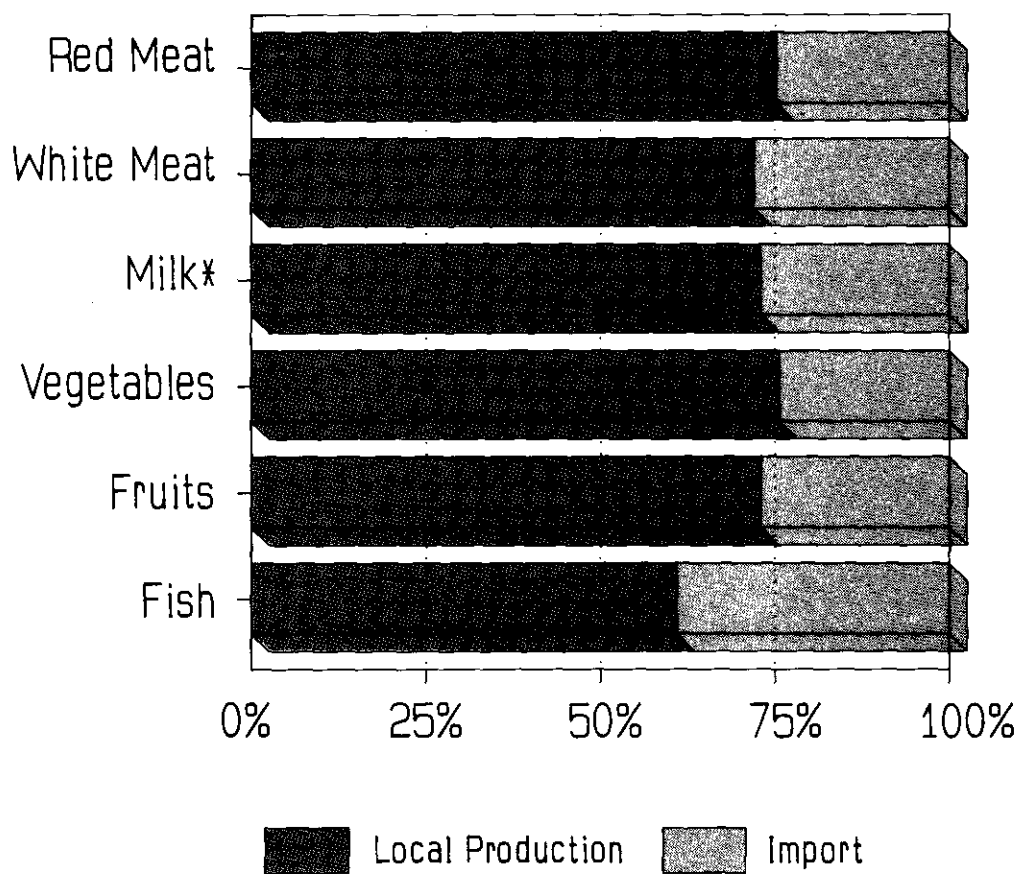
Relative Prices of Farm Commodities, Crop Patterns and Diversification of Agricultural Production

The government's price support for wheat has led to a significant increase in its production, and has positively contributed to the establishment of farm-related infrastructure and the application of modern agricultural technologies. However, it has had an adverse effect on the production of other crops because of the change caused in their relative prices. This led to a rapid increase in the total area devoted to wheat, which reached 602,000 hectares in 1407/08, or about 53 percent of the total cropped area in the same year (see Figure 10.3). Thus, the increase in agricultural output has become quite dependent on a single crop. This trend is incompatible with the expected growth in demand for basic food items and the structure of food demand (as shown in Table 10.1). The demand for vegetables and fruit is expected to grow at average annual rates of 4.6 percent and 4.3 percent respectively during the Fifth Plan period, compared to 1.9 percent for wheat. The demand for white meat and eggs is projected to grow at even higher rates.

There is a need, therefore, to diversify agricultural production to satisfy the local demand for various commodities. This entails the revision of support prices and the establishment of a more comprehensive crop pattern which, at the same time, is compatible with the Kingdom's natural resources, secures an acceptable rate of return for producers and provides a balanced selection of agricultural commodities (both vegetable and animal products) for consumers, and which conforms to the growth and expected structure of demand for basic food items (Table 10.1).

Figure 10.1

Self-Sufficiency Ratios in Selected Food Items 1408/09



* Includes powder milk

Figure 10.2

Percentage Shares of Water Consumption
by Major Crops (1407)

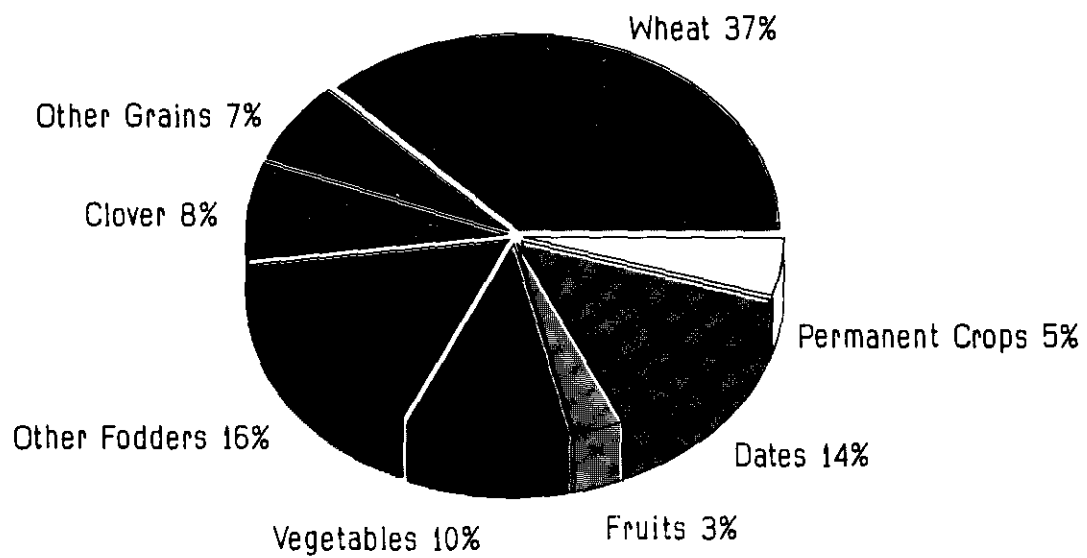
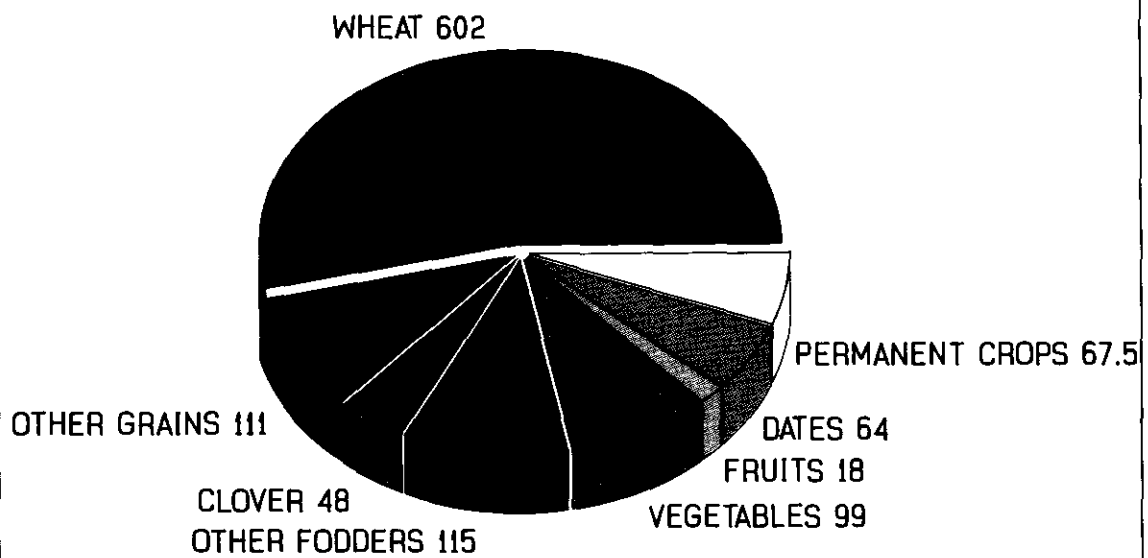


Figure 10.3

Crop Pattern and Acreage Allocation
in 1407
(thousand hectares)



Within the context of diversifying the agricultural production base, the fisheries sector enjoys considerable growth potential, as the Kingdom's coastline stretches 2520 kilometers along the Red Sea and the Arabian Gulf. Fish resources available within the territorial waters of the Kingdom are estimated at over 500,000 tons per year. However, the catch in 1407/1408 amounted to a mere 10 percent of total resources available. An expansion in fish production will provide high nutrient value to domestic consumers, and open the potential for exports, thus contributing to an improvement in the Kingdom's trade balance.

TABLE 10.1

**Projected Demand for Basic Food Items
(1000 Tons)**

	<u>1409/10</u>	<u>1414/15</u>	<u>Average Annual Growth (Percent)</u>
Wheat	1175	1291	1.9
Red Meat	243	297	4.1
White Meat	450	586	5.4
Eggs	110	144	5.5
Milk	640	770	3.8
Vegetables	1251	1569	4.6
Fruits	1207	1491	4.3
Fish	91	111	4.1

Agricultural Loan Structure

The impressive achievements in agriculture have been greatly assisted through the provision of loans from the Saudi Arabian Agricultural Bank (SAAB). Since the beginning of the Third Plan, medium term (10 year) loans were oriented towards investment in equipment such as farm machinery, irrigation equipment and water pumps, or activities such as well drilling

and casing. Short term loans to finance seasonal production inputs comprise less than one percent of total loan value.

The emphasis on medium term investment loans was wholly appropriate in the early stages of development in the agricultural sector, when farms lacked sufficient infrastructure and advanced mechanization capabilities. As infrastructure has now been completed for most farm projects, the demand for loans has naturally shifted to short term production-related financing for annual seasonal requirements. However, the supply of short term loans is not responding to all agricultural needs. The lack of sufficient liquidity for financing production activities may now prevent the full utilization of existing productive capacity in agriculture.

The provision of short term (one year) loans to a larger number of farmers and the subsequent collection procedures require a high level of operational efficiency from any lending institution. In this regard, the Saudi Arabian Agricultural Bank has well trained manpower resources, 93 percent of whom are Saudi nationals. It has over 70 branches spread throughout the entire Kingdom and is equipped with the most advanced facilities. It is, therefore, capable of handling a larger number of short-term loans during the Fifth Plan period.

Gap between Natural Domestic Endowments and Demand for Animal Products

The demand for red and white meats, milk and other animal products is related to income levels and is expected to grow at a higher rate than population for years to come. However, the Kingdom's limited domestic base for animal feed supply is not commensurate with the expected growth in animal production.

The Kingdom's output from grazing is limited as a result of the predominantly dry environment. Total grazing land in the Kingdom is 171 million hectares, of which only 5 percent is top grade, and 10 percent is classified as good land. Available output from grazing is estimated at about 7.5 million tons of dry material, which would be sufficient for 1.7 million animals (sheep equivalent).

In 1409, the annual demand for barley as animal feed was estimated at about 4.3 million tons, with an animal population equivalent to around 22 million sheep, and which is expected to grow by 6 percent annually. Domestic production of barley -- estimated at 280,000 tons -- meets only a small part of this demand, the balance having to be imported.

The government's price support for barley, at SR 1 per kg, has two related purposes : to decrease the area devoted to wheat production, and to induce higher domestic production of barley. Although the guaranteed price for wheat has been reduced from SR 3.5 to SR 2 or SR 1.5 per kg (for farmers and agricultural companies respectively), the increase in barley production has not matched that of wheat. Financial returns are still higher in wheat than in barley. Thus, if the objective to partially replace wheat with barley production for animal feed

is to be successful, price support policies must be kept under constant review. In addition, such a review must also consider the implications of basing an expansion in animal production on imported raw materials and feeds.

Local Products and Foreign Competition

The domestic production of some agricultural products is adversely affected by a number of factors, such as the absence of tariffs that may discourage cheap imports, and the lack of efficient marketing channels. The severity of competition varies by commodity, but mainly affects vegetables. The introduction of tariff protection on a general scale might be seen as contrary to the Kingdom's fundamental support for free trade. However, tariffs can be justified in cases of dumping, which is an unfair trading practice. Regional cooperation in agricultural trade should be strengthened among Arab countries, with due consideration to the interests of domestic producers.

10.1.3 Role of Government and the Private Sector

The government will continue to play an important role in agricultural development in the Kingdom, through the implementation of a wide range of programs, which will include agricultural services, research, support for the application of optimum agricultural management methods, development of appropriate technologies and provision of necessary agricultural credit facilities. In addition, government price support for some commodities will continue to encourage improved crop patterns and increases in production. Joint venture operations with the private sector will be undertaken only when deemed necessary. The private sector will be encouraged to engage in activities that are now undertaken by the government, and the government will gradually reduce its share in the equity of the National Agricultural Development Company (NADEC) and the Saudi Fisheries Company. The private sector will assume a primary role in production, investment and the application of modern and appropriate technology.

10.1.4 Sectoral Policies and Main Programs

Sectoral Policies

The following policies will be implemented in the agriculture sector during the Fifth Plan:

- Distribute land only in areas with high-potential renewable water resources; areas with critical ground water depletion rates will be identified and regulations introduced on appropriate water pumping rates and the areas to be cultivated;
- Provide agricultural inputs and support services to farmers, including agricultural extension services and the distribution of seeds and seedlings; improve marketing channels for small farmers by providing storage facilities for crops such as potatoes and other perishable vegetables; and study methods to promote private marketing channels;

- Provide training for agricultural manpower to develop and enhance their skills in various specializations;
- Encourage the cultivation of new feasible crops, including oil-bearing ones (such as sunflower and corn), the production of vegetables in greenhouses, and increased fishing, while using tariffs to protect domestic producers against dumping by foreign competitors when necessary;
- Continue to support research on problems specific to the Kingdom's agriculture, aiming at the application of appropriate modern technology;
- Continue data collection and the dissemination of information about agricultural resources, prices, production and costs of various agricultural commodities;
- Regularly review agricultural support prices to promote optimum cropping patterns and the prudent diversification of agricultural production;
- Provide a sufficient volume of short-term loans for agricultural production;
- Encourage the private sector to establish animal feed plants using imported raw materials, in order to attain a prudent level of meat production at a relatively competitive cost and with the optimum use of local raw materials;
- Conduct joint studies with GCC member countries to promote inter-regional cooperation in the production, storage and marketing of the main food items, including fish products, and implement feasible related ventures.

Main Programs

The following major programs will constitute a coherent framework for the implementation of development policies in agriculture.

Agricultural Services

This program will provide agricultural extension services, improved seeds, animal vaccines and quarantine services.

Agricultural Development

This program aims at the development of range management and forestry, and the establishment and operation of irrigation and drainage facilities to assist small farmers.

Agricultural Research

This program is aimed at improving crop and livestock production, range management, forestry and fisheries.

Agricultural Credit and Subsidies

This program aims at the establishment of farm infrastructure and increasing agricultural output. It provides interest-free loans for investment and the production process. Subsidies are provided for the purchase of farm machinery and equipment.

Economic Studies and Statistics

This program aims at the collection and updating of data and information related to agricultural production, marketing, and socioeconomic studies pertinent to farmers. It includes surveys of animal, fishery, and forestry resources, as well as a comprehensive agricultural census carried out at 10 year intervals.

Grain Silos and Animal Feed Plants

This program aims at maintaining a suitable grain storage capacity, including a strategic reserve equivalent to six months' consumption. The program also includes the purchase and storage of raw materials for animal feed plants.

Technical Cooperation and Technology Transfer

This program is intended to increase the efficiency and improve the performance of the agricultural sector through the utilization of advanced science and technology, in cooperation with international and regional specialized organizations.

10.1.5 Fifth Plan Targets

The targeted average annual real growth rate for the agriculture sector's value added during the Fifth Plan period is 7 percent, which is more than twice the targeted growth rate for the entire economy. Agriculture's share of GDP is expected to reach 9 percent by 1414/15.

A decline in wheat production is expected, due to its partial replacement by barley. The local production of red meat, white meat, milk, vegetables, fruit and fish is projected to grow at rates within the range of 4 to 8 percent per year on average. The targeted production for some basic food items during the Fifth Plan is shown in Table 10.2. Targeted investment to be financed by medium term loans from the Saudi Arabian Agricultural Bank, will total SR 6.9 billion.

TABLE 10.2

**Targeted Production of Basic Food Items
(’000 Tons)**

	1409/10	1414/15	Average Annual Growth (Percent)
Wheat	3718	2600	(6.9)
Red Meat	178	216	3.9
White Meat	326	436	6.0
Eggs	143	150	1.0
Milk	479	583	4.0
Vegetables*	942	1261	6.0
Fruit	890	1103	4.4
Fish	57	84	8.0

* excluding watermelons and musk melons

10.1.6 Financial Allocations: Agriculture

The financial allocations for the agricultural sector during the Fifth Plan are shown in Table 10.3.

TABLE 10.3

**Fifth Plan Financial Allocations: Agriculture Sector
(SR million)**

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
Ministry of Agriculture and Water (Ag. Affairs)	3,010	685	524	4,219
National Commission for Wildlife Conser- vation and Development	100	90	26	216
Saudi Arabian Agricultural Bank				
Expenditure	726	24	100	850
Loans	—	—	6,900	6,900
Grain Silos and Flour Mills Organization	377	1,175	674	2,226
Total	4,213	1,974	8,224	14,411

10.2 INDUSTRIAL SECTOR

10.2.1 Role and Development Objectives

Industrial development is a key component of the economic development strategy of Saudi Arabia, contributing to the achievement of some of the most important of the strategy's objectives : higher GDP growth rates; the diversification and expansion of the production base; the development of non-oil sources of income; the achievement of an adequate level of self sufficiency; the transfer of modern technology contributing to increased production efficiency; the generation of job opportunities beyond traditional occupations; and, finally, the development of a balanced economy that can weather world economic fluctuations. Industry has developed in line with the nature of the Kingdom's resources and needs, focusing on manufacturing activities related to the transformation of oil and oil derivatives, for which Saudi Arabia enjoys a comparative advantage. The development of non-oil manufacturing with import substitution or export potential has also been pursued. As a result, the Kingdom has evolved from being a producer and exporter of raw materials, to having technologically advanced industries, as well as the capability to develop them further.

At the onset of the Fifth Plan, the industrial sector displays confidence and trust in the clear-cut principles of the industrial development strategy, under which the industrial sector has grown with clear specifications. Petrochemical industries generate about 22 percent of total manufacturing value added; petroleum refining accounts for 40 percent; while other manufacturing industries (which include consumer products, chemicals, cement, building materials, engineering products, etc.) account for the remaining 38 percent. The industrial sector employs about 6.4 percent of the total labor force.

Within the context of continued endeavors to strengthen the foundation of the economic base, industrial development will pursue the following major objectives:

- To maximize the domestic transformation of domestically produced raw materials and intermediate products, particularly oil derivatives and petrochemicals;
- To encourage import substitution industries whenever it is economic to do so, in order to achieve a reasonable level of self sufficiency;
- To encourage export-oriented industries which have a comparative advantage, and to provide adequate means and incentives required for their development;
- To achieve integration and inter-linkages among activities in the industrial as well as other economic sectors;
- To improve labor productivity in the industrial sector;
- To strengthen industrial cooperation among the Gulf countries and develop joint GCC industrial projects, within the framework of the joint economic agreement and the joint industrial strategy of the GCC;
- To strengthen industrial cooperation between the Kingdom and Arab and Islamic countries, and promote the Kingdom's role in joint Arab and Islamic industrial projects;
- To develop industrial cooperation with foreign countries for the prudent and well studied transfer of technology, and to attract foreign capital.

10.2.2 Achievements and Key Issues

The Kingdom's industrial sector was targeted for an average growth rate of 15.5 percent during the Fourth Plan. If petrochemical industries are excluded, the targeted growth rate was 10.5 percent. It was also expected that the share of the industrial sector would reach about

7.5 percent of GDP, in constant 1399/1400 prices, by the end of 1409/10. Instead, a growth rate of 3.9 percent was achieved in constant prices, while industry's share in non-oil GDP amounted to 11.4 percent in 1409/10 in current prices. Growth was primarily attributable to refining and petrochemical industries, which accounted for about 55 percent of total industrial investment. Other non-oil manufacturing industries accounted for 5.7 percent of non-oil GDP in 1404/05, and 4.3 percent in 1409/10.

The Saudi Basic Industries Corporation (SABIC) has brought seven new petrochemical plants into operation. An additional 264 plants in other manufacturing industries were constructed, and oil refineries were operated at full capacity.

The Kingdom's exports of petrochemical products rose from SR 816 million to over SR 10 billion. Exports of refined oil products increased from 15 to 39 million tons, and exports of other manufacturing industries' products increased from SR 387 million to SR 3,612 million, between 1404/05 and 1408/09. 2058 industrial loans were disbursed during the Fourth Plan period.

Infrastructure projects were completed at the two industrial cities at Jubail and Yanbu, which are now fully ready to accommodate new industrial investment. A total of 78 plants are now in operation in Jubail, and 29 plants at Yanbu. Projects for other industrial cities were completed, bringing to eight the total number of developed industrial zones, encompassing an area of 32 million square meters.

The Kingdom's oil refining industry has undergone comprehensive re-organization during the Fourth Plan. Most refining and distribution activities have been regrouped under the Saudi Arabian Marketing and Refining Company (SAMAREC), which is responsible for the operation, management and marketing of refined oil products.

New industrial investment companies were established and four projects were initiated under the Peace Shield Offset Program.

Key Issues

Several issues arose from local, regional and international economic developments, which hinder industrial growth, including the following:

Basic Petrochemical Industries

The Kingdom's basic petrochemical industry has succeeded in gaining access to world markets, despite the obstacles that were met at its initial stage of development, in the form of limited national expertise in international marketing, and other obstacles at the international level. In light of the fact that the main markets for petrochemical products are in the industrialized countries, competition among producers of petrochemicals will grow more intense in the

near future. Competition will also increase as a result of changing economic relations between Eastern and Western Europe, and the unification of European Community markets by the end of 1992. The impact of these imminent changes on the expected basic petrochemicals supply/demand equilibrium will be considerable. As a result, measures will have to be adopted to identify and pursue new marketing opportunities, develop marketing skills, complete basic petrochemical projects selected on the basis of world demand forecasts, and revise the pricing policy for raw materials and intermediate products, in line with the priority attributed to domestic transformation.

Downstream Petrochemical Industries

The comparative advantage and accumulated technical and marketing expertise in petrochemicals, place the Kingdom in a favorable position to pursue further downstream development, thus placing this sector at the center of the industrialization process. The next stage, therefore, requires that special attention be given to promoting downstream petrochemical transformation, so that proper utilization may be made of relevant world technological research findings which have considerably enlarged the scope of the petrochemical industries. The development of downstream petrochemicals will be another step forward in the series of successes achieved by the Kingdom within the context of global cooperation in petrochemicals.

Import Substitution Industries

Significant progress was made in expanding import substitution industries, mostly based on domestic raw materials, and benefiting from low transportation costs. The latter provided a competitive advantage that helped industry in successfully meeting the challenge of local and regional competition. Unfair trading practices, especially dumping, have emerged. These are against free trade principles, and have reduced the utilization of installed production capacity. On the other hand, several investment opportunities still exist in import substituting industries, and a revision of trade policies and laws is required, as appropriate to achieve the optimum balance between the needs of local industry and Saudi consumers, and to combat and eliminate unfair trading practices. National private capital as well as foreign capital will continue to be oriented towards investment in import-substituting industries.

Export Industries

The Kingdom's petrochemical and metallurgical industries enjoy competitiveness in foreign markets because of their comparative advantage. The Kingdom maintains special relations with other Arab and Islamic countries. The latter constitute potential markets for Saudi export-oriented industries benefiting from the availability of inexpensive energy and the lower investment costs. Appropriate measures must therefore be taken in order to encourage export-oriented industries to compete in the markets of the Arab and Islamic countries.

Advanced Technology Industries

Although economic returns should govern the direction of industrial development, strategic considerations sometimes pertain and necessitate departing from this rule. Great emphasis has been given by the government to technology transfer projects despite the lower relative advantage involved therein. In this respect, the government has pursued the formation of joint ventures within the Economic Offset Program, through which high technology projects will be implemented. Dealing with industrial projects of strategic significance requires that technical manpower be prepared and trained; that laws and regulations be issued; and that institutions be developed, which will contribute to the attainment of the strategic objectives and, in the meantime, conform to the Kingdom's social development needs.

Small-Scale Industries

Small-scale manufacturing projects with share capital of less than SR 1 million form a dynamic part of the Saudi industrial sector. However, under existing laws and regulations governing the industrial sector, such projects do not require an industrial license and, as such, are not eligible for the range of incentives and benefits available to the industrial sector. The small-scale industries present several problems, such as the large employment of foreign workers, and lower productivity and technology levels. Also, there is no single government department which has responsibility for developing and regulating small-scale industries. Accordingly, there is a need to evaluate the existing conditions of small-scale industries and develop laws and regulations enhancing their contribution to the Kingdom's economy.

Industrial Pollution

Industrial development is closely associated with industrial pollution, which in turn has an adverse impact on resources for future development. In order to prevent the damage produced by industrial pollution over the longer term, the continuity of industrial development will require that measures be taken to ensure the protection of the micro-environment, and to establish specifications for technologies to be transferred to the Kingdom.

Industrial Incentives

Incentives and support schemes provided by the government, and particularly industrial loans, effectively contributed to the development of the industrial sector. In order to maintain the effectiveness of the incentive system, the next stage of development, (marked by the targeted rationalization of government expenditure and limited industrialization opportunities), will require an extensive review of incentives provided to the private sector, in order to ascertain their effectiveness in realizing the targeted industrial growth rates, and the extent of their conformity with the Fifth Plan general objectives and strategic principles.

Industrial Technology

The industrialization process will be characterized by the continuing transfer of modern technology under technical agreements necessitated by the monopolistic nature of the technology

market. In order to avoid technological and economic dependence, the next stage will require that national capabilities be acquired to deal with modern technology from both the technical and the legal point of view, and to develop technologies that are more appropriate to the economic and social conditions of Saudi Arabia.

Joint GCC Industrial Projects

GCC member countries have made significant progress in industrial cooperation within the framework of the joint economic agreements and the joint industrial strategy. In this respect, several laws and regulations governing industrial relations among GCC member states have been standardized. However, the next stage will require more effective thrusts toward the standardization of specifications, in order to accelerate the establishment of joint GCC industrial projects, avoid harmful competition among the member states, and improve access to the expertise gained through the transfer of technology and to savings connected to a larger scale of production.

Utilization of Existing Plant Capacity

Several industrial enterprises have now been in operation for 10 to 15 years. The next stage of development requires that attention be paid to existing as well as to new enterprises, in order to identify their needs and determine the appropriateness of their production capacity to new economic conditions. Where deemed effective, measures should also be studied to encourage the consolidation of smaller enterprises into larger and more competitive units.

10.2.3 The Role of the Government and the Private Sector

The government has continued in its traditional role aimed at enhancing the industrial development process. Among the achievements in this respect are the completion of the infrastructure in the twin industrial cities of Jubail and Yanbu; the construction, expansion and development of the industrial cities; extension of interest-free loans and other incentives; the enforcement of the exemption from customs duty of imported inputs used in domestic production, as set forth in laws and regulations and in conformity to free trade principles; the continued granting of preference to national products in government procurement; and the assistance given to the private sector in identifying foreign firms wishing to participate in high technology joint venture projects.

Against this background, the Ministry of Industry and Electricity will continue to provide infrastructure in industrial cities and to issue the required licences. The Royal Commission for Jubail and Yanbu will follow up the operation and maintenance and complete the infrastructure in both industrial cities. It will also acquaint potential investors, both in the Kingdom and internationally, with the advantages available to projects of various size and in different sectors in both cities. The Saudi Consulting House will continue to prepare investment opportunity files as well as feasibility and technical studies for industrial projects. The Saudi Industrial Development Fund will continue to extend industrial credit facilities.

The private sector has benefited from the support and encouragement provided by the government, the favorable investment climate and the abundant financial resources available for industrial investment. This was manifested by the increased private sector participation in establishing manufacturing enterprises in line with domestic demand and export opportunities.

The structure of the industrial sector will undergo radical changes during the Fifth Plan. The government will gradually move away from direct investment in manufacturing, and leave it to the private sector. This move reflects the government's policy of refraining from investing in industrial projects, except for projects that have security or strategic implications, or in which the private sector is not interested to invest. At the same time, this move is also in line with the progress of the private sector's financial and managerial capabilities and efficiency, which it has acquired through experience in industrial investment. During the Fifth Plan, investment opportunities will be made available to the private sector in basic and downstream petrochemical projects, in petroleum refining and in projects within the Offset Program. The private sector will be required to enhance its capabilities in planning, coordination, manpower training, and marketing both domestically and abroad.

10.2.4 Sectoral Policies and Main Programs

The following main policies have been established to attain the industrial development objectives of the Fifth Plan:

- Conduct a comprehensive review of institutional policies, administrative measures, incentives, lending policies, licensing and duty exemptions, in order to increase investment opportunities at national and GCC levels, within the framework of the joint industrial strategy of the GCC;
- Encourage a balanced diversification of industrial activities, stressing horizontal and vertical expansion in petrochemicals, as well as in industries which are linked to other economic sectors;
- Continue to encourage foreign capital participation and the utilization of modern technology in industrial projects, in order to benefit from foreign expertise;
- Encourage Saudi industries to develop their own industrial research capabilities;
- Pursue the Economic Offset program;
- Utilize technical services provided by international organizations;

- Continue to provide the required infrastructure in the twin industrial cities of Jubail and Yanbu as well as in other industrial cities;
- Improve the quality of statistical information and analysis, establish economic indicators, and conduct industrial surveys in line with the needs of the Kingdom's industrial sector;
- Continue to develop national industrial manpower;
- Provide export credit;
- Continue to encourage import substitution and export oriented industries, particularly industries that use domestic inputs, achieve high value added per worker, and can compete in international markets.

Main Programs

The government will implement the following major programs:

Infrastructure

This program aims at the completion of infrastructure and the provision of services and utilities in the existing industrial cities, as well as the construction of new industrial cities in Al Madina Al Munawarah, Asir, Hail, Jizan, Tabuk, and Najran. It also covers expansion of the industrial cities in Riyadh, Jeddah, Dammam and Qassim. The Royal Commission for Jubail and Yanbu will expand social facilities, as well as public works, utilities and services in both industrial cities.

Manufacturing Industries

This program is aimed at strengthening existing manufacturing industries by offering credit facilities for expansion, as well as for improvement of performance. It also covers the provision of consultancy services, as well as the promotion of improved technology and modern management techniques.

Promotion of Industrial Investment

Under this program, foreign investors from Gulf, Arab and other countries will be acquainted with investment opportunities that are available in import substituting and export-oriented manufacturing industries, through the preparation of an initial investment profile for projects that appear to be feasible.

Petrochemical Industries

This program is aimed at completing economic feasibility studies for two projects at the Petrokemya and Yanpet complexes, to enable a variety of hydrocarbons to be cracked into

products that can be used as feedstock for other industries. The program also covers the provision of services to develop petrochemical products in line with changing market conditions and consumer needs. New domestic and export markets for the Kingdom's petrochemical products will be identified and developed.

Industrial Research

The focus of this program will be on generating research and studies, including industrial pollution research, to guide effective decision making and to identify industrial investment opportunities in the Kingdom.

Export Promotion

This program is aimed at encouraging export-oriented industries through the provision of export credit, and studies designed to acquaint the industrial sector with foreign markets and international trade systems.

10.2.5 Growth Targets During the Fifth Plan

The industrial sector as a whole is expected to grow at an average annual rate of 6.5 percent during the Fifth Plan period, with petrochemicals achieving a growth rate of 8 percent, oil refining 5.4 percent and other manufacturing 7.5 percent.

A total of SR 9.5 billion has been allocated to the financing of industrial projects. Of this total, SR 4.5 billion will be provided by the Saudi Industrial Development Fund, and SR 5 billion will be provided by the Public Investment Fund.

10.2.6 Financial Allocations: Industrial Sector

The financial allocations targeted for the industrial sector during the Fifth Development Plan are shown in Table 10.4.

TABLE 10.4

**Fifth Plan Financial Allocations : Industrial Sector
(SR million)**

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
Royal Commission for Jubail and Yanbu	262	4,400	398	5,060
Ministry of Industry and Electricity	285	92	893	1,270
Saudi Consulting House	184	5	34	223
Saudi Industrial Development Fund				4,500*
Public Investment Fund				5,000*

* Note : These figures represent planned levels of lending on the part of the specialized credit institutions, and are financed by repayments, not out of allocations in the government budget.

10.3 ELECTRICITY

10.3.1 Role and Development Objectives

The electricity sector contributes directly to the fulfillment of the Kingdom's development objectives. It helps in improving the standard of living and the quality of life. It promotes economic growth and productivity by providing a clean and reliable source of energy. Finally, a widely available and reliable electric power supply facilitates the application of modern productivity-enhancing technologies in many economic activities.

Among the main development objectives of the electricity sector are the following:

- the provision of electricity at a suitable technical level to all population and economic centers, in quantities sufficient to meet the increasing needs of the producing sectors, and with special emphasis on those areas with no service as yet;

- the development of the electric power systems, and the management of demand, in a way that will provide the service at the least economic, social and environmental costs;
- the achievement of financially self-sufficient electric utility companies in the medium and long term;
- the contribution to the achievement of economic integration with GCC and other Arab countries through the linking of local distribution networks.

10.3.2 Achievements and Key Issues

During the Fourth Plan period, the provision of electricity services to 677,000 new customers brought the national electrification rate to 92 percent in 1409/10, thereby ensuring solid progress toward the realization of full electrification.

In spite of the economic slowdown which characterized the Fourth Plan period, total electricity consumption rose at an average annual rate of 10.3 percent (or 2 percent on a per-residential customer basis), i.e. well above long term trends. The non-coincident peak demand grew at an average annual rate of 8.6 percent, reaching 11,813.5 megawatts in 1408/09.

The improvement in productivity and operating efficiency has been the most remarkable development during the Fourth Plan. The ratio of customers per employee grew at an average annual rate of 11 percent, from 52 in 1404/05 to 78 in 1408/09. Other indicators have witnessed similar gains. The increase in labor productivity was accompanied by an increase in the share of Saudi nationals in the sector's workforce, from 43 percent to 52.4 percent of total employment.

TABLE 10.5

Electricity Indicators in the Fourth Plan

	1404/05	1408/09	1409/10	Average Annual Growth (Percent)
		Actual	Estimate	1404-08
Total Sales (Billion Kwh)	36,470.2	53,874.9	57,108.2	10.3
Total Sales per Residential Customer (Kwh)	26,570.6	28,799.9	28,254.5	2.0
Peak Demand (MW)	8,503.5	11,813.5	12,465.6	8.6
Total Customers (1000)	1,584.2	2,152.3	2,261.1	8.0

Notwithstanding these achievements, a number of outstanding issues constrain the development of the electricity sector. These issues need to be properly addressed in the Fifth Plan period.

Key Issues

- **Regional Balance** : The fiscal constraints which characterized the Fourth Plan period have led to undesired deviations from the target of full electrification by the end of the Fourth Plan. The deviation was greatest in the Southern and Northern regions, and certain rural areas of the Western region. Financial and policy measures are needed not only to increase service coverage, but also to induce and sustain further improvements in productivity.
- **Standards and Procedures** : The lack of industry-wide standards and procedures for the various activities of the electricity sector will be a major obstacle in its efforts to improve performance and realize the desired levels of efficiency and financial stability. Furthermore, well defined planning, operations, and service standards are essential for the rational development of the sector.
- **Supervision and Regulation** : The electricity industry in the Kingdom has evolved to a state where some relatively large utilities have achieved a good measure of independence in their financial affairs. This is reflected in the decreasing government subsidy and the increased importance of self-financed investments. This trend is expected to continue as it should, and in turn, the financing role of the government will further decrease. On the other hand, the regulatory and supervisory functions need to be

developed and rationalized, commensurate with the monopolistic nature of the industry, and to protect public interest.

- **Conservation :** The nature of electricity demand in the Kingdom is such that its seasonal as well as daily variations are relatively wide. The national ratio of minimum load to peak load is only about 31 percent and the load factor is about 0.53. Consequently, the utilization of installed capacity is low and any measures designed to improve the load and the capacity utilization factors stand to generate appreciable benefits.

10.3.3 Role of the Government and the Private Sector

The Ministry of Industry and Electricity (MIE) is responsible for the regulation of the electric power industry, while the General Electricity Corporation (GEC) represents the government's equity share in the individual electric utility companies and finances their capital investments. The electric power systems in the Kingdom are managed and operated by four regionally consolidated companies, with six smaller companies and the GEC managing and operating the systems of the Northern Region. The power generated by the electric utilities is supplemented by the net exports of the Saline Water Conversion Corporation (SWCC) from its dual purpose desalination plants.

Consistent with the Kingdom's commitment to a market economy, the full privatization of the electric utility industry is a desirable goal over the medium to long term, with the role of the government ultimately confined to one of supervision and regulation, as is necessary for a utility and a monopoly. Substantial progress towards this goal is expected during the Fifth Plan. The form of private sector participation will be decided following studies by the responsible agencies, and will be based on each utility's financial position and its consequences for government obligations.

10.3.4 Sectoral Policies and Programs

The objectives of the electricity sector will be realized by adopting a number of policies and implementing the measures and programs necessary to achieve the stated targets and to resolve the issues constraining the sector's development. The main policies of the Fifth Plan for the electricity sector are:

- Continue emphasis on the speedy provision of service to those areas with no public supply;
- Provide electricity services at a level of quality which strikes an optimal balance between cost and the nature and type of electric load;

- Develop and implement a comprehensive set of standards and procedures on an industry-wide basis, and that aim at improving efficiency of the management, operations, and regulatory functions;
- Define suitable measures and performance criteria for the industry and set related targets for the individual utilities, which would lead to the desired levels of efficiency and self reliance, and through which the regulatory and follow-up functions can best be exercised;
- Adopt an active policy on electricity rates and tariffs, among whose objectives will be the management of demand to improve capacity utilization and induce conservation.

The Fifth Plan activities in the electricity sector are organized into five programs:

Generation : This program will provide for the generation capacity required to meet the forecast demand. Installed capacity will be increased by 3,877 MW during the Plan, thus raising the total capacity from 15,746 MW in 1409/10 to 19,623 MW in 1414/15. This capacity does not include that available from the Saline Water Conversion Corporation, whose firm base export capacity is assumed to increase from 2072 MW in 1409/10 to 2135 MW in 1414/15. About 91 percent of these additions are to be steam and combined cycle electric plants, thus raising the share of steam and combined cycle electric capacity to 38.2 percent of the total installed generating capacity in 1414/15.

Transmission : This program covers the activities related to the Extra High Voltage (EHV) and the High Voltage (HV) networks through which further interconnections will be implemented in the various regions of the Kingdom.

Distribution : This program covers the activities relating to enhancing and expanding the distribution network. About 557,000 new customers will be served during the Fifth Plan period, bringing the total number of customers to 2,818,000 by 1414/15.

Communication and Control : This program encompasses all the activities related to the despatch, monitoring and control functions in the power networks, in addition to other communication services needed for the management and operation of the electric utilities.

Administrative Development : This program encompasses several support activities, including buildings and offices. It also includes human resource development activities. About 14,325 workers are expected to undergo training of all types during the Plan.

10.3.5 Growth during the Fifth Plan Period

Some of the factors upon which the electricity growth forecast for the Fifth Plan is based are : the national and regional economic outlook for the Plan period and beyond; the Plan expenditure allocations for the sector; and area-specific consumption patterns.

Total electricity consumption is expected to grow at an average annual rate of 5.2 percent during the Fifth Plan, with consumption per residential customer increasing from 28,255 Kwh in 1409/10 to 30,102 Kwh in 1414/15 (or at an annual average rate of 1.3 percent). The non-coincident peak load in the Kingdom is forecast to grow at an average annual rate of 5.0 percent, from 12,466 MW in 1409/10 to 15,918 MW in 1414/15.

TABLE 10.6
Forecast Indicators in the Electricity Sector
during the Fifth Plan

	1409/10	1414/15	Average Annual Growth (Percent)
Consumption (billion Kwh)	57.1	73.7	5.2
Peak Load (MW)	12,465.6	15,918.3	5.0
Customers (1000)	2,261.1	2,817.7	4.5
Installed Generation Capacity (MW)*	15,746.1	19,622.7	4.5
Employment	27,969.0	28,425.0	0.3
Electricification Rate (%)	92	96	0.9

* Excludes the base power export capacity of SWCC's dual purpose desalination plants, which will reach 2,135 MW by 1414/15.

10.3.6 Financial Allocations: Electricity Sector

The planned government expenditures in the electricity sector during the Fifth Plan are shown in Table 10.7.

TABLE 10.7

Fifth Plan Financial Allocations: Electricity Sector^{*}
(SR million)

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
General Electricity Corporation	274.1	678.6	12,562.4	13,515.1

- ★ The Fifth Plan allocations in this table exclude expenditures to be self-financed by the individual utility companies, as well as government direct subsidies to the electricity companies; while allocations of the Deputy Ministry for Electricity Affairs are included in the plan allocation for Ministry of the Industry and Electricity (Industry Affairs).

10.4 CONSTRUCTION

10.4.1 Role and Development Objectives

The construction industry makes a major contribution to economic development through its broad-ranging linkages with other economic activities -- including its direct impact on many of the Kingdom's high value added industries -- and its high levels of employment. In 1409/10, the construction sector had an estimated workforce of 944,000, and this figure is expected to grow to about 960,000 by the end of the Fifth Plan period. The construction sector's share of non-oil GDP stood at 15.5 percent in 1409/1410, and is expected to grow to 16 percent by the end of the Fifth Plan period.

The major objectives of the construction sector during the Fifth Plan are summarized as follows:

- To re-stimulate the construction sector, thereby increasing its contribution to national income;
- To continue the development and training of national engineering and technical manpower, and to absorb higher numbers of such manpower into the sector;

- To increase the participation of Saudi contractor and Saudi engineering consulting offices in implementing construction and maintenance projects included in the Plan;
- To develop the export capacity of the building materials industry and ensure that government and private projects use domestic building materials.

10.4.2 Achievements and Key Issues

In response to the economic conditions prevailing during the Fourth Plan period, construction activity declined at an average annual rate of 8.2 percent compared to its targeted decline of 2.8 percent. Its share of total employment fell from 28 percent to 16 percent, with an average annual decline of 8.5 percent over the same period.

During the Fourth Plan period, 4,106 housing units were completed throughout the Kingdom. The Deputy Ministry for Public Works supervised 807 construction projects, the design of 47 other projects, and prepared and developed 3,793 fully serviced land plots. In addition, an estimated 46,400 housing units were completed by other government agencies, equivalent to 69 percent of the relevant Fourth Plan target.

By the end of 1408/1409, the Deputy Ministry for Contractor Classification had issued 3,477 new classification certificates to Saudi and non-Saudi contractors, re-classified 927 contractors by type and grade of activity, and issued four comprehensive contractor classification lists.

The Saudi Real Estate Development Fund extended loans for the construction of 87,000 housing units during the Fourth Plan, or about 58 percent of the Fourth Plan target.

Saudi contractors succeeded in increasing their share of government project contracts from 67 percent to 85 percent over the Fourth Plan period. This success can be attributed primarily to two factors:

- (i) the enforcement of the 'thirty percent rule' which states that at least 30 percent of the construction value of government contracts must be awarded to Saudi construction firms; and
- (ii) the requirement to split large government projects into a number of smaller contracts.

Furthermore, Saudi contractors have taken steps to improve efficiency and maintain their viability in a highly competitive and depressed market. Construction and maintenance costs fell sharply between 1403 and 1408 (see Figure 10.4), as the more intense competition forced contractors to reduce wage costs and change the nationality composition of their foreign workforce. At the same time, Saudi contractors made greater use of domestically supplied materials and equipment, and shifted their imports to lower cost sources.

Key Issues

The following issues will need to be addressed in order to stimulate construction activity and increase its contribution to economic growth and development.

Encouragement of Construction Exports

While the quality of output from several building materials factories now conforms to international standards and specifications, these plants currently suffer from low capacity utilization, as a result of the decline in construction activity. The Fifth Plan aims for a revival of construction activity, and in this regard, the expansion of experienced Saudi construction companies into international markets should be promoted on the basis of the special relations that exist between the Kingdom and its neighboring countries. The next stage of development will also require that marketing channels be opened for domestically produced building materials, in order to raise the utilization of existing capacity.

National Manpower

The construction sector has experienced a marked decline in the employment share of Saudi manpower to around 5 percent, particularly amongst engineers, technicians and skilled workers. The next stage requires that the private sector be encouraged to absorb a larger number of Saudis. A comprehensive study will be undertaken to identify the construction sector's requirements for engineering and technical specialists. In addition, universities and technical institutes will aim to guide secondary school graduates towards the required specializations.

Quality Standards

Efficiency has been impeded by the lack of quality specifications and unified standards for building equipment and materials, by technical measures that are inappropriate for local conditions, and by administrative procedures which sometimes tend to be complicated. Therefore, specifications will have to be completed, and standard criteria established for building materials. Administrative procedures will be made easier, and plant efficiency improved.

Maintenance of Completed Projects

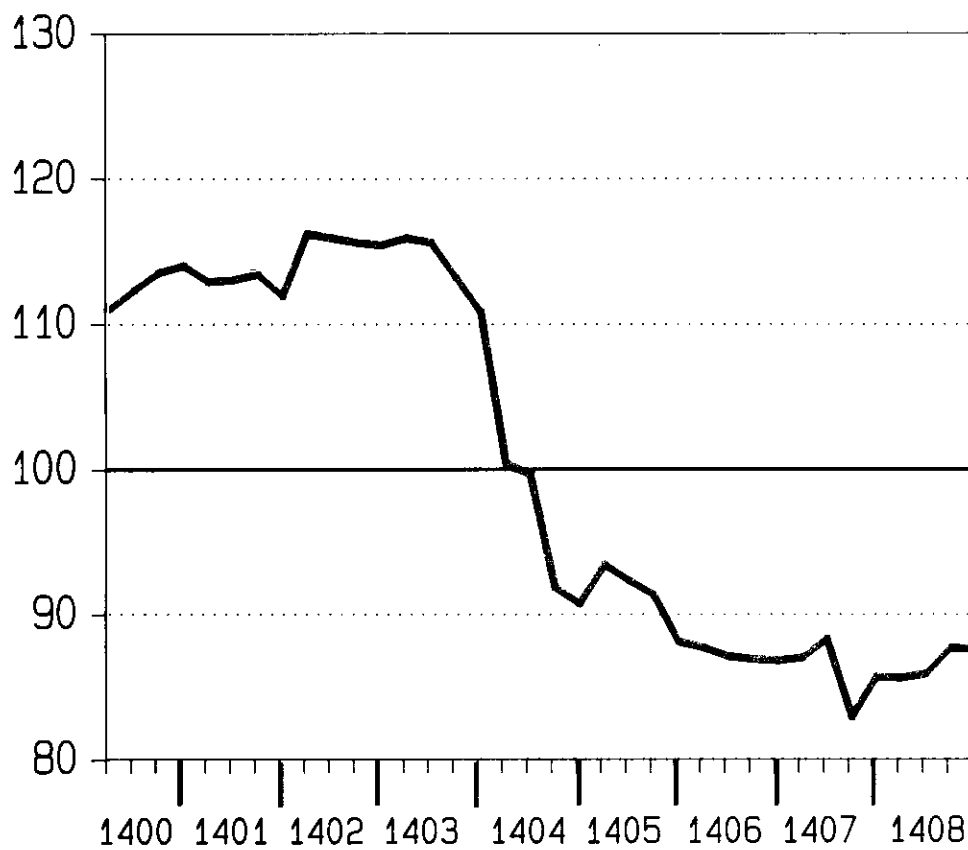
The harsh climatic conditions of the Kingdom and the low quality standards in the early years of development have contributed to the premature ageing of physical stock, and thus to increasing maintenance and replacement needs. Emphasis during the forthcoming stage should, therefore, be laid on stimulating the private sector's role in construction maintenance.

10.4.3 Role of the Government and the Private Sector

In principle, the role of government in the construction sector is to provide the regulatory framework for a free market environment, by ensuring fair competition between firms on the one hand, and customers' protection on the other. In addition, the Ministry of Public Works

Figure 10.4

Quarterly Construction Cost Indices 1400 - 1408



1398 third quarter = 100

and Housing has developed a range of support measures for the private sector to enhance quality, to reduce construction costs and to increase the number of Saudi companies operating in this field. The government has traditionally been a major source of demand for the construction industry. The Fifth Plan aims to shift construction demand from the government to the private sector, so that the construction sector may maintain its viability even in the face of reduced government demand for its services. In this regard, the government will aim to stimulate the construction sector through:

- the establishment of a favorable environment for private enterprises, in terms of continuing incentives for private sector investment with a high construction content, such as loans from the Real Estate Development Fund and the Saudi Industrial Development Fund;
- examining the possibility of encouraging public corporations to finance additional investment jointly with the private sector;
- the stabilization and steady expansion of government project expenditure, and sufficient budgetary allocations for the maintenance of existing infrastructure.

The private sector must rely more on its own investment initiatives, rather than depending predominantly on government invitations to tender. Meaningful actions in this regard would include diversification activities, upgrading efficiency, focusing on wider markets, streamlining organizational structures, and exploiting cooperation opportunities through joint ventures.

10.4.4 Sectoral Policies and Main Programs

The following policies will contribute towards the achievement of the development objectives for the construction sector during the Fifth Plan:

- Streamline administrative procedures and develop laws and regulations concerning construction work and activities;
- Issue and enforce unified material standards, and develop and enforce regulations for different types of building, management and operation and cost assessment; undertake laboratory tests of building materials and publish the results;
- Expand the capabilities of the central office for storing public construction documents and data for use in studies and applied research;
- Encourage greater cooperation between the public and private sectors in financing, building, operating and maintaining major projects;

- Support Saudi contractors by ensuring them at least a 30 percent participation in public contract awards : by dividing large projects into smaller contracts if technically and economically feasible; by promoting contractor awareness of the classification system; and by considering the possibility of giving preference to Saudi contractors with a significant proportion of Saudis in their workforce;
- Promote the participation of Saudi contractors in international markets, and emphasize reciprocity within the Kingdom's international aid program.

Main Programs

Studies and Technical Cooperation Program : This program will upgrade the performance and operation of laboratory tests; develop unified standards for building materials and equipment, and regulations for costing of public sector projects; conduct necessary laboratory tests and meet the needs of all regions; and develop and upgrade the central office as a national archive for public building plans and documents in order to facilitate research and study activities.

Manpower Development : This program will upgrade and develop Saudi engineers, technicians, and others in the construction sector workforce. Activity in this area will be undertaken by universities, GOTEVT, the Royal Commission for Jubail and Yanbu and other relevant agencies. The Ministry of Public Works and Housing's central laboratory facilities will be transformed into a training ground for Saudi engineers and technicians.

Contractor Classification Program : This program will continue the review and classification of foreign and national contractors; monitor compliance with classification regulations in public sector construction projects; and initiate a new program to classify consultants and experts engaged in construction sector activities.

10.4.5 Growth Targets During the Fifth Development Plan

The construction sector is targeted to grow at an average annual rate of 3.8 percent during the Fifth Plan period. The construction sector's employment will remain at 16 percent of total civilian employment, although the number of workers is expected to increase at a moderate average annual rate of 0.3 percent. The assumed growth of the construction sector's value added implies a significant growth in productivity during the Fifth Plan period.

10.4.6 Financial Allocations: Construction Sector

The planned government expenditures for the programs of the Deputy Ministry for Public Works and Deputy Ministry for Contractor Classification to support construction sector activities during the Fifth Plan are shown in Table 10.8.

TABLE 10.8

**Fifth Plan Financial Allocations : Construction Sector
(SR million) ***

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
Deputy Ministry for Public Works	398.0	67.0	-	465.0
Deputy Ministry for Contractor Classification	59.0	8.0	-	67.0

* This table does not include allocations for other government construction projects.

CHAPTER 11

SERVICES SECTORS

11. SERVICES SECTORS

This chapter examines the issues, policies and the government support programs in commercial services, tourism, standards and specifications and statistical services, in addition to the main constraints in these fields and the methods of addressing them during the Fifth Plan period.

11.1 COMMERCIAL SERVICES

11.1.1 Role and Development Objectives

The commercial services sector plays an essential role in the Saudi economy and is composed of trade, hotels, restaurants and storage activities, in addition to business services. Such activities are dominated by the private sector, which is represented by the Chambers of Commerce and Industry and the Council of Chambers of Commerce and Industry, while the role of the government is restricted to directing and regulating these activities so as to maintain fair trade practices and to protect consumer interests.

The Ministry of Commerce is responsible for the direction and development of the domestic trade and the non-oil foreign trade activities. It pays particular attention to raising the performance efficiency of the commercial sector and enhancing the private sector's role in the development process, in addition to overcoming the constraints that hinder the private sector's growth. Furthermore, the Ministry is responsible for monitoring both the prices and quality of commodities supplied in the local market through laboratory tests and analysis in its quality control laboratories. At the same time, the Ministry regulates the activities of hotels and restaurants and ensures the orderly expansion of business services.

The objectives of the commercial services sector are:

- to develop and regulate this sector according to the needs of the national economy in order to achieve maximum efficiency at minimum costs;
- to increase the involvement of the private sector in activities currently undertaken by the government;
- to continue the enforcement of quality control measures for commodities supplied in the domestic market in order to protect the consumer and eradicate commercial fraud;

- to develop Saudi manpower and improve productivity levels according to the requirements of the sector;
- to promote the development of business services and professions as a necessary support system for high standards of efficiency and competitiveness in the producing sectors.

11.1.2 Achievements and Key Issues

In spite of the minor economic recession during the Fourth Plan period, the commercial services sector continued its role in stimulating economic and social development. The sector's contribution to GDP amounted to SR 27.4 billion in current prices in 1409/1410, accounting for 12.5 percent of non-oil GDP (wholesale/retail trade, hotels and restaurants only). Employment in the sector rose from 689,000 in 1404/05 to 898,000 by the end of the Fourth Plan.

The number of companies and establishments registered by the Ministry of Commerce reached 316,280 in 1409, an increase of 18 percent since 1405, while the number of trade marks registered rose to 19,783.

In 1409, the total number of hotels in the Kingdom reached 259, of which 19 are 4 or 5 star hotels with room capacity of 4800 rooms, while the total capacity of all hotels amounted to 22,953 rooms in the same year.

The Fourth Plan period also witnessed stability in the supply of basic foods at prices commensurate with the needs of consumers and their incomes. Self sufficiency in a number of basic foodstuffs has also been achieved and the production of some other commodities increased to meet a substantial share of the Kingdom's needs. Government advertising and price control of some commodities played a major role in protecting the consumer from fluctuations in world food prices.

The Ministry of Commerce cooperated with the Chambers of Commerce and Industry in establishing various training programs and conducting studies on marketing, advertising and investment opportunities in the Kingdom. A number of Saudi exhibitions were organized in different countries, and the Ministry of Commerce has also licensed a number of national and foreign exhibitions in different cities within the Kingdom, in addition to promoting participation in many international exhibitions and fairs.

Key Issues

Notwithstanding the achievements of the commercial services sector and its expected growth, a set of key issues has emerged which should be tackled and resolved by the concerned agencies during the Fifth Plan period:

Low Productivity Levels and the Increase in Non-Saudi Manpower

The commercial services sector suffers from relatively low levels of productivity, in addition to a continuous increase in the number of non-Saudi workers. Accordingly, appropriate actions should be taken to train Saudi manpower, particularly through on-the-job training with special emphasis on advanced technology. The reasons for the low productivity levels and the instability of Saudi employment must be studied. In addition, the private sector must be encouraged to play a more positive role in the Saudiization process.

Insufficient Business and Professional Services

Although almost all business services and professions are represented in the Kingdom, in some cases these services need to be expanded and their quality improved in order to support the growth of industrial, agricultural and financial companies.

Commercial Regulation

Some of the prevailing commercial regulations do not fully meet the dynamic requirements of the commercial services sector in a modern economy. In addition, their enforcement needs to be improved, particularly in areas such as Zakat and income regulations, disputes settlement regulations, patent right regulations, import regulations and impoundment regulations.

During the Fifth Plan period, the Ministry will make efforts to review the legal, social and economic framework of these regulations, so that they can be developed in a way that gives the private sector greater flexibility in performing its developmental role.

11.1.3 Role of the Government and the Private Sector

In conformity with the strategic principles of the Fifth Plan, the private sector will be involved in many activities currently undertaken by the government. This will lead to an active role of the private sector in the activities of the commercial services sector, while the government's role will be restricted to regulatory and supervisory functions.

It will also be important to acquaint the public with the potential investment opportunities in this sector. This will require the establishment of joint stock companies as large scale economic units in order to make available the necessary capital and liquidity for investment. The Ministry of Commerce should take appropriate actions to encourage the creation of such companies, in cooperation with the Chambers of Commerce and Industry, particularly in the fields of: export of non-oil products, management and operation of storage facilities and cold stores, and national exhibitions.

The Ministry will also continue to develop regulations pertaining to marketing, advertising, trade marks and consumer protection. In general, the regulatory relationship between the

government and the private sector should be streamlined in order to achieve cooperation and integration between them with regard to the development of the commercial services sector.

11.1.4 Sectoral Policies and Main Programs

In order to attain the sector's development objectives, the following policies will be adopted during the Fifth Plan:

- Review existing regulations and procedures, and develop new ones to facilitate and improve commercial activities of the private sector.
- Strengthen the existing relations between the Ministry of Commerce, the Chambers of Commerce and Industry, and the Council of Chambers of Commerce and Industry, and increase private sector participation in trade services activities.
- Provide the private sector in general, and potential entrepreneurs in particular, with relevant statistical information about trade and commercial activities in order to facilitate investment decisions.
- Support measures which will assist in promoting non-oil exports.
- Develop foreign trade relations and promote economic integration between GCC countries, through coordination between concerned government agencies and the private sector.
- Provide local markets with all essential commodities, and ensure that consumers obtain products of good quality in sufficient quantity and at reasonable prices.

Main Programs

These policies will be implemented through the following programs:

Development and Support Services

This program aims to develop and promote the activities and procedures of the Ministry of Commerce and its branches, in addition to improving productivity through the use of computers and adjustments in commercial regulations, the preparation of directories and statistics, the conduct of studies according to the sector's needs, and participation in conferences and international exhibitions.

In this respect, a number of studies will be conducted covering marketing and investment opportunities as well as the possibility of creating free trade zones in some seaports. A comprehensive study will also be carried out--in cooperation with the Council of Chambers of Commerce and Industry--concerning the promotion of Saudi exports in foreign markets.

Supply and Quality Control

This program aims to assess the Kingdom's basic commodity requirements, and to ensure that local markets are supplied with commodities of high quality. New sections should be established in the quality control laboratories for testing of radiation, textiles, electrical equipment, building materials, chemicals, and medicines, in addition to which new laboratories will be established. Furthermore, price monitoring policies and commercial fraud procedures will be reviewed, and the private sector will be encouraged to establish storage facilities and cold stores on land provided by the Ministry of Commerce and in collaboration with concerned agencies.

Finance and Business Services

This program aims to develop financial and business services through: conducting a study to identify the demand for business services, participation in organizing and developing consultancy services and practices in the Kingdom, as well as encouraging cooperation between consultancy offices and the universities. Consideration will be given to the establishment of a center for domestic and international commercial information for the use of consultancy practices, and to the organization of insurance activities and the enumeration of insurance companies in the Kingdom.

11.1.5 Growth During the Fifth Plan Period

The commercial services sector is expected to grow at an average annual rate of 3 per cent during the Fifth Plan period, and its contribution to non-oil GDP is targeted at 11.4 per cent by the end of the Fifth Plan period.

Commercial regulations and procedures will be developed through the issuance of four new commercial regulations and the preparation of four standardized commercial regulations for the GCC countries. With regard to quality control laboratories, 16 new sections will be created for testing products in existing laboratories, and 5 new laboratories will be opened.

11.1.6 Financial Allocation: Ministry of Commerce

The financial allocation for the Ministry of Commerce during the Fifth Plan period is shown in Table 11.1.

TABLE 11.1

**Fifth Plan Financial Allocation: Ministry of Commerce
(SR million)**

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
Ministry of Commerce	504.0	25.0	201.0	730.0

11.2 TOURISM SERVICES

11.2.1 Role and Development Objectives

Tourism is a fast growing and important service industry in many countries, where it is regarded as a major source of income. In Saudi Arabia, domestic tourism activities have the additional feature of coming within the range of services that are provided by the government for the well-being of citizens, such as healthcare, social and education services. Apart from its economic and social contribution, tourism development in the Kingdom is also regarded as an appropriate way of preserving local customs, traditions and values against possible adverse influences that might conflict with Islamic principles.

The Kingdom is rich in folklore and is well endowed with natural, cultural, and environmental characteristics, in addition to advanced support services such as air transport, railroads, buses, modern roads and car services. The development of recent years has also witnessed the emergence of high quality public services such as public parks, hotels and restaurants, as well as exhibition centers, museums and mountain resorts. Together, the combination of all these natural, social and economic assets provides the potential for a substantial expansion of tourism within the Kingdom, both for Saudi residents and for citizens of the GCC countries.

During the Fifth Plan period, tourism facilities will be gradually expanded, on the sea-coasts and in the mountain areas, so that citizens will be able to enjoy their vacations and holidays in these areas at affordable prices. The development objectives for the tourism sector can be summarized as follows:

- To encourage the development of tourist and recreation areas in a balanced manner that safeguards natural resources and the Kingdom's cultural heritage;

- To encourage greater selectivity in the choice of tourism projects and to ensure that they conform to national development objectives;
- To enhance the quality of life for Saudi citizens.

11.2.2 Achievements and Key Issues

Tourism services have been steadily developed during the Fourth Plan period in well defined and planned stages. The number of hotels in the Kingdom increased substantially by the end of the Fourth Plan, all providing high quality services. A wide range of motels and furnished rental units and campgrounds have also been established. High standards of food and service are maintained in restaurants and recreational facilities. In many localities Tourism Development Committees have been formed, whose responsibility is the planning and implementation of tourism projects.

A wide range of services and facilities has been established by the end of the Fourth Plan (see Figure 11.1), and the Kingdom is now capable of hosting international and regional conferences, conventions, and sporting events. Residents and tourists alike can enjoy many leisure activities, whether in the open space of the desert or at seaside resorts on the Red Sea and Arabian Gulf, where sea picnic boats are widely available. There are also the mountain areas such as Jibal Al Sarawat and verdant mountains and valleys along the ancient frankincense route from Taif to Baha and Abha. Furthermore, there are the ancient monuments and historical sites at Madain Saleh, Al-Ukhud, Qariat Al-Fau, Al-Dara'iyyah, in addition to the historical Hijaz railway, museums and traditional suqs with cultural artifacts and handicrafts. In addition to these areas of historical and geographical interest, there are also the attractions of modern development, such as the industrial cities of Jubail and Yanbu and the solar energy research cities in Al-Oyainah and Al-Jubailah.

Key Issues

Notwithstanding the development achievements in the tourism sector and in anticipation of its expected growth during the Fifth Plan period, a number of key issues have arisen which must be addressed and resolved:

Tourism and Regulations

At present, there is no administrative and executive authority responsible for planning, licensing, regulating, and monitoring the tourism, recreation and amusement services being developed by the private sector. The feasibility of establishing a National Tourism Board, with both enforcement authority for all tourism services being provided and full responsibility for promoting the development of tourism at the national level, must be evaluated. The first steps in this regard are to identify the sector's manpower requirements, to make better use of existing resources, and to select the most appropriate recreation activities for further development.

Manpower and Training

The tourism services sector is currently characterized by a small share of Saudi manpower in total employment. However, through proper training and incentives new opportunities can be provided to Saudi nationals. In this regard, the government, in cooperation with the private sector and GOTEVT, will investigate the feasibility of establishing an Institute for Tourism and Hotel and Restaurant Management, with responsibility for the preparation and training of qualified national manpower.

11.2.3 Role of the Government and the Private Sector

The government will continue to support and develop tourism services in line with the growing national demand for these services, and to encourage private sector investments in this field. It will provide development loans to facilitate the expansion of tourism facilities according to actual needs, and will provide the physical infrastructure and land use regulations in tourism areas. Furthermore, it will continue to provide regulations of prices and the level of services in these facilities. At the same time, it will increase the number of public parks and campgrounds, together with their ancillary services.

11.2.4 Policies and Main Programs

The policies of the tourism sector include the following:

- Determine the appropriate level of development for tourism services and achieve a balanced growth rate which ensures the adjustment of surrounding communities to the impacts of this expansion;
- Coordinate and regulate tourism and recreation facilities;
- Encourage the expansion of diverse tourism facilities in the designated Tourism Development Areas, and provide recreational services in these areas;
- Facilitate private sector involvement in the development of tourism;
- Develop regulations and procedures with respect to the quality of services and prices, while recognizing the needs of private companies for adequate profit margins;
- Support the formation of local tourism committees;
- Study the feasibility of establishing an Institute for Tourism and Hotel and Restaurant Management and establish programs to train Saudi nationals in the tourism field.

Main Programs

After identifying the objectives and policies pertaining to the development and regulation of the tourism services sector, appropriate programs will be implemented to achieve these objectives, with coordination between the government and the private sector.

11.2.5 Growth Targets During the Fifth Plan

Hotels are expected to achieve a growth rate commensurate with rising demand. With the growth in tourist numbers, there will be greater competition between hotels in the provision of additional recreational services and programs to attract customers, particularly as these hotels must also compete with other types of accommodation, such as motels, rest houses, youth hostels and campgrounds. At the beginning of the Fifth Plan, 20 rest houses of 3-star category will be completed. More recreational resort facilities will be established at Half Moon Bay on the Arabian Gulf and on the Red Sea coast at Jeddah, with the addition of 565 new residential units. Large tourism projects will be completed in Abha and on the Red Sea near Al-Qunfudah. Furthermore, the municipalities in the Tourism Development Areas will also establish recreational projects in these areas.

11.2.6 Financial Allocations

Because there is no agency specifically responsible for the tourism sector, no financial allocation is included for the tourism sector in the Fifth Plan. As a result, agencies expected to be involved in tourism activities will be responsible for selecting appropriate tourism programs and for allocating the necessary funds for such activities. Furthermore, the costs of the infrastructure and tourism development loans have not been specified, while the costs of the Institute for Tourism and Hotel and Restaurant Management are included in the training sector (GOTEVT).

11.3 STANDARDS AND SPECIFICATIONS

11.3.1 Role and Development Objectives

Economic growth does not represent the sole objective of development. By its nature, development is also associated with complicated linkages between society and its institutional requirements.

The establishment of a national system of standards and specifications is very important for both consumers and producers. With growing emphasis on economic diversification and the expansion of Saudi exports, it is necessary that the Kingdom have an adequate system of standards and specifications to be used as a technical instrument for controlling the quality of products at local and international market levels.

is obligatory, SASO is not responsible for their direct enforcement. Accordingly, cooperation should be improved between the relevant government agencies, so that appropriate measures can be found for strict compliance with the approved standards.

- The operation of the 'quality marks' and 'conformity certificates' system has greatly increased the work load of SASO technicians -- a matter which has adversely affected the preparation and approval of draft specifications. It is important that sufficient numbers of qualified technical personnel be made available so that SASO can perform its functions effectively.
- The full testing and implementation of consulting procedures for standard and specification schemes has led to delays in their final approval. Such procedures must be simplified -- particularly with regard to items which do not require changing -- since many of them are not especially important to local environmental and social conditions.

11.3.3 The Role of the Government and the Private Sector

SASO has close links with private sector industries through the preparation of their specifications as well as through the provision of necessary technical consultation in the field of quality control. SASO is also responsible for checking the specifications of locally produced and imported goods and their conformity with Saudi standards.

SASO supports the 'quality marks' and 'conformity certificates' system with regard to imported goods, through the authorization of some private laboratories in the Kingdom and abroad to issue such marks and certificates on behalf of SASO. Such actions serve to protect Saudi importers and consumers, and also high quality local products from unfair competition from imported products which do not conform to the required specifications.

11.3.4 Policies and Main Programs

The objectives of SASO conform to the Fifth Plan strategy to improve the standards of government services, facilities and products provided to citizens, and to standardize technical specifications in the projects implemented by the government.

The following policies will be implemented by SASO during the Fifth Plan:

- Preparation of standards and specifications commensurate with conditions in the Kingdom and in those areas of importance to trade and industry;

- Training of manpower through training courses and specialized study abroad in the field of standards and specifications, with particular emphasis on Saudiization, which is expected to reach 78 percent of SASO's total employment by the year 1414/1415.

11.3.6 Financial Allocation: Standards and Specifications

Table 11.2 shows SASO's financial allocations during the Fifth Plan period:

TABLE 11.2

**Fifth Plan Financial Allocation: SASO
(SR million)**

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
SASO	182.0	32.0	110.0	324.0

11.4 STATISTICAL SERVICES

11.4.1 Role and Development Objectives

Over the past two decades, the economic and social systems, sub-systems and institutions of Saudi Arabia have attained a high degree of complexity and differentiation, so that the widespread availability of timely and accurate statistical information has become an indispensable tool for rational decision making in both public and private sectors.

Individuals and institutions in need of statistical information can refer to two types of sources:

- private sector establishments conducting empirical data surveys; and
- government statistical services.

The economic development role of both private and government producers of statistical information is indirect and supportive. They provide necessary information as a basis for decision making, planning, research and administration in an increasingly complex and uncertain environment.

There are a number of government ministries and agencies that compile and disseminate statistics in their respective fields of responsibility, such as the Ministries of Health, Education, Agriculture and Water, Industry and Electricity, and others. However, the principal institution endowed with the mandate to collect, process and disseminate statistical information on relevant socio-economic fields and topics is the Central Department of Statistics (CDS) under the authority of the Ministry of Finance and National Economy.

11.4.2 Achievements and Key Issues

During the Fourth Plan, the CDS aimed to consolidate its system of data collection and statistical reporting. Its main achievements comprise the following statistical series, serving a number of crucial analytical and planning purposes: the execution of two Labor Force Surveys in 1406 and 1407, a Consumer Expenditure Survey in 1405/06, and a series of annual Establishment Surveys covering most of the Kingdom's non-agriculture/non-government economic sectors; the annual presentation of the National Accounts statistics and foreign trade statistics; the improvement and extension of the system of price statistics; the annual provision of the pilgrimage statistics; the collection of secondary statistics relating to education, health, social services and other fields, and their annual presentation in the Statistical Yearbook. In various fields, particularly in foreign trade and price statistics, quality levels have been attained that compare favorably with the standards of developed countries.

Key Issues

A number of unresolved issues remain, however. Their solution depends very much on the Population Census planned to be conducted in 1411 and the completion of the Establishment Census during the Fifth Plan. These issues can be divided into five categories:

- **Gaps in Information Coverage:** A number of fields and topics with urgent information requirements are not yet covered.
- **Quality of Information:** There is much scope for quality improvements in various statistical fields.
- **Discontinuity of Data Collection:** Data collection activities tend to take place on an irregular basis, thus creating information gaps on economic and social trends that are important for policy analysis and formulation.
- **Timeliness of Data:** In some statistical fields there is a need to reduce the time that elapses between the completion of the data collection and the availability of the information to users.

- **Access to Information:** The dissemination of statistical information should be expanded and access made more widely available to the private sector and other concerned agencies.

These unresolved issues can be attributed to a number of constraints facing the official system which must be addressed by appropriate policy measures and programs.

11.4.3 Role of the Government and the Private Sector

The statistical information sector as a whole is composed of both specialized private establishments and government institutions. This institutional arrangement is in line with international practice. However, although the private sector benefits indirectly through the provision of some statistical services not provided by the government system, there is no competitive relationship between the two. The CDS may employ the services of the private sector to undertake some statistical surveys. There is, therefore, no need to create new institutions or to abolish existing ones.

11.4.4 Policies and Main Programs

Issues and constraints in the field of official statistics are to be addressed by four sets of policy measures:

- The material and personnel situation of the government statistical system must be improved in order to provide a basis for the qualitative progress aimed at.
- Internal measures will be taken to improve efficiency, e.g, by assessing organizational structures, decision flows and management practices.
- The costs and benefits of allowing private sector access to official information that is necessary for sound decision making, will be reassessed.
- A regular dialogue between the users and producers of official statistics must be established.

Main Programs

Based on these policies the following programs will be implemented during the Fifth Plan period:

- **Continuation and Expansion of Information Services:** Based on the proposed user-producer dialogue and meaningful international comparisons, the Fifth Plan period

will mark the beginning of an expanded statistical program to meet the growing demands of the Saudi economy and society. The most prominent project within this program is the completion of the Population Census planned for 1411.

- **Qualitative Improvements:** The quality of statistical information has four main aspects -- accuracy, continuity, timeliness and relevance. An increase in the provision of funds will certainly support improvements in quality. Other improvements must be achieved through organizational and management measures to counter certain deficiencies in operating procedures and decision flows within individual organizational units.
- **Manpower Development:** This program is closely linked to the previous ones. It provides for an expansion in staff, particularly at the professional and technical levels. More importantly, however, it includes an integrated training program for Saudi staff, composed of counterpart cooperation, on-the-job training and formal training courses, both in-house and in training institutes.

11.4.5 Growth Targets During Fifth Plan

During the Fifth Plan period, important achievements should occur in addressing the aforementioned problems. The Census of Population, to be carried out in 1411, will not only close important information gaps, e.g. the regional distribution of the population and labor force, but it will also provide a new sampling framework for the Kingdom's multipurpose household survey, thus ensuring marked quality improvements of all statistics based on household samples. Similarly, the Establishment Census to be conducted after the Population Census will establish a new base for the entire system of economic statistics, and add substantially to the quality and reliability of the data.

11.4.6 Financial Allocation: Statistical Services

Table 11.3 shows the financial allocation of the Central Department of Statistics (CDS) during the Fifth Plan period.

TABLE 11.3

Fifth Plan Financial Allocation: CDS
(SR million)

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
CDS	861.0	5.0	—	866.0

CHAPTER 12

HUMAN RESOURCES DEVELOPMENT

12. HUMAN RESOURCES DEVELOPMENT

This chapter presents the main objectives, policies and programs for the development of the Kingdom's human resources at all levels of general education, higher education, technical education and vocational training. The chapter also addresses manpower utilization from the viewpoint of employment regulations and services, as well as the contribution of science and technology to socioeconomic development. Key issues in the development and utilization of human resources during the Fifth Plan period are also discussed in this chapter.

12.1 EDUCATION

12.1.1 Role and Development Objectives

The material and social objectives of the education curriculum in the Kingdom are based on the Islamic values and cultural heritage of Saudi society, and constitute the cornerstone of long-term development. All previous development plans have placed emphasis on inculcating these values in citizens and on imparting to them the knowledge and skills that will enable them to participate effectively in all social, economic and cultural activities. The Fifth Plan reaffirms the Kingdom's commitment to the full development of its people, particularly in its third and fourth strategic objectives:

- “to form a productive national work force by encouraging citizens to avail themselves of the benefits from the infrastructure and institutions provided for them by the State, ensuring their livelihood and rewarding them on the basis of their work;
- to develop human resources, thus ensuring a constant supply of manpower, upgrading its quality and improving its efficiency to meet the requirements of the national economy.”

General education opportunities for boys and girls are provided through the Ministry of Education and the General Presidency for Girls Education, who also provide education and literacy programs for special groups such as the handicapped and adults. Other government agencies and the private sector are also involved in the provision of education services, while the preparation of teachers is undertaken by the teacher training institutes and intermediate colleges.

The government also provides post-secondary higher education opportunities through the universities and girls colleges (and their affiliated colleges), military and security colleges, and other government agencies. Figure 12.1 illustrates the education system in the Kingdom.

While the improvement of the education system is an ongoing process for the Kingdom's educational institutions, the following objectives will guide the development of education in the Fifth Plan:

- to upgrade the efficiency of education;
- to ensure that general education is in accordance with the religious, economic and social needs of the Kingdom;
- to provide education facilities at minimum cost;
- to reduce illiteracy rates among citizens;
- to raise the quality, effectiveness and efficiency of education and the administrative performance of higher education institutions;
- to expand and diversify higher education programs and ensure that the activities of higher education institutions are responsive to the requirements of socioeconomic development;
- to improve coordination and cooperation amongst post-secondary education institutions;
- to continually encourage and develop scientific research activities;
- to provide all citizens of ability with opportunities to pursue a university education.

12.1.2 Achievements and Key Issues

As its key indicators show, the Kingdom's educational system has continued to grow, in terms of both quality and quantity, during the Fourth Plan period. With the commitment to free education, total student enrollments in general education have grown more than four-fold over the last two decades, to over two million.

At the beginning of the First Plan, 7000 students were enrolled in the Kingdom's higher education institutions. This number has increased more than sixteen times over the last four Plan periods, so that there are now more than 114,000 students (men and women) enrolled in these institutions. The number of women enrolled in the higher education system has increased from 400 to more than 48,000 over the same period.

During the Fourth Plan period (1404/05 to 1407/08) the general education system for boys and girls has witnessed a steady growth in numbers (see Table 12.1).

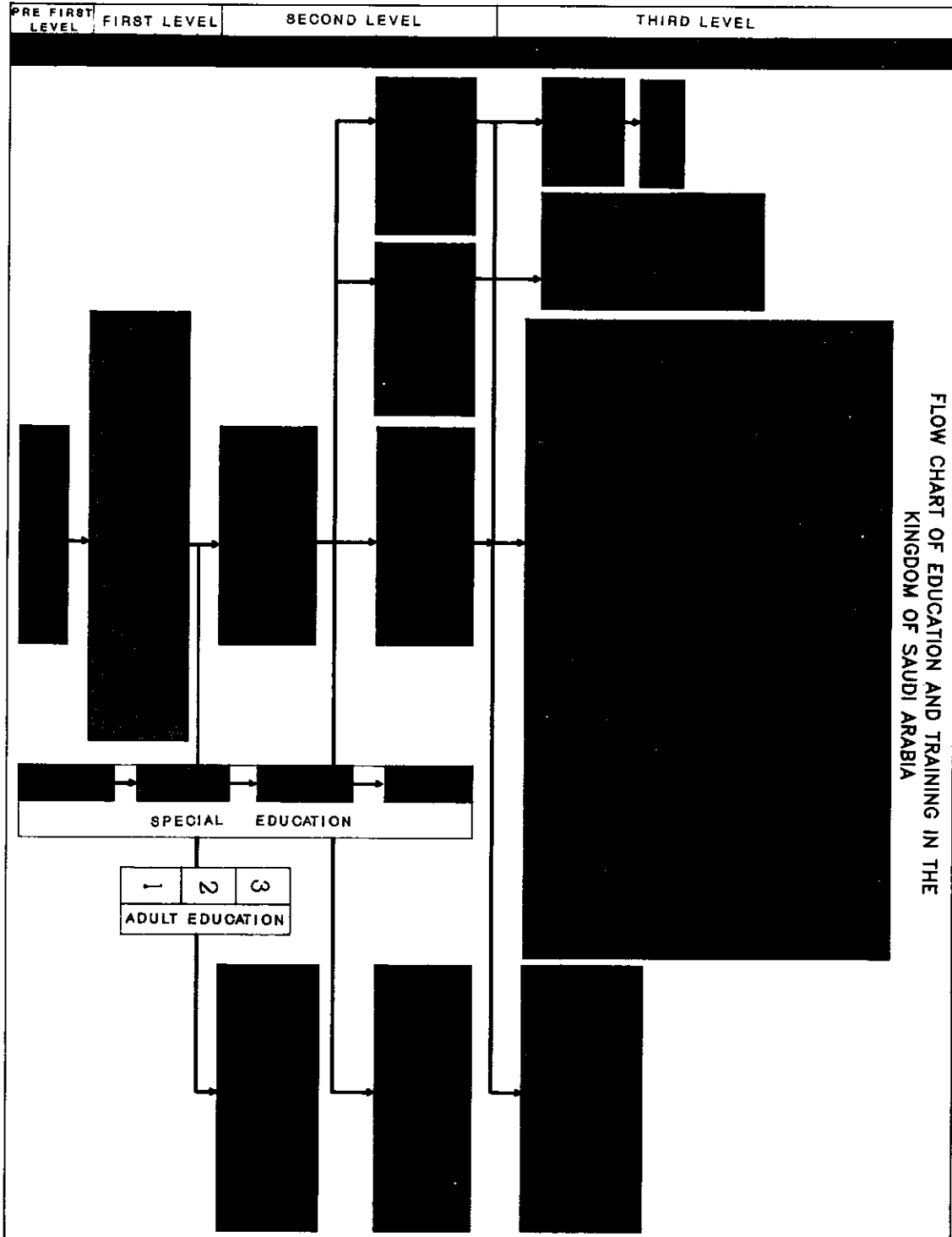


Figure 12.1

TABLE 12.1

**Annual Growth Rates for General Education
1404/05 to 1407/08**

	Elementary		Intermediate		Secondary	
	Male %	Female %	Male %	Female %	Male %	Female %
Enrollment	5.7	8.7	7.0	10.8	9.7	11.8
New Entrants	6.2	7.0	6.9	10.0	13.0	10.8
Graduates	6.3	8.1	6.3	12.4	1.0	12.4
Classrooms	4.2	7.5	6.2	8.5	10.0	10.8
Saudi Teachers	7.2	15.5	17.3	18.3	23.6	32.2
All Teachers	3.7	11.9	6.3	10.0	8.1	12.2

In the higher education sector, with the exception of non-Saudi faculty members, all indicators have shown a marked annual increase during the period 1404/05 to 1407/08 (see Table 12.2).

TABLE 12.2

**Annual Growth Rates for Higher Education
1404/05 to 1407/08**

	Bachelor Level %	Postgraduate %
Enrollment	7.4	8.7
New Entrants	4.5	17.1
Graduates	30.0	7.0
Saudi Faculty	5.5	—
Non-Saudi Faculty	(4.3)	—
Administrative and Technical Staff	1.5	—

The rapid growth in student numbers has been accompanied by a similar expansion in the infrastructure of the Ministries of Education and Higher Education, the General Presidency of Girls Education and the girls colleges. Over the last two decades, the number of elementary schools for boys and girls increased from 1,824 to 8,426, the number of intermediate schools from 126 to 2,772, and the number of secondary schools from 23 to 1,171. This expansion was supported by substantial growth in public expenditure on education, which rose from less than SR 600 million in 1389/90 to almost SR 22 billion in 1409/10 -- almost a 37-fold increase over the last four Plan periods.

The government provides free education for students at all levels, in addition to bursaries for students who attend schools far from their homes. University students receive financial bursaries, free housing, free meals and books, and are provided with transportation at subsidized prices, while female students are provided with free transportation.

In addition to the rapid growth witnessed at each level of education over the last two decades, the Fourth Plan period has seen a series of changes in the ongoing evaluation of education services, such as:

- the constant efforts to develop education in response to rapid economic and social change and to adapt to potential technological changes in the future;
- reviewing and developing the curriculum and training methods;
- an expansion in kindergarten programs;
- the growth in postgraduate study programs for Ph.D. and Master's degrees;
- the use of advanced technology for program evaluation, educational guidance and psychological advice activities;
- the establishment of minimum educational standards for elementary school teachers.

Key Issues

Almost inevitably, this rapid expansion in services and institutions has been accompanied by the emergence of problems which are now constraining the overall effectiveness of the system. The Fifth Plan's programs and projects will, therefore, seek to develop appropriate solutions to these key issues.

General Education Issues

Low Internal Efficiency

The general expansion of education in the Fourth Plan period has also seen a continued upward trend in repetition and dropout rates, and a resulting decline in internal efficiency. When the effects of dropout and repetition are combined, an average of about 18 pupil-years must be invested to produce a male graduate of general education, and 15 pupil-years to produce a female graduate. This is not to say that the average graduate spends 18 (or 15) years in school; the actual average for those who complete secondary school is between 12 and 13 years. But the cumulative dropout losses, amplified by high repetition, represents 'waste' -- that is, effort expended and resources consumed without achieving graduation.

As a result of such repetition and dropout therefore, there is unnecessarily prolonged use of school places. The Ministry of Education, in collaboration with educational research centers in the colleges and the education development center, is examining this problem thoroughly in an attempt to find an appropriate solution.

Preparation of Educational Leaders

Educational leaders are facing great challenges, and methods must be adopted to facilitate the provision of highly qualified leaders through scholarship and training programs in all fields of education.

High Growth in Female Secondary Level Graduates

The number of female secondary level graduates has increased more than tenfold, from 1,674 in 1395 to 18,211 in 1408, thus exceeding the number of male graduates, and according to the Fifth Plan projections, their number will reach 43,269 in 1415. However, this increase has not been accompanied by a commensurate increase in higher education opportunities for girls. Accordingly, post-secondary educational and training programs for girls should be created, which are in harmony both with the nature of Saudi females and with Islamic values.

Re-evaluation of Teaching Methods and Curriculum

Notwithstanding the changes introduced into the general education curriculum by the Educational Development Center, it is imperative to adopt modern teaching methods which emphasize understanding, derivation and problem solving.

Centralized Education Administration

The vast area of the Kingdom and the wide spatial distribution of schools throughout the regions require the adoption of a decentralized system of management and administration, in order to effect more appropriate and timely decision making.

School Buildings

Around 50 percent of general education schools operate in leased buildings. Of the 4,777 elementary schools for boys 2,564 operated in leased buildings, while 2,431 of the 3,275 elementary schools for girls are currently leased buildings. The number of secondary schools for boys and girls has reached 1,284, of which 436 are leased buildings. These leased buildings were not originally built for school use, and are considered unsuitable for educational purposes. This problem should be addressed according to a specific time schedule during the Fifth Plan period. In this respect, ways must be found to finance and implement a national program of schools construction, including, where possible, private sector participation.

Imbalances in Educational Services Distribution

An imbalance in the regional distribution of education services is now apparent. In order to address this issue, the Fifth Plan stresses the need to adopt a program of planning and mapping school sites. This initiative will combine centralized and decentralized planning practices, and will identify the regional distribution of schools by size, type of education and facilities to be provided, so that a fair and effective distribution of schools can be realized.

Pre-elementary Education (Kindergartens)

Several educational studies have proved the existence of a relationship between a student's learning ability at the beginning of the elementary stage and his or her enrollment in kindergartens. In recognizing this fact, the Fifth Plan stresses the need to expand pre-elementary education programs.

Higher Education Issues

University Education Programs for Females

In the past, there has been rapid growth in the number of secondary level female graduates and this trend is expected to continue in the future also. On the other hand -- notwithstanding the substantial expansion realized by the General Presidency for Girl Colleges and the universities -- university programs for females are still in their preliminary stages and are not sufficiently developed, either qualitatively or quantitatively, to cope with this increased flow of secondary level graduates. Comprehensive planning for the development of Saudi human resources requires that this issue should receive immediate attention.

Low Internal Efficiency and External Effectiveness

The internal efficiency and external effectiveness of the higher education system are low, through high repetition and dropout rates within the system, and through some degree of mismatch between the skills acquired by graduates and those needed by the national economy.

Coordination Between Higher Education Institutions

Higher education institutions enjoy complete autonomy. As a result, there is a lack of coordination both within and between institutions, leading to great waste in human and material resources. This lack of coordination between institutions is considered to be one of the major issues facing the higher education system during the Fifth Plan period.

Master Plan for Higher Education

To achieve coordinated and balanced development of higher education over the long term, it is imperative to prepare a comprehensive policy framework (or 'master plan') for higher education. Such a master plan would help to avoid wastage and duplication, to realize the optimal utilization of available resources and to improve the quality of higher education.

Linkages Between Higher Education Institutions and the Private Sector

At present, the linkages between higher education institutions and the private sector are inadequate to serve the development needs of the economy. In addressing this issue, a number of new initiatives will be adopted during the Fifth Plan period:

- Private sector employers will be encouraged to provide higher education students with on-the-job practical training during their summer vacations.
- The universities will provide research and consultancy services to the private sector in the fields of industry, agriculture, trade and services.
- University programs in scientific fields will be evaluated on an ongoing basis in order to improve the academic and practical preparation of graduates in these fields.
- A coordination unit between the universities and the private sector will be created, whose main functions will be:
 - to identify and aim to meet the manpower needs of the private sector;
 - to conduct follow-up surveys of employed graduates with a view to evaluating how the links between employers' needs and the educational curricula might be improved;
 - to regulate the process whereby the universities will supply consultancy services in various fields to private sector companies and government ministries.

Operational Efficiency

Although the Fourth Plan stressed the need to improve student/teacher ratios for overall operational efficiency, considerable variation in this ratio between higher education institu-

tions still exists. Furthermore, quality standards and average student costs also vary, within the SR 30,000 to SR 94,000 range.

Post-graduate Studies and Scientific Research

Studies and analysis prepared during the Fourth Plan period pointed to an imbalance in the distribution of post-graduate study programs among the universities. Some agencies have expanded horizontally in a manner that is inconsistent with their capabilities, while others have refrained from expansion even though they had acquired adequate facilities and capabilities. Thus, it is imperative to develop an accreditation system -- both internally within the Kingdom's higher education system, and externally in conjunction with internationally recognized institutions -- whereby these post-graduate programs can be evaluated and upgraded where necessary.

Furthermore, it is of great importance to place special emphasis on programs required by the development plans. Expenditure on scientific research represented only a small percentage of total expenditure on higher education during the Fourth Plan period, thus constraining the development of post-graduate study programs.

Faculty Staff Members

Disparity exists between higher education institutions regarding the principles of appointing and promoting faculty staff members. Precise criteria must be developed for evaluating the performance and quality of staff.

Capacity of Higher Education Institutions

A contentious issue in higher education has been whether or not university education should be provided to all secondary level graduates who apply for places. Such a policy would be inconsistent with the objectives of the Kingdom's Development Plans, which aim at expanding the effective contribution of Saudi nationals to economic and social development. Such contributions are not confined only to university graduates, as technical skills can be acquired outside the university setting. The need for such skills is expected to increase in the future, as the Kingdom moves beyond the stage of developing its infrastructure towards the expansion of its technology-based industry. It is a realistic assumption that four or five technicians will be needed for every university graduate. Moreover, the provision of university education to all secondary level graduates would lead to the following disadvantages:

- low quality university education;
- higher wastage as a result of students enrolling who lack the ability to complete their university education;
- the failure to meet the technical manpower needs of development.

12.1.3 Role of the Government and the Private Sector

While the government will continue to be the major provider of education to citizens, private education services have been steadily expanding and are expected to grow even further in new areas during the Fifth Plan. These new opportunities include:

- new school construction under lease-purchase arrangements;
- the provision of transportation services for students;
- maintenance services for vehicles owned by government agencies involved in the delivery of education services;
- the establishment of a specialized technological academy.

The increased participation of the private sector in the delivery of education services at all levels may result in raising the quality of education and increasing the efficiency and productivity of the education system as a whole.

12.1.4 Policies and Main Programs

The Fifth Plan's general and higher education policies have been formulated in response to the issues described above and in light of the overall objectives of the education system. Some of these policies are:

A. General Education Policies

- To reduce the rates of dropout and grade repetition:
 - The current examination system will be reviewed and revised, as will the system of grade promotion to the next year, particularly for the first grade of secondary school.
 - Individual instruction will be encouraged to monitor student progress; emphasis will be placed on diagnostic assessment, providing guidance, counselling and remedial instruction rather than grade repetition.
 - Programs will be implemented to sensitize parents of children who are not achieving to their potential as to the importance of education and to provide them with the knowledge and skills they need to reinforce their children's education.

- Additional alternative training opportunities will be made more widely available by establishing closer linkages between the education and training systems.
- To improve the quality of educational instruction:
 - Effective evaluation methods will be implemented to monitor the quality of education and the performance of students in terms of specific competencies related to the Kingdom's development needs.
 - Improvements will be introduced into the curriculum and in teaching methods which encourage the development of problem solving skills and creativity.
 - Basic subjects relating to general principles of maintenance will be introduced into the curriculum at the intermediate and secondary school levels.
 - Basic military subjects will be introduced into the curriculum of secondary schools for boys.
 - Computer education will be introduced as an integral part of the curriculum at the intermediate level, and as an awareness program at the elementary level.
 - Emphasis will be given to improving the performance and professional commitment of teachers.
 - Teacher training will be upgraded in accordance with their responsibilities, while university graduates will be attracted into the early stages of education with adequate preparation.
 - Minimum standards will be established for facilities and the quality of educational services provided in schools throughout the Kingdom.
 - A study examining the feasibility of decentralizing the education system will be carried out.
 - Efforts to reduce regional imbalances in the quality of facilities will be enhanced.
 - Cost effectiveness in the delivery of education services will be improved by such measures as: increasing the teacher/pupil ratios, reducing the administrative staff/teacher ratios, and providing transportation to children living in under-populated areas, with the purpose of consolidating schools of small size.

- The private sector will be encouraged to play a greater role in the delivery of education services.

B. Higher Education Policies

- A comprehensive strategic policy framework and implementation plan for the coordinated development of the higher education system (the 'master plan') will be completed by the middle of the Fifth Plan period and will form an integral part of the mid Fifth Plan review.
- Post-secondary technical education will be expanded.
- To improve the quality and efficiency of the universities:
 - Admissions policy will be re-evaluated and specific criteria acceptable to all universities in the Kingdom will be developed.
 - Stipends and subsidies will be linked to student performance and progress. The current minimum standardized credit hours per semester needed to qualify for stipends, should be increased, so that students will be encouraged to finish their studies within the regular study period.
 - Linkages between higher education institutions and private sector employers will be strengthened -- to achieve improved coordination between producers and users of skills and to influence the attitudes and expectations of students.
- Universities will be encouraged to seek funding from private sources to establish 'Centers of Excellence' to conduct research and development in applied sciences and technology. These Centers will provide to the best and brightest Saudi professionals opportunities to develop into world-class professionals, and will strengthen linkages between the universities, the private sector and the government.

Main Programs

There are seven expenditure programs relating to the operations of institutions in the education sector in the Fifth Plan:

- Educational Process and Development

This program provides education services to all levels of the system and it covers the education process and its development.

- **Management and Operation**

This program includes administration services and the use of new technology in providing a cost effective administrative system.

- **Manpower Development**

This program aims at the maximum utilization of manpower through training, Saudization and staff development.

- **Student Services/Extra-Curricular Activities**

This program provides services to students and takes care of extracurricular and cultural activities.

- **Community Services**

This program covers all the activities carried out by higher education institutions in the area of community service.

- **Operation and Maintenance**

This program covers the expenditures on staff and materials necessary for the maintenance, cleaning and operation of all buildings in the higher education sector.

- **Construction**

This program aims at constructing, equipping and expanding buildings and laboratories in order to meet the continuing increase in the number of male and female students.

12.1.5 Growth Targets in the Fifth Plan

The expected numbers of new students and graduates in general and higher education by education level, field of study and university, over the period 1409/10 to 1414/15, are shown in Tables 12.3, 12.4, 12.5, and 12.6.

TABLE 12.3

Fifth Plan Targets: General Education*

Student Category and Levels	1409/1410	1414/1415
New Entrants : Male		
Elementary	153,830	215,957
Intermediate	79,079	117,813
Secondary	43,038	55,448
New Entrants : Female		
Elementary	130,745	169,079
Intermediate	62,424	98,834
Secondary	36,836	51,868
Graduates : Male		
Elementary	96,297	151,217
Intermediate	35,996	75,529
Secondary	29,090	38,015
Graduates : Female		
Elementary	75,852	117,694
Intermediate	43,145	67,347
Secondary	25,909	44,055

* Includes Saudi and Non-Saudi.

TABLE 12.4

**Fifth Plan Targets: Higher Education
New Entrants by Field of Study
(Saudi Only)**

Field of Study	1409/1410			1414/1415		
	Male	Female	Total	Male	Female	Total
Arts and Linguistics	2,015	3,190	5,205	2,328	4,412	6,740
Education	1,984	3,160	5,144	2,111	5,206	7,317
Social & Economic Studies	1,820	1,090	2,910	1,957	1,255	3,212
Natural Sciences	2,350	1,750	4,100	3,031	2,581	5,612
Engineering	2,060	—	2,060	2,514	—	2,514
Medicine and Medical Sciences	680	550	1,230	888	708	1,596
Allied Medical Sciences	250	250	500	318	318	636
Agriculture	390	200	590	530	278	808
Veterinary Medicine	84	—	84	128	—	128
Computer Science and Information	418	50	468	481	70	551
Islamic Studies	1,868	570	2,438	2,492	855	3,347
Total	13,919	10,810	24,729	16,778	15,683	32,461

TABLE 12.5

**Fifth Plan Targets: Higher Education
Graduates by Field of Study
(Saudi Only)**

Field of Study	1409/1410			1414/1415		
	Male	Female	Total	Male	Female	Total
Arts and Linguistics	1,235	2,167	3,402	1,517	2,810	4,327
Education	1,224	2,392	3,616	1,648	3,389	5,037
Social & Economic Studies	1,092	521	1,613	1,350	927	2,277
Natural Sciences	434	1,000	1,434	1,411	1,633	3,044
Engineering	459	—	459	1,434	—	1,434
Medicine and Medical Sciences	173	153	326	423	338	761
Allied Medical Sciences	32	17	49	167	159	326
Agriculture	265	106	371	319	173	492
Veterinary Medicine	12	—	12	54	—	54
Computer Science and Information	134	—	134	285	40	325
Islamic Studies	1,178	225	1,403	1,528	535	2,063
Total	6,238	6,581	12,819	10,136	10,004	20,140

TABLE 12.6
Fifth Plan Targets: Higher Education New Entrants
and Graduates by Institution *

Student Category and Institution	1409/1410			1414/1415		
	Male	Female	Total	Male	Female	Total
NEW ENTRANTS						
KSU	5,033	2,644	7,677	5,761	3,077	8,838
KAAU	4,189	2,566	6,755	4,789	2,768	7,557
KFU	668	467	1,135	959	694	1,653
KFUPM	1,487	—	1,487	1,628	—	1,628
Islamic Univ.	750	—	750	1,000	—	1,000
Imam Univ.	2,607	495	3,102	3,487	792	4,279
Umm Al-Qura	1,320	1,100	2,420	1,909	1,617	3,526
Girls Colleges	—	4,260	4,260	—	8,463	8,463
TOTAL	16,054	11,532	27,586	19,533	17,411	36,944
GRADUATES						
KSU	2,314	1,293	3,607	3,580	2,103	5,683
KAAU	1,483	1,419	2,902	2,893	2,099	4,992
KFU	282	330	612	500	419	919
KFUPM	501	—	501	1,015	—	1,015
Islamic Univ.	500	—	500	970	—	970
Imam Univ.	1,678	83	1,761	2,057	462	2,519
Umm Al-Qura	567	820	1,387	1,023	1,007	2,030
Girls Colleges	—	3,023	3,023	—	5,011	5,011
TOTAL	7,325	6,968	14,293	12,038	11,101	23,139

* Includes Saudi and Non-Saudi.

12.1.6 Fifth Plan Financial Allocations: Education

The financial allocations for the general and higher education systems during the Fifth Plan are shown in Table 12.7.

TABLE 12.7

**Fifth Plan Financial Allocations: General and Higher Education
(SR million)**

	Salaries and Supplies	Operation and Maintenance	Projects	Total
Total allocation for all Education agencies	112,204.0	1,533.0	16,831.0	130,568.0

12.2 VOCATIONAL AND TECHNICAL EDUCATION AND TRAINING

12.2.1 Role and Development Objectives

The primary role of vocational and technical education and training (the training sector) is to facilitate the acquisition of practical skills, attitudes, understanding and knowledge by Saudi technical manpower for a wide range of occupations and specific tasks needed for the development of the Saudi economy. In this regard, the training sector constitutes an integral and important element of the human resource development strategy of the Kingdom.

In the Kingdom, vocational and technical education and training is provided by a number of public and private sector institutions. In the public sector, the two main agencies providing a broad range of programs are: the Institute of Public Administration (IPA) and the General Organization for Technical Education and Vocational Training (GOTEVT). The IPA provides mainly short-term in-service training for civil service employees, in addition to its research and consultancy services to improve public administration practices. General occupational preparation is provided by GOTEVT through 3-year vocational/technical education programs at the secondary school level and 2-year technical education programs at the post-secondary school level. Specific job/task related preparation, orientation and upgrading are done through short-term (up to 18 months) pre-service and in-service on-the-job and/or off-the-job training programs at vocational training centers all over the country. A large number of Ministries and government development agencies and public economic corporations operate in-house vocational and technical education institutes and/or training centers to meet their own specialized training needs. Some universities also offer specialized courses and seminars for professionals at the request of public or private sector clients. Figure 12.2 shows the Kingdomwide distribution of technical education and vocational training facilities.

In the private sector, a number of small companies provide specialized training programs, predominantly in business and computer related fields. Some large business establishments operate and maintain training centers to train their own employees.

General Objectives of the Training Sector

The development objectives of the training sector during the Fifth Plan period are as follows:

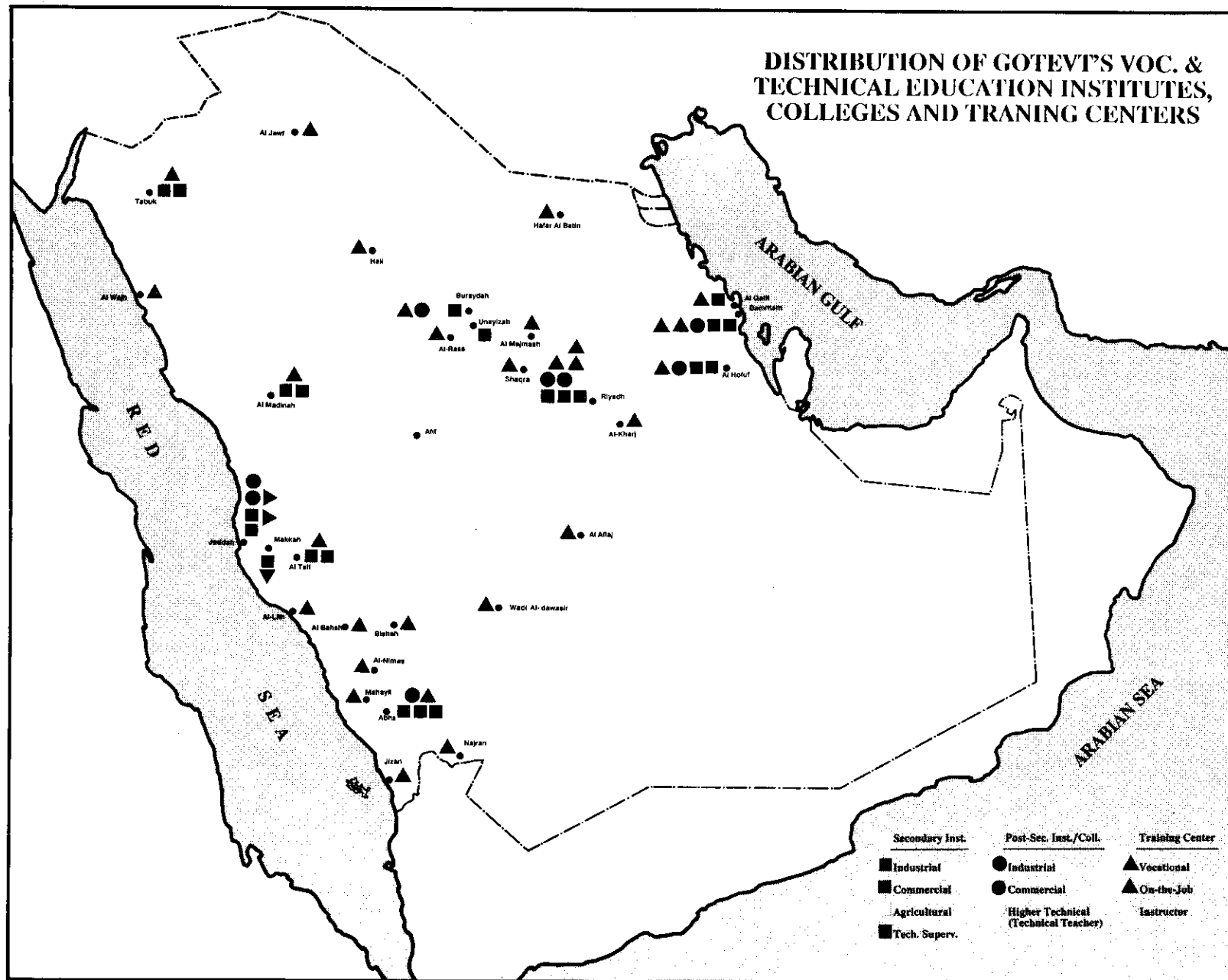
1. To increase the horizontal and vertical coverage of vocational and technical education and training programs with due emphasis on on-the-job training in both public and private sectors, in order to meet the requirements for qualified national manpower;
2. To place greater emphasis on the quality of vocational and technical education and training, with particular emphasis on modern technology at all levels in order to meet the national economy's requirements;
3. To maintain coordination and cooperation between vocational and technical education and training institutions, and other competent agencies, with a view to achieving manpower development objectives;
4. To improve the internal efficiency and external effectiveness of the training system by increasing the quantity of output and raising its quality, and by upgrading the system's operating efficiency through the development of its administrative and technical functions.

12.2.2 Achievements and Key Issues

The last two decades have witnessed a rapid expansion in the training sector's infrastructural facilities and enrollments at all levels, along with sweeping organizational changes:

- Training is provided by the government free of charge, while students are also provided allowances, and room and board if needed.
- The total number of students and trainees undergoing secondary and post-secondary vocational and technical education, and short-term pre-service and in-service training programs, has increased more than tenfold from around 6,000 to over 70,000.
- During the Fourth Plan period, the growth in enrollment at all levels exceeded the Plan targets. The proportion of students entering vocational and technical educa-

Figure 12.2



tion programs at the secondary level increased from 13 percent to 18 percent, and at the post-secondary level, from 3 percent to 8 percent. The total number of trainees entering short-term training programs at GOTEVT and the IPA increased to over 20,000 from around 15,000 at the beginning of the Fourth Plan.

- Private sector involvement in training is a relatively recent development and the scope of training programs offered is still limited. The total number of persons completing these training programs during the Fourth Plan period is estimated to be around 15,000.

Key Issues

A characteristic feature of the Kingdom's development history has been the significant quantitative growth and progressive quality improvement of educational and training variables, as evidenced by both the input and output levels of the educational and training system. It is, therefore, only natural that certain negative aspects should ensue as key issues to be addressed in the policies, programs and projects of the Fifth Plan, and for which adequate solutions should be sought. These key issues are:

1. External Effectiveness of Training Institutions

There is evidence to suggest that the external effectiveness of training institutions is weak in terms of their output matching the market's need for high quality trained labor. This requires greater emphasis on guidance and orientation programs, intensive activities in various areas, and increased effectiveness of technical and administrative training programs, both within and outside the Kingdom.

2. Low Operating Efficiency

The student/teacher ratio and trainee/instructor ratio is low and varies considerably among vocational and technical education and training institutions. Upgrading of operating efficiency will require that the ratio be raised. In this respect, student/teacher ratios of 10:1 in technical practical education, 15:1 in technical theoretical education, and 6:1 in vocational training have been targeted in the Fifth Plan. In general, the vocational and technical education and training system lacks the optimal utilization of existing capacity.

3. Coordination

Coordination among vocational and technical education and training institutions is important for identifying the role and tasks of individual institutions in accomplishing manpower development objectives. Coordination acquires an added significance in establishing a uniform admissions policy which would restrict the transfer

of students/trainees from one institution to another prior to completion of the academic year, which under current practice, leads to a high dropout rate.

4. Identification of Training Needs

Statistical surveys of labor market requirements for various specializations are an important method for identifying training requirements and planning technical education and training output. The absence of such information poses a constraint on planning for the development of national manpower. An important focus of the Fifth Plan is to stress the importance of such information and statistics in the definition of planning targets for some training agencies.

5. Master Plan for Training

Efforts have so far fallen short of preparing a master plan which would encompass all areas of training, with the aim of establishing a balanced approach to the long term development and preparation of manpower, the study of actual and variable levels of manpower supply and demand, the distribution of tasks (including policy preparation, coordination and implementation) among all vocational and technical education and training institutions at national and regional levels.

The lack of a master plan significantly affects manpower training, due to the absence of information on manpower needs and the actual supply of various skills. The Fifth Development Plan for GOTEVT and the IPA has, therefore, highlighted these requirements through agency targets to be reached during the plan period.

6. Provision of Educational Leaders and Upgrading their Efficiency

Educational and training leaders are faced with major challenges, in terms of increasing the number of graduates of training programs and raising the quality of training programs at least cost. Appropriate measures should be taken to ensure an adequate supply of highly qualified and capable leaders through scholarships and training in all technical and educational fields.

12.2.3 Role of the Government and the Private Sector

The government has always been both the major producer and user of vocational and technical education and training services. The private sector, with the exception of a few large companies, has neither used the training services provided by the government, nor made any significant investment in developing its own training activities.

The Fifth Plan period will bring a new outlook to the sector. The government will continue to provide basic training services, through the following measures:

- continued financing of vocational and technical education and training;
- continued construction of educational and training facilities;
- emphasis on the importance of national manpower development;
- provision of financial and other assistance which contribute to manpower development.

In the meantime, more active contributions will be made by the private sector during the Fifth Plan in the provision of training resources, through:

- contributions in setting up some vocational training centers, institutes, schools and technical colleges under long term lease agreements;
- contributions to technical manpower preparation by creating specialized technical institutes;
- the formation of national technical committees which would contribute to the development of vocational and technical education and training.

The expansion of private sector training activities will be actively encouraged and supported by the government.

12.2.4 Training Policies and Main Programs

The major policy thrust of the Fifth Plan will be to further develop the vocational and technical education and training system with a philosophy and operational structure that is responsive to the changing labor market environment and that meets the skilled manpower needs of the Saudi economy effectively and efficiently. Towards this goal the following policy measures will be implemented:

1. **Increase the coverage of the vocational and technical education and training services :** A high priority will be given to post-secondary technical education, short-term (up-to-6 months) pre-service training programs for out-of-school youth and unskilled adults, in-service training of Saudis employed by the private sector.

2. **Re-orient the training system towards labor market requirements :** Advisory committees, consisting of representatives of employers and training institutions, will be established at the national, regional and local levels. Selected administrative functions will be decentralized to make the system more responsive to local needs. The curriculum will be periodically reviewed and revised to keep abreast of technological developments and to inculcate in trainees a sense of responsibility and entrepreneurial skills. Occupational standards in priority areas will be developed. Graduate placement and follow-up services will also be established. The nature and scope of financial incentives provided to students and trainees will be reviewed.
3. **Improve the policy making and coordinated implementation mechanism of the training system :** A comprehensive policy framework and implementation plan will be developed within a 'Master Plan' in coordination with the Ministry of Planning and in collaboration with the Manpower Council, the private sector and other relevant agencies. The 'Master Plan' will cover the training activities of all agencies involved in the delivery of training services in the public sector and define the training role and activities of the private sector. GOTEVT will assume a major role in this regard by adopting the appropriate measures to coordinate the activities of all public and private sector training agencies.
4. **Develop a centralized support system:** Improved centralized professional support services will be provided to public and private agencies under the coordination of GOTEVT. These will include: certification system for technical manpower; research, development and consultation services in planning, implementation and evaluation of training activities; occupational counselling services; information and publication activities; and new educational technologies.
5. **Improve the professional competence of training personnel :** The preparation of training specialists at graduate level will be coordinated with the universities, and intensive in-service development programs will be conducted. More scholarships and field trip opportunities will also be provided.
6. **Increase the participation of the private sector in the financing and delivery of training services :** The option of buying training services from private and joint public/private companies, as opposed to building additional facilities in the public sector, will be encouraged.
7. **Coordinate admission policies among vocational and technical education and training institutions :** Admissions standards and procedures for GOTEVT and other government agency training units shall be regulated through the office of admission and

registration coordination proposed for GOTEVT. Procedures for the transfer of students between programs and institutions will be developed.

8. **Increase the utilization of existing training resources**, by consolidating small size operations, introducing a year-round education cycle and second teaching shifts, and assigning training responsibilities to experts and skilled workers in the occupational preparation of Saudis. Specialized training services of the agencies with demonstrated excellence will be further utilized in meeting the training requirements of other institutions.
9. **Saudiization in the private sector through training** : A study will be conducted to determine the feasibility of implementing a vocational apprenticeship system through utilizing the training capacity of non-Saudi manpower, with the aim of Saudiizing private sector jobs. Customized pre-service training programs will also be prepared, to encourage acquisition by Saudi nationals of new experiences and skills through cooperative education and summer-time training.

Main Programs

There are six main programs for the training sector in the Fifth Plan, which specify the essential activities required to operate training institutions. The programs are:

1. Education and Training

This program represents the primary function of GOTEVT and encompasses all the activities of its education and training units.

2. Research and Development

The program covers all research, development and planning activities, including the collection, processing and publication of data relevant to the main functions of GOTEVT. Activities under this program include the creation of a data base, the preparation of studies that measure the internal efficiency of the vocational and technical education and training system, as well as the internal efficiency of GOTEVT administration staff. The program also includes the planning for and identification of qualitative and quantitative requirements of vocational and technical education and training, development of programs and curricula, follow-up on graduates, and translation and publication of specialized books about GOTEVT activities.

3. Administrative Development

This program represents the primary function of the IPA. It aims at improving the administrative functioning and organization of government agencies through training, consultation, administrative reform, public relations, etc.

4. Management and Operation

This program is aimed at developing and upgrading administrative and managerial organization, through the creation of new units, and raising the efficiency of existing organizational units. Administration, finance and public relations functions are also covered by this program.

5. Manpower Development

This program seeks to develop and improve manpower efficiency, through training courses, seminars, academic studies under scholarship arrangements, participation in local and international scientific meetings, and adoption of an effective short- and long-term Saudiization system.

6. Operation and Maintenance

The program covers maintenance and janitorial services of main and branch buildings, in addition to maintenance of systems and equipment.

7. Construction

This program aims at the completion of construction projects in progress, the construction of new facilities and upgrading of existing facilities.

12.2.5 Growth Targets in The Fifth Plan

Growth targets for enrollments, graduates and total admissions of GOTEVT and the IPA are summarized in Table 12.8. Growth targets for admissions and enrollments in training at other government agencies, as well as training in the private sector, are shown in Table 12.9.

TABLE 12.8

Fifth Plan Training Targets: GOTEVT and the IPA

	1409/1410		1414/1415	
	New Entrants	Graduates	New Entrants	Graduates
GOTEVT				
Technical Colleges	899	415	3,260	2,068
Higher Institutes of Commerce	400	165	644	515
Industrial Secondary Schools	2,864	1,512	5,191	3,075
Commercial Secondary Schools	4,549	2,009	8,943	5,493
Agricultural Secondary Schools	143	134	253	144
Institutes of Technical Supervisors	401	248	700	422
Vocational Training	8,463	6,932	21,443	18,156
Instructor Training	100	75	100	90
On-the-Job Training	280	280	280	280
IPA				
Pre-service training	1,750	1,543	3,000	2,675
In-service training	7,800	7,573	16,220	15,758
Special programs	392	387	660	653
English Language	1,928	1,663	2,300	2,047

TABLE 12.9

Fifth Plan Training Targets for Other Government Agencies

	1409/1410 New Entrants	1414/1415 New Entrants
Agencies		
Ministry of Health		
- Health Training Institutes (Male)	1,400	1,500
- Health Training Institutes (Female)	500	600
MOPTT		
- Telecommunication Institute	200	300
- Postal Secondary Institute	184	200
Ministry of Defence and Civil Aviation (Presidency of Civil Aviation)		
Civil Aviation Institutes and Centers	400	500
	Enrollment	Enrollment
Others*	12,000	41,900
Training in Public Sector	20,000	22,000
Training in Private Sector	7,000	35,700

* Includes Agricultural Center, Banking Institute, SAUDIA, SGRRO, Training Center for Saudi Ports Authority.

12.2.6 Financial Allocations: Training Sector

The financial allocations for the main government agencies in the training sector during the Fifth Plan are shown in Table 12.10 below.

TABLE 12.10

**Fifth Plan Financial Allocations: Government Training Agencies
(SR million)**

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
GOTEVT	3,935	410	1,655	6,000
IPA	828	12	175	1,015
Total	4,763	422	1,830	7,015

12.3 EMPLOYMENT REGULATION AND SERVICES

12.3.1 Role and Development Objectives

Ensuring the effective utilization of Saudi nationals in all sectors of the economy and reducing reliance on non-Saudi manpower will continue to be major objectives of manpower policy in the Kingdom. These objectives can be achieved by enacting laws which define the rights and obligations of workers and employers, by providing appropriate labor market services, and by implementing policies for enhancing the efficient functioning of the labor market. The basic rights and obligations of workers and employers in the private sector are defined in the Labor and Workmen Law, which comprehensively covers all legal aspects of employment, working conditions, employer-employee relations, and rules and regulations governing the employment of non-Saudi workers. For public sector employees, these aspects are covered under the Civil Service regulations and by-laws.

Three government agencies are responsible for developing labor market policies, regulating employment of Saudi and non-Saudi workers in the public and private sectors, and for providing services to match workers with available jobs. The **Ministry of Labor and Social Affairs**, is responsible for enforcing the provisions of the Labor and Workmen Law, providing employment placement and counselling services to Saudi nationals looking for work, developing and

disseminating labor market information and regulating the employment of non-Saudi workers in the private sector. The **Civil Service Bureau**, is responsible for recruitment and regulating employment in the civilian public sector, while the **Manpower Council** is responsible for developing labor market policies, and coordinating the manpower-related activities of all government agencies.

The main objectives for the above agencies in the Fifth Plan period are:

1. To promote the employment of Saudis, both men and women, in all sectors of the economy;
2. To improve the matching between Saudi workers and available jobs, by ensuring the availability of appropriate labor market services and information to individuals, employers, and students making career choices.

12.3.2 Achievements and Key Issues

In response to changing labor market conditions, several amendments to the articles and provisions of both the Labor and Workmen Law and the Civil Service regulation have been made over the last decade. To increase the employment of Saudi nationals in the private sector, the Ministry of Labor and Social Affairs has continued to provide employment placement services to Saudi nationals looking for work in the private sector, and to assist employers in finding suitable workers. It has also significantly improved its monitoring of private sector employment conditions, as the number of inspection visits made to private sector establishments exceeded the Fourth Plan targets. During the first year of the Fourth Plan, the responsibility for regulating the employment of non-Saudis in the private sector was transferred to the Ministry of Labor and Social Affairs. During the course of the Fourth Plan, the Deputy Ministry of Labor Affairs has strengthened the administrative mechanisms regulating the employment of non-Saudis in the private sector.

The Civil Service Bureau has expanded its network of regional offices providing employment placement services to Saudi nationals. During the first four years of the Fourth Plan, the Civil Service Bureau placed into employment over 30,000 Saudi university graduates (male and female) in the various government agencies -- representing 65 percent of total Saudi university graduates and 91 percent of graduates who sought jobs in the government sector.

The Manpower Council has carried out a number of research studies on various aspects of manpower development and utilization. It has also approved several measures to tackle key issues in education, training, women's work, and the replacement of non-Saudi workers with Saudi nationals.

Key Issues

During the Fifth Plan period, almost 96 percent of employment growth is expected to be in the private sector. Although total employment is projected to increase by 213,500, the Saudi national labor force is expected to increase by 433,900. Consequently, two increasingly important issues in the Fifth Plan will be the replacement of non-Saudi employees with Saudis in both government and private sectors, and the successful placement of these Saudi new entrants into private sector employment. In this regard, more systematic planning by the Civil Service Bureau will be necessary in order to effect the orderly replacement of non-Saudi employees with Saudis. It will also need to examine more closely the opportunities and constraints in the way of increasing the participation of Saudi women in the public sector. To ensure the successful absorption of Saudi new entrants in the private sector, the Ministry of Labor and Social Affairs will have to enforce more rigorously the provisions of the Labor and Workmen Law.

The existing labor offices of the Ministry of Labor and Social Affairs continue to provide useful services. However, as the labor market becomes more complex, an improvement and expansion of services will be needed to match more efficiently those Saudi workers looking for work with available jobs.

Timely and reliable information and analysis has an important role in enhancing labor market efficiency and in planning for human resources development. Although some progress has been made, the lack of up to date, comprehensive and reliable data remains a major obstacle to understanding the dynamics of the labor market and to designing programs for ensuring the optimal utilization of available Saudi manpower. During the Fifth Plan period, the development and dissemination of labor market information and analysis will be accorded a high priority.

The importance of both pre-service and in-service employment related training for increasing the employment of Saudis in the private sector cannot be over emphasized. High priority will be given to the expansion and improvement of this type of training.

12.3.3 Role of the Government and the Private Sector

The primary role of the government is to create an environment which facilitates labor market efficiency, through the implementation of appropriate policies and the provision of necessary labor market services. The government is also responsible for ensuring that both employers and workers abide by the rules and regulations governing employment and working conditions in the public and private sectors, and for actively promoting the employment of Saudi nationals in the labor market. The realization of national development objectives requires that this developmental role cannot be left to market forces alone, and that the government must intervene

in the labor market through the implementation of appropriate employment regulations and the provision of employment related services.

While the government has the primary responsibility for ensuring the availability of necessary labor market services, it should not be viewed as the sole provider of all services needed. In the case of some services, such as employment placement and job counselling, private entrepreneurs and other quasi-government agencies can play a useful role in matching Saudis looking for work with available jobs. In other areas, such as the development and dissemination of labor market information and analysis on current and expected labor market conditions, the government will continue to play the major role.

12.3.4 Sectoral Policies and Main Programs

During the Fifth Plan period, the development and implementation of labor market policies as well as the nature, scope, and quality of labor market services will be improved and significantly expanded to ensure optimal utilization of the available Saudi national manpower in both the public and private sectors. The policies and programs of the agencies involved in promoting employment of Saudi nationals, regulating employment of non-Saudi workers, and providing employment related services will follow three main directions:

Saudiization

The Civil Service Bureau, which is responsible for employment in the public sector, will:

- Undertake a comprehensive review of the utilization of Saudi and non-Saudi manpower in each public sector agency to establish manpower levels needed, in each classification, to deliver the programs and services of the agency efficiently;
- Prepare an annual Saudiization Plan in consultation with each ministry and agency; the Saudiization Plans will identify specific positions targeted for replacement, Saudi employees selected to replace non-Saudis, training requirements for Saudi employees, and the time schedule and resources needed to implement the Plans;
- Identify new employment opportunities for Saudi women, in conjunction with relevant ministries.

The Ministry of Labor and Social Affairs, which is responsible for the employment of Saudi and non-Saudi workers in the private sector, will:

- Undertake a review of the Labor and Workmen Law to ensure that its provisions are appropriate to current labor market conditions and actively promote the employment of Saudi nationals in the private sector;

- Prepare and implement a plan that establishes realistic targets for enforcing the provisions of the Labor and Workmen Law, and gradually increasing the participation of Saudi nationals in the private sector.

Labor Market Services

The Civil Service Bureau will:

- Develop a comprehensive data base on jobs available in both public and private sectors in cooperation with the Ministry of Labor and Social Affairs;
- Streamline its classification system and remuneration structure in order to maintain appropriate parity with the private sector.

The Ministry of Labor and Social Affairs will:

- Improve and expand its labor market services to match Saudi workers with available jobs, by:
 - expanding employment placement and job counselling services to Saudis looking for work in the private sector;
 - linking labor offices through a computerized system that provides information on job vacancies, employment, and working conditions in the private sector;
 - issuing licenses to private sector agencies and individuals to establish companies that provide employment placement and job counselling services, and regulating and monitoring the activities of these companies.
- Collect and regularly disseminate to all labor market participants, information on job vacancies and average wages by occupation, the number of Saudis seeking work by occupation, and the employment outlook for the next two to five years.

In addition to its other activities, the Manpower Council will:

- Develop and widely disseminate information on occupations open to women in both the public and private sectors and the number of job vacancies available in each occupation, on a regular basis.

Training of Saudi Manpower

The Civil Service Bureau will:

- Place special emphasis on training and upgrading the skills of Saudi employees to increase their career advancement opportunities and to improve public sector efficiency.

The Ministry of Labor and Social Affairs will:

- Develop a plan to increase employment based pre-service and in-service training programs for Saudi workers in the private sector, in conjunction with GOTEVT and the Chambers of Commerce and Industry;
- Introduce provisions in the Labor and Workmen Law obliging employees who receive training at the employer's cost to remain with that employer for a specified minimum period.

12.3.5 Growth Targets for the Fifth Plan

During the Fifth Plan period, the Ministry of Labor and Social Affairs will open nine new labor offices to expand the coverage of its employment related services to remote areas. It will also establish three additional 'Primary Commissions' responsible for settling disputes between workers and employers in the private sector. To improve the effectiveness and efficiency of its services, it will train 70 labor inspectors, and develop -- in conjunction with the IPA -- new training programs for Employment Placement and Job Counselling Specialists. As part of its labor inspection responsibilities, the Ministry will ensure that every private sector establishment with 20 or more employees is visited at least once every year.

To increase the Saudiization of the work force in the government sector, the Civil Service Bureau will prepare and submit to the Manpower Council detailed Saudiization targets for each government agency, two months prior to the preparation of the annual budget. To improve the efficiency of the public service, the Civil Service Bureau will prepare an annual training plan. It will also actively support both on-the-job and formal training programs to upgrade the skills of between 5,000 and 7,000 Saudi non-cadre employees during the Fifth Plan period.

12.3.6 Financial Allocations: Employment Regulation and Services

The financial allocations for the Employment Regulation and Services sector during the Fifth Plan are shown in Table 12.11.

TABLE 12.11
Fifth Plan Financial Allocations: Employment Regulation and Services
(SR million)

Agency	Salaries and Supplies	Operations and Maintenance	Projects	Total
Civil Service Bureau	369.9	6.5	16.6	393.0
Deputy Ministry of Labor Affairs	534.9	13.5	17.8	566.2
Secretariat of the Manpower Council	30.0	0.0	0.0	30.0
Total	934.8	20.0	34.4	989.2

12.4 SCIENCE AND TECHNOLOGY

12.4.1 Role and Development Objectives

During the past two decades the vigorous introduction and application of advanced technology in various sectors of the economy has brought about unprecedented success to the development process in Saudi Arabia. The government has promoted all efforts to apply advanced technology to the removal of inherited resource constraints and the maximum exploitation of national endowments. The successful application of desalination technology to alleviate water shortages is a typical example of the former case, while the development of the petrochemical industry is a good example of the latter.

The Fifth Plan strategy emphasizes the importance of stable growth and diversification of the economy. In this regard science and technology contributes not only to economic growth, but also to the change in economic structure. The application of advanced technology leads to higher productivity, which is a key factor for economic strength in a highly competitive world. As the level of technology in use rises, so too does society's dependence on technology. Similarly, as socioeconomic development proceeds in more complex directions, the need for more sophisticated technology increases. Technology promotes harmonization between social and economic development on the one hand, and the preservation of traditional social and cultural values and the morals of Islam, on the other.

The Fifth Plan will continue to emphasise the major long term development objectives for science and technology, which are:

- To contribute to raising the quality of locally produced goods and services, thereby improving living standards and the quality of life;
- To stimulate the use of advanced technology in all economic sectors, with special emphasis on the use of capital-intensive processes in industry and agriculture;
- To promote expansion in the national scientific research and technology base, and contribute towards the development of national scientific and technical manpower;
- To invest in research in those technologies where the Kingdom has natural economic advantages (such as solar energy projects) or resource constraints (such as the use of saline water in agriculture).

12.4.2 Achievements and Key Issues

The Kingdom's experience in the use of technology is now well established. The major cities of the Kingdom are supplied with potable water from desalination plants which are amongst the biggest in the world. Most of the population is now supplied with electricity and the Kingdom's cities and villages are now extensively linked through road and air transportation networks. In response to the increasing demand for rapidly developing high technology services, a telecommunications network has been installed for the transmission of written data (telex and computer) based on PSPDN (Package Switched Public Data Network). These achievements have resulted in the establishment of a sophisticated infrastructure that is similar to those existing in the industrial countries.

The transfer and application of advanced technology (including irrigation technology) has led to the rapid growth of agriculture, while the establishment of high technology petrochemical and oil refining industries has made a fundamental contribution to the desired structural change in the economy. The extensive use of advanced data processing in government offices has led to improved public services. Needed skills have been acquired in selecting suitable leading technologies for large civilian and defense projects, and in undertaking important maintenance activities. Advanced laser technology is now widely used in medical fields. The introduction of the computer as an auxiliary tool in the educational process is widespread, while individual consumers now enjoy the benefits of high quality, high performance products and services utilizing

the latest technology. In general, therefore, people's contact with science and technology has become very direct.

In 1406, the name of SANCST was changed to 'King Abdulaziz City for Science and Technology (KACST)' to reflect its numerous responsibilities. KACST has strongly supported research and development (R&D) projects at universities and other research institutions through 'annual award grants' and 'national research project grants'. Basic services for the promotion of R&D have been provided through the enactment of the Patent Law, the preparation of a legal framework for technology transfer, and the improvement of information services. The construction of a space picture receiving station, a solar energy laboratory and housing units have all contributed to the expansion of the KACST campus.

Key Issues

In spite of the remarkable success of the past four Development Plans, there are a number of issues which must be addressed in order to overcome future development constraints.

Technology Gap

After two decades of successful development, the most prominent science and technology issue facing the Kingdom concerns the gap between the level of technology used in the Kingdom and that which Saudi Arabia can adapt or produce itself. While many sectors of the economy have introduced the most advanced technologies quite successfully, the capability to develop science and technology falls far behind that of the industrial countries. It will not be possible to close this gap within a short period, but efforts must be made to reduce it as much as possible, through several measures such as the greater concentration on science and engineering subjects in the education system.

Human Resources in Science and Technology

At present, human resources in science and technology -- scientists, engineers and technicians -- are not sufficient in quality or quantity to ensure future substantial development. Even the recent increase in the number of students has not produced an adequate supply of manpower in science and technology. It is now essential that a strong science and technology base for further development be firmly established by upgrading the level and quality of education in these fields. In addition, vocational training efforts need improved curricula and greater capacity so that the demand for highly skilled technical manpower can be met.

Science and Technology Infrastructure

Advances in science and technology will require more than human resource development however. As the influence of technology permeates society, an improved infrastructure for

science and technology becomes vitally important also: better information services, a patent protection system, and greater popular awareness and understanding of science and technology. A well organized infrastructure is a necessary condition for promoting a highly innovative and competitive private sector. More generally, the science and technology infrastructure must be upgraded as part of the social system itself.

Technology Transfer and R&D Capabilities

The dynamic nature of science and technology is characterized by daily changes and innovation. The most advanced technologies of today may become obsolete within a short period, as evidenced by the electronics industry worldwide. Thus, the national development process requires the ongoing development of science and technology, which, in turn, demands vast resources in terms of human skills, finance and time.

Great efforts must be made to determine the exact specification of educational requirements, the identification of appropriate technologies for economic diversification, and the selective use of imported know-how for cultivating the technological capacity of the Kingdom to increase its exports of manufactured goods. Without such planning efforts, precious resources and valuable time may be lost.

In the long term, it is imperative to boost and stimulate R&D activities according to the development strategy of a national 'Master Plan' for science and technology. In this regard, support for R&D activity in the Kingdom will lead to a more efficient utilization of the Kingdom's petroleum, mineral, marine and other natural resources.

12.4.3 Role of the Government and the Private Sector

The successful application of science and technology to national development has led to growing expectations of its economic and social benefits. Although great importance has been attached to scientific and technological progress in previous Development Plans, the Kingdom's own R&D capabilities need to be greatly enhanced. The government has a dominant role to play in pursuit of this objective, through:

- planning and coordinating all science and technology activities in the Kingdom;
- developing necessary human resources for science and technology;
- conducting R&D in areas that are unprofitable for the private sector;
- supporting and promoting R&D activities in the private sector;
- consolidating the science and technology infrastructure.

KACST is designated as the central organization for science and technology development and joins with the universities of the Kingdom -- who are also responsible for research -- to perform most of the central functions. Ministries and agencies, such as the Ministry of Agriculture and Water, SASO, SWCC and SABIC, also play significant roles in their respective fields.

The importance of the government's role in the development of science and technology derives partly from the special nature of science and technology itself. Technological developments span multiple activities and sectors, where related organizations, research groups and individuals are numerous and diverse. Furthermore, science and technology can be regarded as a 'public good' in that the benefits arising from its development and application in one sector can be widely enjoyed in other sectors also. Given the scale of national financial and human resources and the lengthy time horizons involved in science and technology development, a substantial, coordinated national planning effort is needed to promote the efficient and effective utilization of scarce resources. Furthermore, since science and technology is dynamic in nature, continuous government efforts are needed to keep abreast of international development and progress.

The private sector has an equally important role in the development of science and technology, through innovation and the commercialization of R&D results and through participation in R&D at centers of excellence in the universities. Private sector efficiency and productivity are key factors for overall competitiveness and depend greatly upon R&D capabilities. There are, however, considerable risks involved in R&D that constrain private sector investment in such activities. Government sponsorship of risk-sharing R&D ventures could help to reduce the private sector's concerns for risk aversion.

12.4.4. Policies and Main Programs

The development of science and technology during the Fifth Plan period will be guided by the following policies:

- Formulate a long-term plan for the future development of science and technology;
- Coordinate the R&D activities undertaken by KACST;
- Conduct and promote R&D activities oriented towards the development needs of the Kingdom;
- Consolidate the research infrastructure that supports scientific and technological activities;
- Promote the development of highly qualified manpower;

- Intensify and deepen public awareness and understanding of science and technology;
- Strengthen international cooperation in scientific and technological fields.

Main Programs

In accordance with these policies, ministries and government agencies concerned with science and technology will implement their own programs, while the following programs will be undertaken by KACST:

1. Long Term Plan for Science and Technology

This program concerns the development of a long term master plan for science and technology in the Kingdom, based on studies of existing R&D activities and available resources. The master plan will focus on appropriate future directions of R&D, the longer term needs of Saudi society and the full coordination of multi-sectoral activities relating to science and technology.

2. Applied Research Program

This program will promote R&D activities in line with national development objectives by taking account of physical, environmental and natural resource conditions of the Kingdom. In addition to the establishment and consolidation of R&D institutes, priority for research grants will be given to applied and interdisciplinary R&D projects. In order to produce fruitful research results and use them effectively, an evaluation and follow-up system for R&D activities will also be established.

3. Supporting Services for Science and Technology

This program aims to consolidate the infrastructure for science and technology by up-grading computerized information services and providing the necessary patent services and legal framework for the introduction of new technologies. An important aim of the program will be to establish a technology development and transfer system to facilitate the adoption of new technologies in the private sector, thus enhancing the competitiveness of Saudi industries in international markets. The construction of KACST's campus, including basic service facilities, will be continued.

4. Science and Technology Awareness Program

This program will mobilize numerous means and opportunities, such as the mass media (TV, radio, newspapers), symposia and exhibitions, as well as education at all levels, to deepen the public's awareness and understanding of science and technology. Technology-related news, programs, publications, and seminars will be made more widely available to people in general, while 'Science Clubs' and other functions will be organized for young people interested in science and technology.

A permanent exhibition of scientific and technological development and its results will be established, in addition to a reward and honor system for eminent scientists and engineers who have made substantial contributions to the Kingdom's development and to the advancement of science and technology. KACST will cooperate with and support the Ministry of Education in upgrading science and technology education, through the introduction into the educational curricula of technology subjects and intensive student experiments and demonstrations in physics, chemistry and biology.

5. International Cooperation

This program aims to advance the level of science and technology through the introduction of technology from foreign countries for further development in the Kingdom. Special efforts will be made to make such technological development appropriate to the particular circumstances of Saudi Arabia. Arab and Muslim researchers from abroad will be invited to KACST when their research interests coincide with the objectives of its institutes. Further international collaboration, in terms of joint Saudi-foreign R&D activities, will be promoted through grants from KACST in conjunction with the Offset Programs. International information services will be strengthened through linkages with GULFNET, BITNET, and other computerized communications networks.

12.4.5 Future Outlook and Long-Term Role of Science and Technology

Industry's ability to adapt imported technology will be consolidated according to local requirements, and development will be enhanced through technology transfer projects, such as the Offset Programs. In the agriculture sector, water conservation and land use technology will contribute towards the optimal utilization of resources and improved production methods. Digital telecommunication networks will help to integrate commercial data processing services in the Kingdom.

Scientific research and the promotion of technological activities will be further strengthened through the application of remote sensing techniques in oil exploration and through solar energy research. The development of research facilities and human resources in other fields, such as astronomy and nuclear energy, will continue.

12.4.6 Financial Allocation: Science and Technology

The planned financial allocation for KACST during the Fifth Plan is shown in Table 12.12.

TABLE 12.12

**Fifth Plan Financial Allocation for KACST
(SR million)**

	Salaries and Supplies	Operation and Maintenance	Projects	Total
KACST	678.4	191.7	1517.2	2,387.3

CHAPTER 13

SOCIAL DEVELOPMENT

13. SOCIAL DEVELOPMENT

This chapter describes the development objectives, policies and programs aimed at promoting the well-being of Saudi society through the provision of social services such as health care, social and youth services, cultural and information services, and religious and judicial services. In addition, the chapter addresses the key issues relating to social development in the Fifth Plan.

13.1 HEALTH SERVICES

13.1.1 Role and Development Objectives

The Ministry of Health is the agency with overall responsibility for health care in the Kingdom. The **National Guard**, the **Ministry of Defence and Aviation** and the **Ministry of Interior** provide primary, secondary, and advanced levels of health care for their staff and segments of the general population. The **Red Crescent Society** provides emergency services and assists pilgrims during the Hajj. High level specialized health care is provided in the Kingdom by **specialist hospitals**, while the **Royal Commission for Jubail and Yanbu** provides health facilities for employees at the two industrial cities. **School health units** attend to the immediate primary health care needs of male and female students. The services of the **General Organization for Social Insurance** and **Youth Welfare** provide health facilities for specialized clientele. Through their programs and medical colleges, the **universities** provide primary and specialized health care services, conduct essential health research, and provide medical education programs. University training and education develops further the capabilities of physicians, nurses and allied health technicians in the Kingdom, while enlarging the overall supply of professional manpower available to provide health services.

The medical services of the **private health sector** play an increasingly significant role in the Kingdom and are coordinated with the referral network and the regulatory requirements of the health sector as a whole.

The fundamental development objective of the health sector is to improve the health conditions of all citizens through the provision of comprehensive preventive and curative health services throughout the Kingdom, with particular emphasis on equitable and efficient primary care. Specific long term objectives for the health sector include:

- The completion of all preventive and primary health care facilities, and the full implementation of the referral system for the optimal provision of preventive and curative health services;
- Development of the health information system necessary for efficient, effective health care delivery;

- Further development of national health manpower, through programs that raise productivity and improve performance and that provide the specializations needed to maintain a high level of health services.

13.1.2 Achievements and Key Issues

The Kingdom's health services have made great progress in recent years in improving the overall health of the population. The policy emphasis on primary health care has led to advances in the control of many preventable diseases, especially through immunization programs for diphtheria, whooping cough, tetanus, poliomyelitis and measles. Through an integrated referral system, mothers, infants, young children and accident victims now have improved access to health care facilities. Furthermore, there has been a marked decline in the incidence of specific diseases such as bilharzia and leishmania, because of successful endemic disease control activities and the public health awareness campaigns at primary health centers.

The Fourth Development Plan was a period when many health care projects came into operation. During the period 1404/05 to 1408/09, the number of hospitals increased by 70.3 percent, the number of hospital beds by 44.9 percent, while the number of primary health centers (Ministry of Health) increased from 1,119 in 1404/05 to 1,477 in 1408/09, an increase of 32 percent (see Table 13.1). The primary health centers of the Ministry of Health began to apply the referral system through the use of family health card files. By 1408/09, these files were in use in 73 percent of all urban health centers and in 89.6 percent of all rural health centers.

The expansion of the Kingdom's health services during the Fourth Plan is also reflected in improved health service supply indicators:

- the number of hospital beds per thousand population increased from 2.66 to 3.35;
- the number of physicians increased, so that the population per physician declined from 726 to 548 persons;
- the supply of nurses also increased, with the population per nurse falling from 363 persons to 264.

Figure 13.1 shows the number of Ministry of Health hospital beds in each region during the period 1404/05 to 1408/09.

Figure 13.1

Ministry of Health Hospital Beds
per 1000 Population by Planning Region

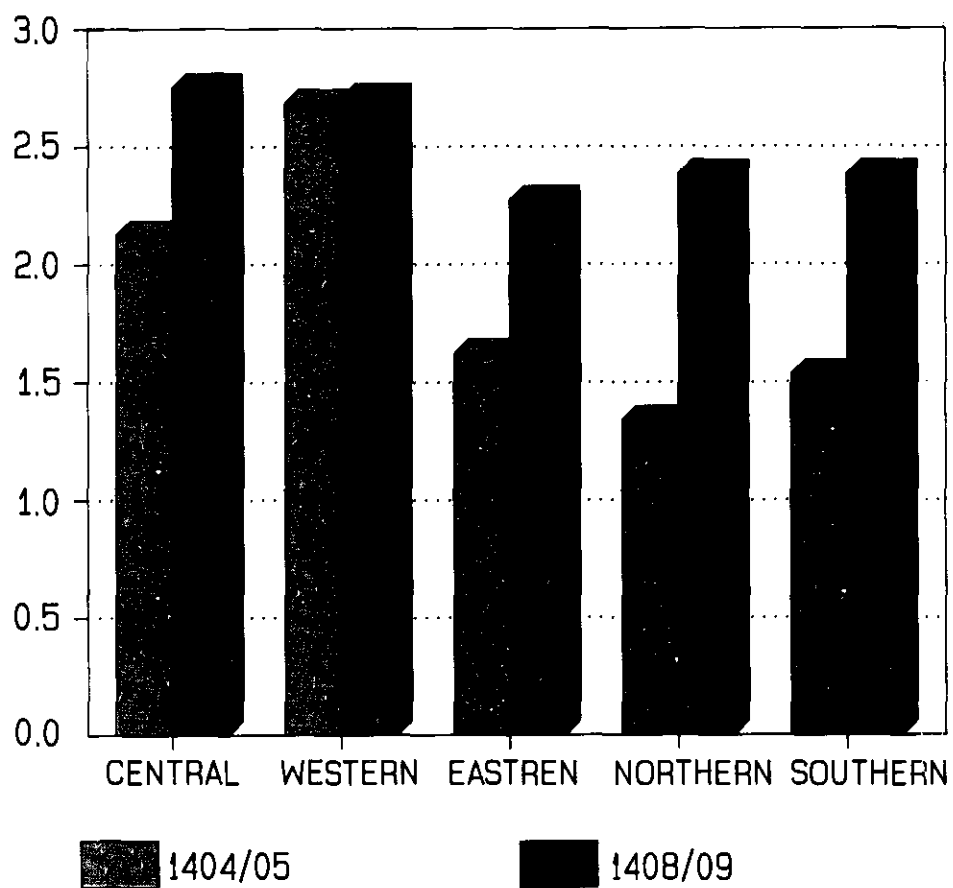


TABLE 13.1

**Expansion of Hospitals, Hospital Beds,
and Primary Health Centers
(1404/05 to 1408/09)**

	1404/05 (Number)	1408/09 (Number)	Increase (Percent)
<u>Hospitals</u>			
Ministry of Health	86	162	88.4
Other Agencies	28	30	7.1
Private Sector	31	55	77.4
Total	145	247	70.3
<u>Hospital Beds</u>			
Ministry of Health	17,961	26,315	46.5
Other Agencies	5,432	6,577	21.1
Private Sector	3,412	5,956	74.6
Total	26,805	38,848	44.9
<u>Primary Health Centers</u>			
Ministry of Health	1,119	1,477	32.0
Other Agencies	287	298	3.8
Private Sector	224*	313*	39.7
Total	1,630	2,088	28.1

* Includes dispensaries and clinics.

The utilization of the Kingdom's health services during the Fourth Plan has risen along with the supply of these services. In-patient admissions to Ministry of Health hospitals rose by 40.4 percent. Outpatient visits also rose, both at Ministry of Health hospitals (by 16 percent)

and more importantly, at primary health centers (by 17.8 percent), a reflection of the successful use of primary health centers as the basis of the Kingdom's referral system (see Table 13.2).

Although total hospital outpatient visits have risen, the increase in the number of MOH hospitals during the Fourth Plan and the application of the referral system, have led to a decrease in the average number of daily outpatient visits to MOH hospitals, from 528 visits per hospital in 1404/05 to 393 in 1408/09, thus reflecting improved performance in the health service.

TABLE 13.2

**Utilization of Ministry of Health Facilities
(1404/05 to 1408/09)**

	Outpatient Visits			Inpatient Admissions		
	1404-05 (‘000)	1408-09 (‘000)	Increase (Percent)	1404-05 (‘000)	1408-09 (‘000)	Increase (Percent)
MOH Hospitals	20,035	23,253	16.1	697.5	979.4	40.4
Primary Health Centers	29,948	35,274	17.8	--	--	--

Key Issues

Notwithstanding the achievements in the health sector in recent years, a number of important and challenging issues have emerged which must be addressed during the Fifth Development Plan period. Some of these issues can be dealt with in the short term, while others are more structural in nature and therefore require intensive evaluation and review before the appropriate solutions can be identified and implemented. One theme underlying many of these issues is the need to achieve an efficient and effective allocation of financial, material and human resources.

Emergence of New Health Problems

Epidemiological and clinical studies of the Fourth Plan period suggest that a growing number of chronic health conditions, accidental injuries, industrial and urban-related health problems have been added to the traditional burden of illness posed by endemic and infectious diseases. While more extensive implementation of the referral network will improve the efficacy of the Kingdom's health care system in the future, the rising incidence of these more complex

health problems will place increasing strain upon the service capacity, the financial strength and the data and information base of the health sector.

New programs will be needed during the Fifth Plan period to meet these emerging needs of a more industrialized and urban society, involving worksite screening, occupational medicine, and comprehensive initiatives for mental health care. Rehabilitation and health education programs relating to the high rates of road traffic accidents must be intensified if advances in the treatment of accident victims are to be sustained. In addition, decisions about priorities among programs and between preventive and curative health care will be forced upon the health sector in the course of the Fifth Plan, since these new programs must be integrated with existing activities and within available health sector resources.

Finally, the medical treatment of many complex health problems will require even greater coordination and assessment of advanced medical technologies to determine their cost-effectiveness and appropriate allocation to health facilities in the Kingdom. The universities of the Kingdom and the King Abdul Aziz City for Science and Technology will be called upon increasingly to perform the task of advanced medical technology assessment.

Financial Requirements

Health care systems throughout the world are faced with a growing demand for services combined with rising costs and shortages of finance. In this regard Saudi Arabia is no exception, although its ability to adapt to these new conditions is far greater than that of many other countries.

Largely as a result of the growing hospital bed supply and associated manpower requirements, the health sector's share of total government expenditure increased rapidly during the Fourth Plan period, so that by 1409/10, the Ministry of Health's share exceeded 5 percent. Furthermore, the expansion of health facilities during the Fourth Plan had brought about increased outlays for Ministry of Health management, operation and maintenance costs, and imports of increasingly expensive advanced medical equipment, pharmaceuticals and other supplies. These developments contrasted sharply with the significant decline in total government revenues available to support the expanded facilities and service base of the Ministry of Health, which is responsible for providing nearly 85 percent of all health services delivered in the Kingdom.

Health services of high quality and reliability are a permanent feature of development. Because fluctuating levels of funding will necessarily undermine the effectiveness of health care, sufficient and appropriate resources must be combined with cost-effective service delivery to sustain the achievements of the health sector.

Thus, the financing constraints now prevailing are a symptom of the growing need to secure additional resources for the health sector in the years ahead. In this regard, a major

initiative of the Fifth Plan will be an extensive review and evaluation of alternative options for greater support in the financing of the Kingdom's health care system.

Health Data and Information Base

Epidemiological data and information on the economics of health care represent the essential underpinning of modern health service efficiency. An information base that links continuous surveillance of disease conditions and measurable standards of health care is a necessary condition for the assessment of health service performance and cost-effectiveness. Appropriate licensure of physicians and other health professionals plays a critical role in upgrading the quality and standards of the Kingdom's health services. Finally, an improved information base is also necessary for assessing and coordinating the use of expensive medical technologies and specialized services, in order to promote resource sharing within the health sector.

Essential information about health conditions in all regions will be linked with the full implementation of the referral system of the Kingdom in the Fifth Plan period, so that quality assurance and cost-containment will be possible throughout the health sector.

Coordination and Utilization of Health Services

While the number of primary health centers and hospitals has increased, utilization of these services has also grown steadily, thus adding to the resource constraints facing the health sector. Declining levels of funding for individual health agencies during the Fourth Plan period have had a negligible effect upon the demand for services, especially for technologically advanced services delivered at hospitals. This raises the issue of the responsible use of costly health sector resources. During the Fifth Plan, means must be sought of educating the population about the high cost of health services, and about the importance of effective use of these services. A critical component in the effective use of health facilities is the coordination of health services, through which duplication can be eliminated, regional balance can be achieved and resources can be utilized effectively. This requires studying the establishment of a National Council for Health Services Coordination, consisting of representatives from all health service providers (including the private sector), in addition to other related agencies and the Ministry of Planning. The functional objectives of this council would include the following:

- To achieve optimal utilization of health facilities;
- To eliminate duplication in health services;
- To achieve regional balance of health services;
- To conduct research and studies in the area of health services;
- To set regulations pertaining to the practice of the medical professions.

Distribution of Health Services

In the absence of a currently adequate balance in the regional distribution of primary health centers, remotely located and inaccessible segments of the population are forced to endure the burdens of illness and disease. Furthermore, a shortage of preventive health care services for such people results in a growing demand for curative services. In response to this issue, the Fifth Plan aims at expanding the referral system and achieving adequate coverage by primary health care services in cities, villages and hamlets, according to specific ratios of population per PHC:

- cities with more than 200,000 residents will be served by one primary health center per 10,000 persons;
- cities with less than 200,000 residents will have one primary health center per 5,000 to 6,000 persons;
- villages and remote populations will be served by one primary health center per 500 to 2,000 persons.

More PHCs will be established and linked to the development centers in the Kingdom.

Health Manpower

While improved health manpower ratios represent a major accomplishment for the health sector, manpower increases emphasize the need for further educational initiatives and incentives designed to draw Saudi students into careers as health professionals, and to increase Saudi manpower in the areas of general practice, community medicine, obstetrics and pediatrics. Ultimately, the Kingdom's health services rely upon the success of the universities, medical and nursing colleges, health institutes, and intermediate polytechnic health colleges to produce sufficient numbers of graduates who can provide these services.

Rapid growth in manpower demand has strained the capacity of educational and training institutions to keep pace with the expansion of health services. The need for new programs at medical colleges, the establishment of new intermediate polytechnic health colleges affiliated to the Ministry of Health and licensure for practicing health professionals, should be considered in order to increase health manpower supply, diversify specializations and upgrade efficiency.

13.1.3 Role of the Government and the Private Sector

Strategic objectives for the Fifth Plan period aim to increase private sector participation in socioeconomic development. The operation and management of facilities by the private sector represents a key element in this strategy and aims at greater health service efficiency and higher

staff performance levels. Public-private collaboration in the health sector will require careful study and the availability of adequate information on the problems of managing and operating health facilities.

Extensive links between the public and private sectors in the Fifth Plan period will require an expanded resource base in the health sector. The generation of new resources may be promoted by the private sector itself, through the operation of health facilities owned by the government, or through joint ventures with the public health sector.

The long term development of public-private relationships should lead the Ministry of Health to concentrate on the promotion and implementation of numerous basic health policy measures. Among these are:

- the establishment of appropriate quality controls at health facilities;
- the establishment and monitoring of health care standards and licensure requirements;
- education of the public to encourage the proper use of health care services;
- integration of private sector health services with the referral system of the Kingdom in each region.

Full public-private cooperation and coordination could be achieved through a National Council for Health Services Coordination and other private sector institutions capable of exploring such major issues as the local manufacture of medicines and pharmaceuticals, and the possible establishment of a private health insurance system.

13.1.4 Policies and Main Programs

During the Fifth Plan, the health sector will sustain its commitment to primary health care and to preventive and curative medical services of high quality, while promoting new policies for long-term collaboration between the public and private health sectors. Policies for the Fifth Plan offer an integrated response to the health care needs of the population, institutional issues, and financial requirements for the health sector, and include:

- Providing appropriate and essential primary and preventive health care services;
- Delivering curative and preventive health services in an efficient manner;
- Expanding manpower training programs and incentives for students entering the health professions;

- Encouraging adequate distribution, appropriate utilization, and resource base enhancement for the health services;
- Supporting and increasing the capacity of health care services through provision of data and information on public health conditions and promoting coordination through a National Health Council;
- Expanding public-private collaboration throughout the health sector;
- Continuing efforts to reduce mortality and mobility due to road traffic accidents;
- Establishing uniform standards for the health professions, hospital and primary health care services, laboratory tests, the treatment of 'high risk' patients, nurses' and health technicians' proficiency, and collecting necessary data for evaluating performance;
- Improving the capability to assess the cost-effectiveness of new and advanced medical technologies.

Main programs

Programs for achieving these policies include:

Primary and Preventive Health Care Services

- Essential primary, secondary and preventive health care services for women and children, and other population groups in need of health care;
- Expansion of the health referral system and primary care network to all areas of the Kingdom;
- Development and expansion of national programs for infectious and endemic disease control;
- Information collection about health conditions on a continuous basis;
- Expansion of emergency services to underserved areas.

Management and Operation

- Upgrading the efficiency of hospital services and improving the performance of health professionals;

- Educating the public on the proper use of health resources;
- Achieving further efficiency in the application of the referral system and the development of a health information system.

Manpower Development

- Expanded manpower training programs at polytechnical colleges;
- New hospital-based in-service training programs for physicians on rotation from primary health centers;
- Uniform licensure and performance standards for physicians, nurses, and health technicians;
- Incentives for the entry of Saudi students into health professions, especially primary health care.

Maintenance of Health Facilities

- Continued expansion of private maintenance of public sector hospitals and facilities;
- Development of additional resources to ensure the full maintenance of government facilities and medical equipment;
- Establishment of uniform standards for the maintenance of medical equipment and health facilities;
- Continuous training and application of emergency care standards to ensure that emergency services equipment and facilities are maintained according to high levels of proficiency.

Public and Private Sector Collaboration

- Additional management and operation contracting between the public and private sectors in a manner that supports the referral system in each region;
- Further encouragement and support for the local manufacturing of medical equipment and drugs;
- Exploration of new forms of collaboration between the public and private health sectors in the financing of health services.

Research and Studies

- Exploration of new resources for the provision of health services and for raising the quality of the services provided;
- Continued research on the cost-effective provision of health care, especially with respect to expensive hospital services;
- Further analysis of health problems and endemic and infectious diseases in the Kingdom.

13.1.5 Growth Targets During the Fifth Development Plan

The government is committed to improving the existing health network in the Kingdom, through institutional development, long range policy changes and improvements in the quality of service provided. The targets of the Fifth Development Plan include the following:

- Increasing the coverage rate of immunization against major infectious diseases to reach at least 95 percent of the relevant population;
- Controlling growth in hospital bed supply by stabilizing ratios at a level of 3.35 beds per 1,000 inhabitants, with appropriate adjustments for population growth during the Fifth Plan period;
- Increasing ratios of health manpower to population as follows:
 - one physician per 500 inhabitants
 - one nurse and health technician per 225 inhabitants
- Implementing quality standards and performance indicators for all health facilities, including those in the private sector;
- Construct 150 new primary health centers and operate 500 additional primary health centers with priority given to regions having no primary health care centers;
- Train 4200 physicians, 565 specialist physicians, 5880 nurses, and 7560 health technicians in the hospitals and training centers of the Ministry of Health;
- Expand the computer capability and information systems at Health Directorates, hospitals and PHCs.

13.1.6 Financial Allocations: Health Sector

Table 13.3 shows the financial allocations for the health sector during the Fifth Plan.

TABLE 13.3

**Fifth Plan Financial Allocations: Health Sector
(SR million)**

Agency	Salaries and Supplies	Operations and Maintenance	Projects	Total
Ministry of Health	35,898.0	6,664.0	5,212.0	47,774.0
Red Crescent Society	753.1	13.2	38.8	805.1
King Faisal Specialist Hospital	3,234.0	120.0	292.0	3,646.0
Total	39,885.1	6,797.2	5,542.8	52,225.1

13.2 SOCIAL AND YOUTH SERVICES

13.2.1 Role and Development Objectives

The social and youth services provided by the government help to improve the overall quality of life for the population. They attempt to smooth the processes related to a continuously rapid pace of social, cultural and economic change. The Ministry of Labor and Social Affairs--through the Deputy Ministry of Social Affairs (DMSA)--encourages local participation and fosters the growth of social and civic duty. The Deputy Ministry of Social Care (DMSC) provides rehabilitation and care in institutions and in the family environment in response to physical or mental disabilities or to difficult social circumstances. It assists the disabled and handicapped to adjust to their social conditions. The General Presidency of Youth Welfare (GPYW) contributes to strengthening of the family and the well-being of young people by encouraging standards of athletic excellence and integrating sports, culture and community services. Pensions, benefits and relief assistance to the deprived and temporarily disadvantaged are provided by the Deputy Ministry of Social Security (DMSS). Additional services of the Saudi Credit Bank (SCB) include the extension of interest-free loans to assist low income individuals with household emergencies and to establish small businesses. Finally, the General Organization for Social Insurance (GOSI) and the Retirement Pension Authority provide pensions and social insurance schemes for retired employees of the public and private sectors.

Other income support and poverty relief schemes include price subsidies for basic food items. Cash subsidies for livestock and crops, and loans by the Saudi Arabian Agricultural Bank make a significant contribution to raising incomes in the rural areas. Housing loans granted by the Real Estate Development Fund reduce the cost of housing to families, thereby allowing incomes to be spent on other goods and services, and raising family living standards. Grants given to the poor by private charitable societies are another form of transfer payments to raise incomes.

Overall, these services improve the socioeconomic conditions of the individual and the community, and reduce the burden of social deprivation. The social and youth services sector seeks to address and solve problems that emerge as a result of the broader external conditions in society as a whole. Public and private interventions and partnerships are necessary in order to enhance the effectiveness of these services and to undertake new tasks. Therefore, the development objectives of this sector are:

- to ameliorate and prevent social imbalances resulting from rapid social change;
- to encourage the development of Saudi society and its ability to improve the quality of life of present and future generations;
- to strengthen the family by emphasizing the care, nurturing and desired socialization of children and the development of the mental and physical capabilities of youth in harmony with Islamic principles;
- to enhance the participation of charitable societies and the private sector in implementing social and economic projects that will contribute to upholding the social stability of the Kingdom.

13.2.2 Achievements and Key Issues

The providers of social services seek to meet the demand for their services to cope with the impacts of economic growth and associated social change. During the Second and Third Development Plans the dominant task of the sector was to promote balance between growth and traditional and modernizing social forces. Similarly, in that earlier planning period, an increase in the delivery of social and youth services was accompanied by an expansion in the number of service facilities. However, the Fourth Development Plan was a period of consolidation, qualitative improvements and increased functional specialization of services and facilities. As a testament to the effectiveness of social policy and a feature of integrating careful social planning with economic development, social stability was maintained even at a time when government expenditure was reduced.

As shown in Table 13.4, there is a vast and diverse network of services throughout the Kingdom at the end of the Fourth Plan period. In **Community Development** the number of social development committees increased from 28 to 37, or by 32 percent, while the number of cooperative societies increased from 163 to 170, or by 4 percent. In **Social Care**, financial support for care in the family setting increased appreciably. The number of beneficiaries of financial support for care at home was as follows: handicapped children beneficiaries increased from 6,801 to 15,549, or by 129 percent; paralyzed children beneficiaries increased from 2393 to 3548, or by 48 percent; orphan beneficiaries increased from 650 to 951, or by 46 percent. The number of Charitable Societies increased from 86 to 96, or by 12 percent. The growth in **Income Support** activities, such as pensions, benefits and relief assistance, is directly related to the higher number of individuals involved in community outreach activities. The number of **Social Security** pensions distributed during the Fourth Plan period reached 299,746 -- an increase of 2.9 percent. The **Youth** Services sector has been extremely successful in promoting its sports program by hosting and competing in local, regional and international sports events, as 81,000 youths participated in its programs. The national soccer team won the Asian Cup for the second time in 1409 and the under-16 team won the FIFA world championship in 1410.

TABLE 13.4

Social And Youth Services Network

Units at End of Fourth Plan

Local and Community Development

- Community Development Centers	16
- Community Service Centers	6
- Local Social Development Committees	37
- Cooperative Societies	170
- Center for Training & Applied Social Research	1

Social Care

- Rehabilitation Centers and Institutes for Paralyzed Children	15
- Residential Nurseries, Orphanages and Care Homes for the Elderly	29
- Social Guidance and Social Observation Centers	15
- Charitable Societies	96

Social Security

- Field Offices	76

Social Insurance

- Field Offices	15

Saudi Credit Bank

- Branches	24

Youth and Sports

- Sport Stadia and Pavilions	12
- Sport Clubs	23
- Private Sport Clubs	154
- Coastal and Sport Centers	15
- Youth Clubs	5
- Youth Hostels and Permanent Youth Camps	21
- Sports and Recreation Training Institute	1
- Sports Medicine Hospital	1

Nomadic Services

Increasing awareness of the availability of modern technologies and conveniences have motivated many nomads to seek alternative life styles. The government assists those who want to remain nomadic, those who want to settle, and those who choose semi-nomadism.

The greatest concentrations of nomads are in the Northern Frontier, the Western and Southern regions. Social services from a wide range of agencies have an impact on the nomadic population. The National Guard provides special training programs and the potential for high level careers, in addition to classes in literacy and modern military sciences, housing, health and social services for dependents and families. MOE has a 'selective awareness campaign' aimed at literacy training; MOH and MOLSA (through DMSS) provide health services and social assistance in all regions; MOMRA provides water taps and markets in cities, towns and villages which are utilized in the marketing of livestock. MOAW provides veterinary services, constructs fodder stores, subsidizes fodder, and drills wells. It also has projects for the improvement and replanting of pastures and rangeland and a range livestock project. In order to preserve the desert ecosystem, MEPA operates a range surveillance and monitoring program. While their numbers are declining, policies and services for the nomadic population continue to provide opportunities and options for them to choose the life style they wish to pursue.

Key Issues

Notwithstanding these achievements and the available service network, there are a number of issues which must be addressed so that the long term service capacity of these institutions and their effectiveness can be increased.

Transformation of Community Requirements

Saudi Arabia has rapidly become an urban society with the majority of the population now residing in urban centers. Although there have been major advances in the extension of services to the population, a shift in orientation has become necessary in order to meet the special needs of some groups who have been mobilized into the mainstream of society and to assist them in interacting effectively within society, and participating in and benefiting from the development process. At the same time, programs which meet the needs of children, youth and the family in general should be expanded, with due attention to leisure time activities, the development of private sector contributions and the participation of volunteer manpower in social work.

Social Sciences, Social Policy Research, and the Sector

A number of institutions in the Kingdom, including the Center for Training and Applied Social Research at Al-Daraiyyah and some university departments, conduct social research and studies. However, a lack of coordination among these agencies leads to an incompatibility between their research, the actual needs of the community and the public policy needs of decision makers. Addressing this issue in the Fifth Plan requires that the feasibility of establishing an

information unit for social science, research and policy, particularly in applied fields, be examined. The unit will allow for more comprehensive and systematic utilization of the social sciences by government agencies; a close association of the disciplines with the policy making process of Social and Youth Services; and access to, coordination and dissemination of social science findings to relevant policy makers, researchers and the general public. Finally, it will assist in the development of the social sciences as a discipline and profession.

Administrative Development and Training

Some poor performance by the social and youth programs can be attributed to duplication and overlapping functions that exist between agencies, and the lack of necessary specialization in planning and implementing service programs. Therefore, the activities of all agencies should be coordinated in order to maximize the utilization of resources and to realize a social return commensurate with the actual needs of social and youth services programs. In addition, agencies need to encourage the development of their professional manpower, establish incentives for in-service training and recruit recipients of social science degrees to work in their programs.

Increase the Utilization of Females in the Sector

As the service area and the number of beneficiaries of social and youth programs have increased, there has not been a corresponding increase in staff or in the utilization of trained Saudi females to match the client load. The need to increase women's participation in the labor force in conformity with the Sharia has affected, and will continue to affect program effectiveness. Maternal and child health, early childhood education, family counseling and care for the elderly are all nurturing and socializing roles which can offer gainful employment for females.

13.2.3 Role of the Government and the Private Sector

In the past, the targeted groups of Social and Youth Services relied upon the charity and generosity of the family, prominent members of the community and other traditional institutions. While these methods have continued during the period of rapid socioeconomic change, the public sector has assumed the major role in social service delivery. The government has expanded the availability of financial and technical support for the activities of private voluntary organizations (charitable or benevolent societies). Government agencies in this sector are seeking enhanced private sector participation in community services to augment their own capacity to undertake new tasks, and to broaden the philanthropic donations from individuals and corporations. With its liquidity and investment capital, GOSI has the potential for being one of the more significant stakeholders in public and private sector partnerships for improving the performance of social services.

13.2.4 Sectoral Policies and Main Programs

Policies which will assist in achieving the development objectives include:

- Improve the capacity of Social and Youth Services to fulfill their mission by establishing a short-term, highly placed Ministerial Committee to recommend a comprehensive social development strategy and to consider how individuals and society as a whole can be protected from the harmful side-effects of development that are contrary to the principles and values of society;
- Establish new parameters for developing and upgrading professional manpower in the sector by identifying technical manpower requirements, reviewing program offerings and curricula of universities and training institutions, and establishing new standards and licensing procedures;
- Identify long term social research requirements and priorities which reflect changing social circumstances and public policy needs, and explore the feasibility of establishing an information unit for social science research and policy;
- Establish and develop parameters for social guidance and more openness in the availability of socially relevant information in order to foster the evolving community spirit and Islamic culture;
- Redefine the scope of community development activities to reflect the community service needs of an increasingly urban society; expand programs in urban and rural areas to include maternal and child health, early childhood education, youth sports, social and cultural activities, adult education, and social activities for senior citizens;
- Encourage family solidarity and contribute to the balanced upbringing and development (socialization) of youths in harmony with Islamic principles and the cultural heritage, by encouraging interests in scientific, cultural, and practical skills; increasing the level of excellence in sports; and establishing and implementing programs for family counseling and guidance and preventive counseling and awareness of infectious social diseases;
- Promote voluntary social work and increase its capacity by encouraging the formation of private voluntary organizations and philanthropic societies, and providing technical assistance and training for volunteers;
- Continue to provide grants, assistance, and subsidies to individuals and families in need, institutional care for individuals if it is not possible in the family setting, and social care for other cases within the family setting;

- Improve Social Insurance services to clients; review the investment strategy of GOSI to guarantee the long term availability of these services.

Main Programs

The main programs which will support the policies of the social and youth services sector include: Social Development; Social Awareness and Guidance; Cooperatives; Assistance; Pensions; Social Insurance; Investments; Research and Studies; Facilities Support and Development; Youth Welfare Activities; Management and Operation; Maintenance and Operation; and Manpower Development.

13.2.5 Growth Targets During the Fifth Development Plan

There is no need for a major expansion of facilities in the Social and Youth Services sector. Exceptions to this rule include some programs related to leisure time activities and Social Care facilities for meeting the needs of women, children and youth.

Quantitative growth will occur as a result of increases in utilization rates of the service network through community outreach activities. Services will reflect the continuity of new partnerships between public programs and increases in private voluntary activities. During the Fifth Plan period 5 additional community development centers will be established along with 50 additional cooperative societies. 60 charitable societies will be established in addition to 3 institutes for paralyzed children, 6 residential nurseries, one orphanage and 6 new care homes for the elderly. 3 social guidance and 10 social observation centers for boys and 4 for girls will be opened, in addition to 16 youth clubs and 4 sports centers. As a percentage of total employment in this sector, Saudis will increase from 90.3 percent in 1409/10 to 96 percent in 1414/15.

13.2.6 Financial Allocations: Social and Youth Services

Table 13.5 shows the financial allocations for the social and youth services sector during the Fifth Plan:

Table 13.5
Fifth Plan Financial Allocations: Social and Youth Services
(SR million)

Agency	Salaries and Supplies	Operations and Maintenance	Projects	Total
DMSA	468.7	10.1	106.3	585.1
DMSC	2,261.0	287.0	155.0	2,703.0
DMSS	7,926.0	10.0	1.0	7,937.0
GPYW	2,115.0	2,119.0	1,023.0	5,257.0
SAUDI CREDIT BANK	---	---	---	195.0
Total	12,770.7	2,426.1	1,285.3	16,677.1

Fifth Plan Financial Allocations for GOSI*
(SR million)

Income	28,618.7
Investment	18,818.9
Expenditure	9,799.8

- * Development Funds are not included in the services provided by GOSI, nor is the Retirement Pension Authority.

13.3 CULTURE AND INFORMATION SERVICES

13.3.1 Role and Development Objectives

Within the prevailing conditions of our contemporary age, imbrued, as it is, with a multitude of theories, approaches and methods of predicting the future, planning for comprehensive development -- either in the short term or in the long term -- has come to be the main instrument through which man can feel secure about his future. Planning for a specific sector cannot be conducted in isolation from other sectors and, in this regard, the government has a major responsibility to ensure that the thrust of comprehensive development activity generates harmony and consistency between all sectors. Hence, planning for social or human resources development must take into consideration prevailing economic conditions. Similarly, planning for economic diversification must reflect society's needs, and the hopes, ambitions and expectations of individuals for a better future. Thus, although cultural and information services have their own very specific and individual characteristics, they also have extensive links with all other sectors.

It has been argued that certain cultural patterns expressing a nation's identity emerge naturally in response to the stages and levels of civilized progress experienced by that nation. Equally true, however, is the argument that intellectual and artistic achievements -- where these actually exceed the pace of social progress in general -- can themselves be an important catalyst and support for advancing civilization in both material and cultural terms.

The idea that a nation's culture can be planned -- in the same way that socioeconomic or infrastructural development can be planned -- is not a plausible proposition, due to the fact that, by its very nature, cultural activity is a spontaneous product of the human mind, which derives its special character and qualitative richness from contemporary society and the level of civilization thus far attained. Planning for the further development of cultural activities, therefore, can only be done by providing support services and creating conditions whereby culture and creativity can be nurtured and allowed to flourish.

Against this background, the following factors deserve special attention:

- Concern about the past and future direction of cultural development and the need for assurance that proper approaches are being followed in attaining its objectives, should find satisfaction in the recognition that comprehensive development has been achieved in most areas and the pace of cultural development has almost matched that of social development in general. In other words, the Kingdom's cultural progress will naturally inspire the emergence of particular models of artistic expression that will advance in parallel with economic and social development as a whole.
- The keen desire to maintain a national Saudi identity, rooted in Arab and Islamic civilization, is conspicuously manifested in the important role of culture in everyday life and in the fact that cultural development is very much a part of overall development, even where cultural activities in the Kingdom have been enriched by the traditions and human achievements of societies in other parts of the world.
- Although the government provides services, eliminates obstacles and extends support for artistic expression, cultural development is essentially an individual rather than a state responsibility. The continued future development of culture is thereby ensured, in the realization that motivation for intellectual and artistic achievement is an innate human characteristic that is present in many individuals. Nevertheless, the effectiveness of culture's social role and its ability to serve the wider interests of development in general, depends mainly upon an awareness of the nature, structure, form and level of this culture, and upon an understanding of the necessary balance among its main interacting elements, as they rotate around the three 'axes' of authenticity, contemporaneity and the development of original local cultural characteristics. Thus, the indigenous Saudi culture would not lose its own identity in the quest for

modernity or in its eagerness to benefit from cultural achievements in the international arena. At the same time, Saudi culture would not restrict itself to purely national or traditional and archaic interests. Rather, its development would seek to establish a wise equilibrium between both extremes.

Cultural progress in the Kingdom, therefore, must address the two basic issues of heritage and international developments:

Heritage

Heritage can be defined as the authenticity deriving from the security of firmly established cultural roots, which in the Saudi context, are founded on Arab and Islamic civilization--giving our contemporary culture its own unique identity and endowing it with an ability to withstand attack or undesirable influences. However, this heritage is only one of many sources of contemporary culture and it should not be the only one. Heritage, after all, is based on the achievements of individuals like ourselves in most ways, but who lived under very different social and economic conditions and whose awareness and consciousness were not shaped by our modern achievements and experience. It is not wise for contemporary society to abandon its achievements and progress to date by promoting a cultural allegiance that is rooted exclusively in the past. On the contrary, all efforts should be made to 'serve' this heritage and not merely to resurrect it intact for exhibition in modern museums. Such envisaged service to our heritage should be granted all possible scientific and academic assistance and expertise. In addition, parts of our heritage should be made appropriately intelligible for the young and inculcated into their consciousness, so as to ensure living contact with our roots and to safeguard the integrity of language.

International Culture

It is important to the vitality of our national culture that it be allowed to draw from a variety of sources and to experiment with new trends. To cite one example: we should not ignore the translation efforts of orientalist, without first identifying who among them are sympathetic or antagonistic towards our interests. Instead of excluding such efforts from mere prejudice, it would be more appropriate for us to study whether or not hostility is intended and how persistent such an intent might be, so that we can develop an appropriate response. The western world is now actively engaged in translating and studying our intellectual works, and benefiting from us as a result. It is our duty to ourselves to behave in the same way as scholars who are respected internationally, and not merely remain the subject of others' study. Benefiting from all human experience is a right to which everyone is entitled. In the case of translations, we should be fully aware of their impact and influence so that we might not lose our genuine identity in our search for the new and the different.

As a concept, culture is no longer elitist, but now embraces all norms of behavior, all beliefs and traditions, and all social attitudes. Hence, there is a need for concerted efforts by

both the mass media and the cultural services agencies to promote public awareness and guidance, and to fulfill their responsibilities in preparing the social order to adjust to new developments and to establish ideal norms for individual and group conduct. The mass media, moreover, are the most effective means of shaping public opinion, disseminating cultural and intellectual works on a large scale, and imparting to the Saudi citizen information on current affairs from all over the world. The primary role of the information media in the Kingdom can thus be classified into three main functions:

- disseminating information on current events;
- disseminating information about, and promoting the development of cultural activities;
- disseminating information about the Kingdom to the rest of the world.

13.3.2 Achievements and Key Issues

Responsibility for the development of cultural activities has been distributed among many government agencies such as the GPYW, MOI, MOLSA, and others. Although those agencies involved in cultural activities have tended to give priority to their basic functions, cultural life has been able to develop and spread through these channels.

Saudi contributions in the field of culture have appeared in cultural magazines and on the literary pages of daily newspapers and in the publications of cultural clubs and societies. Many Saudis have achieved outstanding standards, in the context of Arab cultural life, in the fields of poetry, novels and literary criticism. Saudi university professors have made substantial contributions to the enrichment of cultural life, through their articles, studies and books published by the university presses, private publishing houses, and other publishing agencies. The Kingdom was able to participate in many cultural festivals throughout the Arab world, thereby drawing international attention to Saudi culture. Saudi poetry and stories have been selected for translation into the English language under the 'Prota project' of the King Saud University, which translates the best Arabic literature into English.

Furthermore, substantial efforts have been made by the National Guard at the Janadriyah Festivals, which have acquired a magnificent reputation as a great display of Arab culture.

Experimental activities took place in the field of drama, and although not very numerous, these activities show concrete progress and are capable of representing the Kingdom in Arab drama festivals. Artistic achievements in sculpture and pottery now place the Kingdom ahead of many other more experienced countries in these fields, in spite of the shortage of public galleries for their display.

While achievements in the field of music have been small, folklore songs and folklore heritage in general were consistently represented at the Janadriyah Festivals, as well as on radio and TV programs. Folklore poetry, however, witnessed a remarkable decline with regard to the number of publications and their circulation.

In the light of past achievements and the requirements created by the new levels of development, an urgent necessity now exists for quickening the pace of cultural life, to bring it into balance with the Kingdom's socioeconomic achievements, and to enable it to better express citizens' aspirations and ambitions. Major issues emerging are as follows:

Coordination Amongst Cultural Agencies

Responsibility for the provision of cultural services is shared by several agencies, which perform their individual tasks without an overall framework through which their activities may be coordinated and streamlined. This lack of coordination impedes the development of a comprehensive approach to meeting the cultural needs of the community. A feasibility study will be conducted to develop a comprehensive national policy for culture, to enhance the private sector's new contribution and support the development and maintenance of national heritage. Towards this end, the Ministry of Planning will undertake coordination among the various agencies engaged in various aspects of culture, and establish guidelines and policies to streamline efforts towards required goals, while the Follow-up Department will monitor and evaluate the activities of various agencies with an aim to ensure proper levels of performance.

Training and Mastery in the Arts

The usual source of recruitment and support for the arts is through the education and training systems. While some activities in the arts do exist in the schools and universities, the curriculum offerings are not on a scale that will permit the development of mastery. Although talents are not usually recognized early, where they are recognized, gifted individuals must be highly trained and supported.

To attain mastery, an artist must develop the range, flexibility and intelligence of response which will enable him to interpret his culture and sense of past art refracted through his own experiences, and to relate this interpretation to the present. It is not present in raw talent alone, rising instead from a deep sense of continuity rather than from sudden revelations.

A study will be conducted to determine the feasibility of establishing a Fine Arts Academy at the higher institute level to encourage the preservation of the nation's folklore and foster the creation of new channels for artistic expression. The Academy would have appropriate communication links and coordination with educational institutions and the performing arts section of the King Fahd Cultural Center, scheduled for completion during the Fifth Plan period. This study will also assess the economic well-being of performers, artists and artisans in the absence of fee-paying performances, and the support from the private sector for the development of the arts.

Libraries

There is a need to evaluate acquisitions, distribution and service capacity in the library system. In this context, a feasibility study will be initiated to examine the establishment of a National Committee for Libraries and Information Services under the National Cultural Council, in order to develop a 'master plan' for all public sector libraries. Other aims of the study will be: to conduct an assessment of facilities and services; to foster the utilization of and increased access to libraries by females; to recommend new objectives and policies; and to outline the National Committee's responsibilities for planning, coordination, follow-up and supervision of an implementation plan for both existing and proposed libraries.

Media Transmission and Program Content

Transmission coverage to remote areas should be targeted by Information Services as the primary agent for acculturation and as a contributor to community development and public service. A decision will be made to determine which technology will be utilized to deliver this service, between ground stations and transmitters or satellites. A feasibility study will be undertaken to assess the utilization of cable television for home, education and business services.

Another study will be carried out to determine the feasibility of launching a cultural station, within the currently operating radio broadcasting stations. Operating hours of the proposed station will be the cumulative time currently dedicated to cultural programs at various stations.

Heritage and Modernity

A comprehensive study will be undertaken on the feasibility of establishing a National Commission for Heritage and Culture that will have a central coordinating role for all cultural activities. The proposed Commission will provide its cultural services through various departments and centers, such as the Saudi Book House, the Heritage Historiography Center, the Translation Center, the National Folklore Center, and the General Administration for Cultural Exchange. The proposed Commission will make available all services related to heritage preservation efforts, and will also acquaint the public with many aspects of foreign cultures, all of which could contribute to the formulation of a modern structure for the development of national culture.

13.3.3 The Role of the Government and the Private Sector

The Ministry of Information will continue to support and enhance its various activities towards the achievement of the Fifth Plan objectives. It will also increase the scope of cooperation with the private sector -- which will assume a greater role in the production of television and video programs -- and will expand cultural resources for society as a whole, through such facilities as the King Faisal Center for Islamic Research and Studies, the King Fahd Library in Riyadh and museums, and through the preservation of the Kingdom's heritage landmarks.

Furthermore, a wider public audience will also be sought through support for folklore performances and festivals, as well as art exhibitions organized by art students and graduates.

13.3.4 Policies and Main Programs

The following policies will assist in achieving the development objectives of this sector:

- Determine the technology to be used for completing mass media coverage throughout the Kingdom;
- Increase the local preparation and improve the quality and content of radio and television programs, to meet the cultural, educational, scientific and recreational needs of the public, with special reference to women, children and youths; and support the social goals of community service and social guidance;
- Provide incentives for intellectual and creative works and encourage private sector publishers to increase the volume and improve the quality of local publications and translated works;
- Gradually expand the provision of facilities for cultural services, where proven to be feasible, and provide support to such facilities at the time of their establishment;
- Continue exploration of archaeological sites, protect intellectual property and establish museums;
- Use the services of GPYW for increased cultural activities and dissemination in all regions.

Main Programs

The main programs which support the policies of the sector include: Management and Operation; Operation and Maintenance; Manpower Development; Radio and Television Broadcasting; Print Media Development; Libraries; Arts and Humanities; Translation; Folklore, Cultural Heritage and Museums; Research and Studies; and Subsidies.

13.3.5 Financial Allocations: Cultural and Information Services

Table 13.6 shows the Fifth Plan allocations for cultural and information services.

TABLE 13.6

Fifth Plan Financial Allocations: Cultural and Information Services
(SR million)

Agency	Salaries and Supplies	Operations and Maintenance	Projects	Total
Ministry of Information	3,373.0	670.0	707.0	4,750.0
King Abdul Aziz Cultural Institute	45.0	3.0	0.0	48.0
Department of Antiquities and Museums [*]	--	--	--	--
GPYW [*]	--	--	--	--
Total	3,418.0	673.0	707.0	4,798.0

^{*} Program expenditures of the Department of Antiquities and Museums are included under the Ministry of Education in Chapter 12. GPYW expenditures are included in section 13.2 of this chapter.

13.4 RELIGIOUS AND JUDICIAL AFFAIRS

13.4.1 Role and Development Objectives

Since its foundation, the Kingdom of Saudi Arabia has followed the Sharia as its governing code. As protector of the Holy Places and in compliance with the directives of the Custodian of the Two Holy Mosques, it has a particular duty to Islam and the Islamic states. Through its religious and judicial affairs agencies, the Kingdom preserves Islamic values and supports the propagation and enforcement of the Islamic faith, maintaining at the same time justice and social stability. The **Ministry of Justice** administers judicial services in accordance with the Sharia as the basis of the legal system in all transactions. The General Presidency for Religious Guidance and Research is responsible for propagation of the faith and for translating, printing and distributing religious books, especially those containing principles of Islamic Call or judicial opinions (Fatawi) on contemporary issues. It is also responsible for the development and dissemination of studies and research in all Islamic fields. The **General Presidency for the Holy Mosques** provides all services and facilities that assist pilgrims and visitors in performing the Hajj and Umra. The **Ministry of Hajj and Endowments**, in addition to its responsibility for providing religious guidance, services and care to pilgrims, undertakes the construction and maintenance of mosques and the management of philanthropic endowments. The **Morality Committee** is responsible for preserving local mores and high standards of public behavior.

The objectives of the Religious and Judicial Affairs agencies are:

- to safeguard Islamic values and traditions;
- to enforce the Sharia;
- to promote understanding and adherence to the teachings and practices of Islam and the Sharia;
- to contribute to social stability;
- to maintain an awareness of creeds contrary to Islamic principles and values.

13.4.2 Achievements and Key Issues

Recent achievements in the sector have been significant. The total area of the Holy Mosque in Makkah was expanded to 310,000 square meters during the Fourth Plan period, in order to accommodate 655,000 worshippers. At the same time, the Prophet's Mosque in Madinah was expanded to 285,000 square meters to accommodate 362,000 worshippers.

Through its 6 branches and 409 centers the Morality Committee has contributed to deepening the adherence to Islamic principles, teachings and practices. Through its centers in the Kingdom, in the Arab Gulf states (specifically in Bahrain, Dubai, Qatar, Umm al-Qwain) and in other countries around the world, the General Presidency for Religious Guidance and Research has contributed to the propagation of the Islamic faith and to explaining its principles, as well as to printing and distributing Islamic books related to the Islamic Call (Dawa). The Presidency has Islamic callers and preachers in 85 countries.

The Deputy Ministry for Hajj Affairs has provided outstanding facilities and services to pilgrims at all ports of entry in the Kingdom, on roads leading to Makkah and at the Holy Places. It has also provided religious guidance to pilgrims in performing pilgrimage rituals.

The Deputy Ministry for Endowment Affairs has supervised philanthropic endowments and contributed to the improvement of homes for the destitute (Al-Arbatah), in cooperation with the Ministry of Labor and Social Affairs. Furthermore, it supported and managed endowed libraries in Makkah, Madinah, Jeddah, Taif and Qassim, and constructed mosques and Eid prayer facilities. The total number of mosques and prayer facilities supervised by this Deputy Ministry exceeded 30,000.

The scope of judicial services during the Fourth Plan has been expanded and the quality improved. The complex to house legal departments in Abha has been completed, as have court buildings in Yanbu, Muhayyil, Jubail, Qurayyat and Dawmat Al-Jandal.

In spite of these remarkable achievements, a number of issues must be resolved in order to maintain and increase the level and effectiveness of services.

To Safeguard Islamic Values and Traditions

The presence of expatriate workers in the Kingdom, with their beliefs and traditions, and the expansion of trade and cultural interactions require an expansion of religious sector activities to promote a deeper sense of appreciation toward Islamic tenets and ideals, particularly among children and young men and women, so as to nurture among them a positive attitude to their homeland, increase their respect for work, and encourage a positive contribution to society's development. This also requires extensive training of Islamic Callers, especially in human and social relations.

Information

The availability of data processing systems has become a prerequisite for the success of any advanced administrative body. While the Ministry of Justice and many other agencies have been installing computers, an expansion in data systems and the establishment of a data base are necessary to improve the level of service and achieve its objectives.

Manpower and Judicial Services

Lack of interest in employment in Judicial Services in general, and particularly in the position of Judge, should be carefully considered. This finding provides the basis for recommendations to review the curricula of Sharia faculties and of the Higher Institute for Judges, to conduct extensive judge training courses that relate closely to social conditions, and to provide incentives that make employment in judicial services attractive.

Specialization of Judicial Services

In response to socioeconomic growth, the scope and number of litigations, commercial and legal transactions have expanded, thus requiring an increase in the number of specialized courts (commercial, conjugal, juvenile, traffic), with special emphasis on commercial courts. The geographical distribution of these courts should be related to the growth of each region and its need for judicial services.

13.4.3 Role of the Government and the Private Sector

The government has provided ongoing support for the services of the Religious and Judicial Affairs sector and has paid increasing attention to activities such as the dissemination of Holy Koran teachings, the operation of the King Fahd Complex for printing the Holy Koran, the expansion of the Two Holy Mosques in Makkah and Al Madinah and the development of surrounding areas, as well as the management of the Al-Kiswah factory. Among the government activities in this regard are the translation of the Holy Koran and other religious books into several foreign languages, and the distribution of such books within the Kingdom and abroad.

The government also contributes significantly to the preparation of individuals from Islamic countries so that they can become callers and imams in their home countries. Finally, the government provides many services to pilgrims, including rest houses and centers to ensure their comfort, and guidance on matters related to the performance of their religious rites.

The government undertakes the management and proper investment of charity endowments, and takes care of the Al-Arbatah (indigent) population. Among its activities in this connection are the construction and renovation of mosques, Eid prayer facilities, courts, notary public offices and relevant follow-up units.

The private sector has also participated effectively in these activities, as individuals, families, groups and organizations are involved in the provision of religious services. Citizens contribute towards the construction and maintenance of mosques throughout the Kingdom, and in many cases, they assign some philanthropic endowments for the benefit of poor and needy persons.

13.4.4 Policies and Main Programs

The following policies will contribute to the achievement of the sector's development objectives:

- Provide religious and judicial facilities in areas not covered by such services, in addition to supporting existing facilities;
- Disseminate the Islamic Call within the Kingdom and abroad;
- Continue to implement Hajj-related construction projects, such as pilgrim stations and centers for awareness and guidance at the Kingdom's ports and along highways leading to the Holy Places;
- Support the construction of mosques and Islamic Centers throughout the Kingdom;
- Continue to supervise and direct Guidance (Tawwafah) organizations, and promote their services;
- Intensify procedures for the classification and control of endowments, and increase their revenues;
- Continue to supervise and develop endowed Islamic Libraries;
- Continue to operate and diversify the output of the King Fahd Complex for Koran Printing;

- Improve the performance of the Al Kiswah Factory, and increase its output;
- Increase the number of general and specialized courts, and distribute commercial courts according to the needs of each region;
- Increase the number of notaries public in parallel with urban growth, and commensurate with the Kingdom's socioeconomic development;
- Increase the number of follow-up units in order to raise the efficiency of judicial work;
- Revise the curricula of the Sharia Colleges and the Higher Institute of Judges in a manner that is consistent with changing social needs;
- Continue to adopt management information systems and establish an effective information base;
- Intensify and diversify training programs in the Religious and Judicial sector in general, and for judicial field staff in particular;
- Provide necessary incentives for judicial field staff.

Main Programs

The following programs will ensure the implementation of the sector's policies:

Management and Operation

This program aims at providing the funds which are necessary for the administrative and technical staff as well as coverage of ongoing requirements pertaining to the execution of the activities of the Religious and Judicial Affairs Sector.

Maintenance and Operation

This program's goal is to provide expenditure necessary for maintenance of the sector's buildings and facilities, in addition to maintenance of the computer systems.

Manpower Development

This program aims at upgrading efficiency of the Religious and Judicial Sector's manpower through training in universities, institutes, and specialized centers.

Support and Development of Facilities

This program is entrusted with supporting religious agencies and upgrading their capabilities so that they can perform their assignments in an effective manner. This will be accomplished through construction of more facilities, expansion of existing ones, application of advanced technology and establishment of an effective information base.

Development Of Judicial Services

This program aims at the development and facilitation of judicial services for the citizens throughout the Kingdom and at the simplification of work procedures in the courts and notaries public, through the establishment of additional general and specialized courts and notaries public in areas requiring such services. The program also aims at supporting follow-up units, the utilization of advanced technology and the establishment of an effective information base.

13.4.5 Growth Targets During the Fifth Plan

Ongoing projects will be completed during the Fifth Plan period such as: the expansion and development of the two Holy Mosques and surrounding areas, the establishment and improvement of stations, water tanks and shaded areas at the Holy Places, pilgrim guidance centers, Hajj Affairs Office, Awareness exhibitions in Jeddah. Three pilgrim stations will be established in Makkah and Al-Madinah, 175 mosques will be constructed in the various regions of the Kingdom as well as four public libraries. Furthermore, 74 mosques will be renovated throughout the Kingdom, and the construction of private mosques will be supervised. Construction works will be completed for the Dawadmi and Hail court buildings as well as for the building of the Ministry of Justice in Riyadh. Comprehensive classification and registration of endowments will be carried out. Three housing units will be constructed for the Arbatah population in Makkah, Al Madinah and Jeddah. Fifty (50) general courts will be opened; 11 specialized courts (juvenile, conjugal, traffic, appeal) will be established; 15 notaries public will be established, in addition to the construction of buildings to replace leased buildings for the two religious court complexes in Khamis Mushait and Hafr Al Batin. Thirty (30) general courts will be opened in the various regions of the Kingdom; 5 follow-up units will be established in Qassim, Jizan, Al-Hassa, Abha and Hail, as well as one office for supervising expert affairs.

Furthermore, work will continue on development of the Religious and Judicial sector's manpower through filling vacancies, and ongoing efforts for realizing Saudiization of posts occupied by non-Saudis, in addition to provision of intensive training programs, application of computer and advanced technology, as well as establishment of an effective information base in these agencies.

13.4.6 Financial Allocations: Religious and Judicial Affairs

Table 13.7 shows the Fifth Plan financial allocations for the Religious and Judicial Affairs sector.

TABLE 13.7

Fifth Plan Financial Allocations: Religious and Judicial Affairs
(SR million)

Agency	Salaries and Supplies	Operations and Maintenance	Projects	Total
General Presidency for the Holy Mosques *	495.0	235.0	--	730.0
Morality Committee	950.0	5.0	--	955.0
General Presidency for Religious Guidance and Research	885.0	10.0	5.0	900.0
Deputy Ministry for Hajj Affairs	244.8	9.0	22.5	276.3
Deputy Ministry for Endowment Affairs	5,265.5	1,959.7	456.1	7,681.3
Ministry of Justice	2,712.4	51.7	91.6	2,855.7
Total	10,552.7	2,270.4	575.2	13,398.3

* These allocations do not cover funds allocated for expansion and development of the Holy Mosques and surrounding areas.

CHAPTER 14

TRANSPORT AND COMMUNICATIONS

14. TRANSPORT AND COMMUNICATIONS

This chapter discusses the transport and communications sector in terms of the objectives, policies, development programs and key issues which must be addressed during the Fifth Plan period. It also reviews the progress made in establishing a modern transport and communications network during previous years.

14.1 TRANSPORT

14.1.1 Role and Development Objectives

The establishment of a comprehensive land, air and sea transport system is both a testimony of the Kingdom's development achievements and an important tool for future development in more complex directions. In a country like Saudi Arabia, with its vast geographical size, diverse topography and wide spatial distribution of population, economic centers and natural resources, transport has a vital role to play in integrating the country. The geographical location of the Arabian peninsula at the crossroads of three continents -- Europe, Africa and Asia -- provides the Saudi transport sector with a highly strategic base for international operations.

As a major element of the country's physical infrastructure, the transport sector has an important role to play in the Saudi economy. The contribution of transport and communications to non-oil GDP in 1404-1405 reached about 10 percent and has remained constant to the end of the Fourth Plan period (1409-1410). This sector utilized 6 percent of total manpower employed in the economy in 1404-1405.

The expansion and maintenance of the road network provides investment and employment opportunities for Saudi construction firms. It also opens up new market opportunities for agricultural producers in remote districts through communication links with the main population centers. The training of Saudis for highly skilled jobs in air transport, air traffic control and advanced sea transport is an effective method for the transfer of technology to the Kingdom. The completion of a new direct rail link between the Eastern and Central regions brings new opportunities for lower cost freight transport and distribution.

Since the end of the Third Plan, the Kingdom's physical transportation infrastructure has been largely in place, so the focus of longer term development in the transport sector will continue to be on improving the operating efficiency of the system. Particularly important in this regard will be task of implementing a comprehensive and balanced transport policy through greater coordination between the various transport agencies.

14.1.2 Achievements and Key Issues

Over a decade ago, when economic growth in the Kingdom started to accelerate, the transport system was not ready to cope with the speed of overall economic development. Great efforts were needed -- especially in the expansion of port capacity and road construction -- to ensure that economic development would not be hampered by capacity constraints in the transport sector.

Mainly as a result of the huge infrastructure investment during the Third Plan, followed by a period of consolidation in the Fourth Plan, the Kingdom today not only enjoys an effective transport system with no major capacity constraints, but also provides opportunities for choice between different transport modes, particularly for passenger transport on high-demand routes. Thus, the growing complexity of the transport system is increasingly reflected in the competition beginning to emerge between transport modes.

Roads and Road Transport

During the Fourth Development Plan over 2200 kms were added to the main road network, an increase of 9.5 percent, thus meeting the Fourth Plan target. Construction targets for secondary asphalted rural roads and earth roads were not met, however, with actual figures being less than 30 percent of plan targets, while the construction of earth surfaced rural roads reached 64 percent of Fourth Plan targets. This shortfall could affect regional development objectives to open up additional agricultural areas and provide better access to the population in remote places. The planned shift in emphasis from road construction to maintenance began in earnest during the Fourth Plan. The growing need for ordinary and preventive maintenance resulted not only from the expansion of the main road network, but also from the damage caused to roads by heavy overloading of trucks at a time when the demand for trucking services exceeded the supply capacity of the industry. In response to this problem, weight load limitations were enforced more strictly towards the end of the Third Plan period, by operating weighing stations at strategic points of the road network.

Public passenger transport on roads is provided by the Saudi Arabian Public Transport Company (SAPTCO), private bus operators and limousine services on intra-and inter-city routes. Faced with growing competition from the private sector during the Fourth Plan, SAPTCO concentrated on high-demand routes. Its inter-city passenger volumes declined only slightly from 2.14 million in 1405/06 to 1.92 million in 1408/09, while intra-city volumes fell from 54 million to 40 million over the same period. A positive feature of SAPTCO's performance during the first four years of the Fourth Plan was its successful adjustment to lower passenger volumes through cost reductions and an increase in the cost covering ratio from 63 percent to 79 percent by 1408/1409.

Railroads

After the completion of the Riyadh dry port during the Third Plan, stage two in the development of the railroads -- the construction of the direct line between Dammam and Riyadh - - was completed during the Fourth Plan. This expansion, together with the introduction of modern coaches, considerably improved the passenger services offered by the Saudi Government Railroad Organization (SGRRO). Passenger volumes rose in response and services were increased from two to four trains daily. The new line now offers an attractive alternative mode of freight transport, particularly for container traffic. Freight volumes have not yet shown the same positive trend, however, mainly because of the general slowdown in economic activity and the impact of the political conditions in the Gulf area on the port of Dammam. Even after the return of normal conditions, not all shipping lines have reverted back to Dammam after having shifted their activities to Jeddah port.

Air Transport and Airports

The aviation sector played a leading role in the Kingdom's early development stages. By now, most of the air transport physical infrastructure has been completed. Only minor physical additions were needed during the Fourth Plan. Construction works continued on the new King Fahd International Airport in the Eastern Province and this airport is expected to start operations in the middle of the Fifth Plan period.

The total volume of air traffic declined during the Fourth Plan, in line with the slowdown in economic activity. The number of international passengers fell, while domestic passenger volumes showed a mixed pattern. The overall decline in domestic travel can be attributed to significant reductions on the short and medium distance routes (e.g. Riyadh-Qassim; Riyadh-Dammam; Jeddah-Medina), reflecting the increased attractiveness of the other transport modes of road and rail. Longer-haul flights, on the other hand, showed a small increase in passenger volumes, especially in the Asir region, indicating growth in domestic tourism.

SAUDIA did not achieve financial self-sufficiency in spite of the addition of ten Boeing 747s to its fleet during the early part of the Fourth Plan period, and rationalization efforts in the booking and passenger handling systems.

Ports and Sea Transport

Operating self-sufficiency in the ports was achieved during the Fourth Plan, following the doubling of port handling fees. In the five main commercial ports cargo volumes fell sharply, due to the decline in imports and also because of growing import substitution, especially in wheat and cement. The new industrial ports at Jubail and Yanbu, however, experienced high volume growth, mainly through the rapid export expansion in petrochemicals and refined oil products.

While the shipping industry as a whole experienced a slowdown in activity during the Fourth Plan, resulting in greater competition and falling cargo rates, the two largest companies in this field were least affected. Despite the depressed economic climate, the National Shipping Company of Saudi Arabia--the national flag carrier founded in 1399--successfully reduced its operating costs through lower overheads and efficiency measures, and reported a net profit for the first time during the Fourth Plan period. The United Arab Shipping Company, which is jointly owned by most GCC countries and Iraq, is now one of the world's largest shipping companies and is a good example of successful economic cooperation.

Key Issues

Notwithstanding the great achievement of constructing a modern and comprehensive transport infrastructure within the short period of twenty years, there are a number of key issues which must be addressed in the transport sector in order to promote the longer term operating efficiency of the system. At present, the transport system is not operating at the lowest possible economic cost, for two main reasons:

- There is still room for productivity improvements within the individual transport agencies;
- Overall sector efficiency is hampered by the present organizational and administrative structures which make a unified and coordinated transport policy difficult to implement. Investment and pricing decisions taken in one part of the system affect market demand for other modes of transport. Overall efficiency, therefore, can only be improved through coordinated measures for all transport modes.

Subsidies and Inter-Modal Pricing Structure

There is a need to review the existing system of direct and indirect transport subsidies, so that competitive imbalances in the economics of different transport modes can be reduced. Factors affecting the competitive balance between transport modes include: the low diesel price for trucks and the low jet-fuel price for SAUDIA, the absence of adequate road user charges especially for heavy trucks, SAUDIA's exemption from domestic landing fees, and the general subsidy paid to the airline. A coordinated transport policy must focus on the structure of subsidies between individual transport modes. Wherever the user has a modal choice, artificial economic advantages caused by subsidies may lead to deviations from the sector's lowest economic cost.

Regional and Agricultural Development

Improvement of the secondary and agricultural roads network is an important objective of the present and future stages of development. Therefore, the Fifth Plan has given the highest priority to such projects, whereas the Fourth Plan's programs and projects in this regard have not been achieved as planned.

Figure 14.1

Rail Freight & Passenger Traffic 1400 - 1408

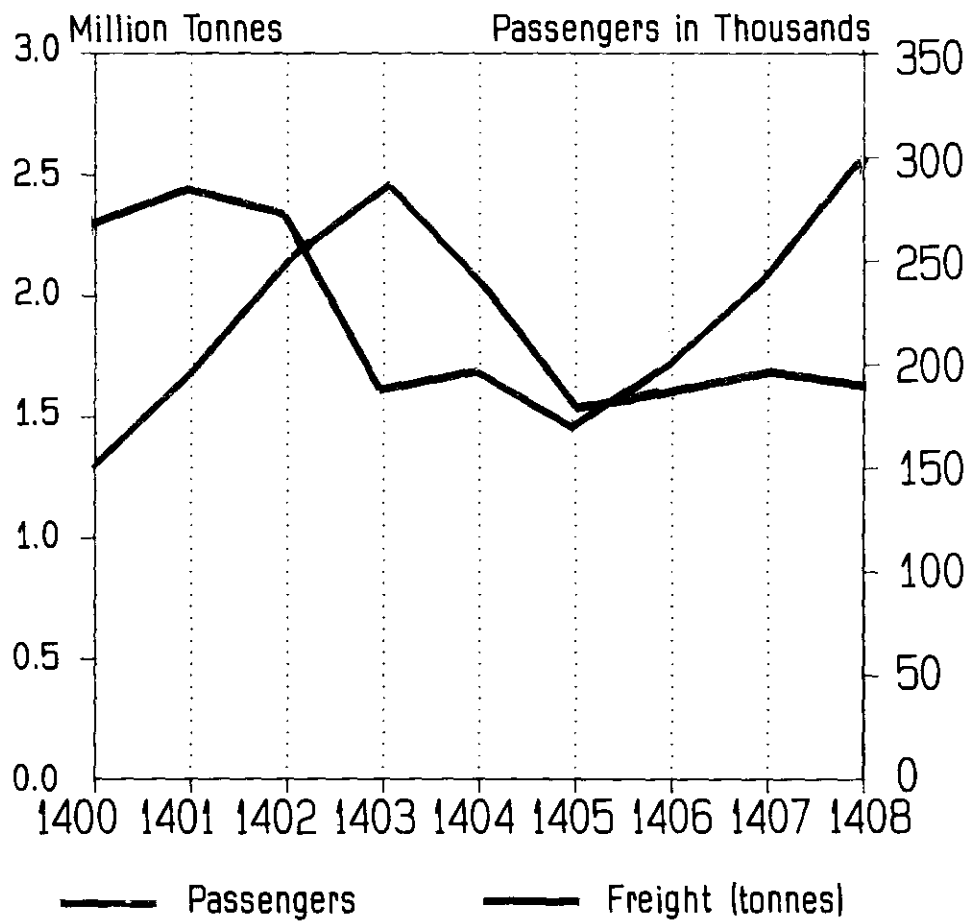


Figure 14.2

International & Domestic Air Travellers 1400 - 1408

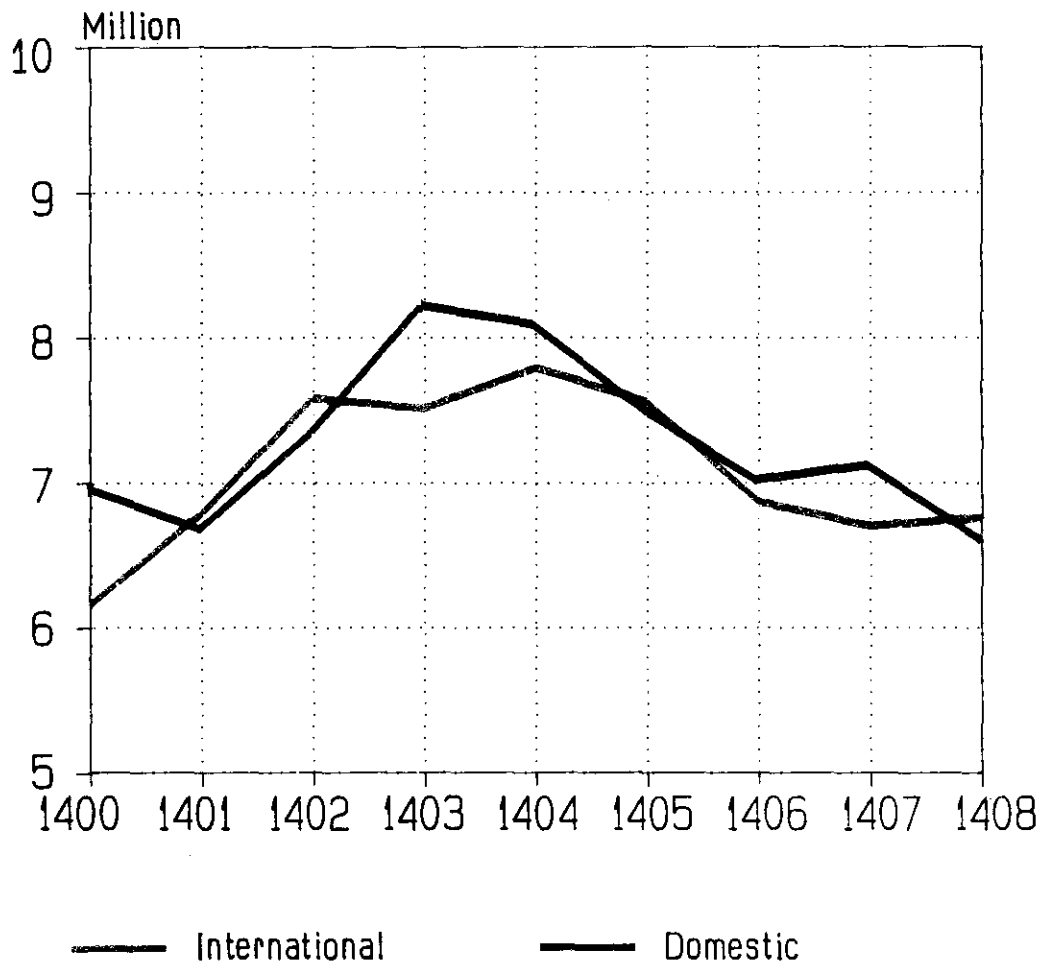
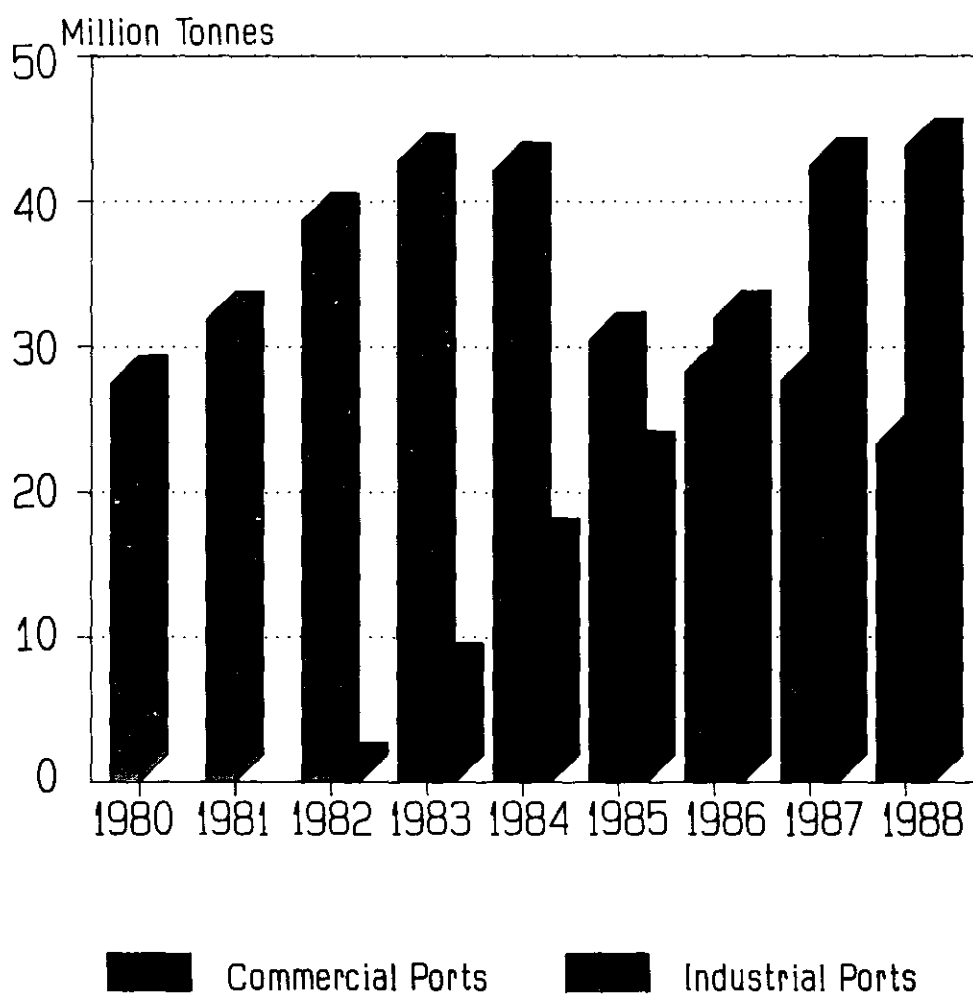


Figure 14.3

Cargo Handled in Commercial and Industrial Ports



Introduction of Economic Principles in Road Network Planning

A comprehensive information base on road usage is an essential tool in planning new road capacities and general maintenance. Traffic data, such as the number of vehicles operating in the Kingdom, the annual distances driven by private cars and trucks, and the routes and frequencies of main passenger and freight movements, are all important demand indicators for determining the feasibility of new projects and programs.

Safety of Road Transport

The enforcement of existing and, if necessary, new operating regulations for mini-buses on inter-city routes is required for the safety of passengers (e.g. maximum working hours for drivers and the operating conditions of vehicles).

Integration of the Rail Network

Freight is the main source of income for the railroads. In order to maximize the advantages of the modernized system by attracting further freight income, the physical integration of the rail system must be completed, by establishing the link to the industrial city of Jubail and the connection to Riyadh refinery. Alternative ways of project funding by the private sector should be studied.

SAUDIA's Operating Efficiency

Specific actions will be required in order to reverse current trends in SAUDIA's operating performance during the Fifth Development Plan. The airline appears to have difficulty adjusting quickly to changes in the domestic demand for air travel, thus leading to lower manpower productivity and growing total losses.

Ports Organization and Operations

The activity profile in the ports has shifted from construction to operation, indicating the need to reconsider the existing institutional structure, e.g. by giving more autonomy to individual ports in the management of their operations. Greater competition between ports could further increase overall efficiency. Another important issue is the need to utilize idle berths and facilities in the commercial ports in the years ahead.

14.1.3 Role of Government and the Private Sector

The second basic strategic principle of the Fifth Plan Strategy emphasizes the importance of improving the economic performance of the transportation services operated by the government, while the third basic strategic principle calls for the adoption of a policy giving the private sector the opportunity to undertake many of the economic tasks of the government. These two principles have particular significance to the relations between the government and the private sector in some parts of the transport sector.

The private sector has always been involved in many transportation services, especially in operations and maintenance, so that there are very few new opportunities for transferring activities from government to the private sector. However, some scope still exists for greater private sector participation through the possible re-organization of responsibilities between private contractors and relevant government institutions.

Within the transport system as a whole, the ports sector provides the most suitable example of where institutional changes can lead to both greater efficiency in the provision of government services and an expansion in private sector activity. This potential exists because operational performance can be linked directly to revenues, in contrast to other parts of the transport system in the government sector. Thus, a major new initiative of the Fifth Plan will be a comprehensive evaluation of the likely benefits arising from:

- limiting centralized responsibilities to issues of national concern, such as safety regulations for the ports and coastal waters, and cooperation with other GCC ports;
- giving the management of individual ports full responsibility for supervising port operations and maintenance, fixing port charges and handling fees, and developing its own operating strategy, thus encouraging competition between ports;
- transferring the responsibility for port operations to private contractors through comprehensive leasing contracts.

In other parts of the transport sector there is a need to review existing contractual relations between government and the private sector, in response to changing demand conditions and the greater availability of experienced contractors.

14.1.4 Policies and Main Programs

During the Third Plan investment in the transport sector was the main concern. In the Fourth Plan, however, emphasis shifted towards operation and maintenance in order to improve the efficiency of individual transport agencies--a strategy which is still valid for the Fifth Plan. However, the growing number of participants in the transport market and the more complex interactions of supply and demand between different transport modes, require a re-orientation of government policy during the Fifth Plan period in order to improve overall economic efficiency. Thus, the focus on coordination and establishing a better balance between government agencies in different parts of the transport sector is one of the important issues which must be addressed during the Fifth Plan period. Resolution of this issue will be achieved through two major policy initiatives: first, the extension of commercial principles to the transport sector; second, improved coordination of investment activity.

1. Extend Commercial Principles in the Transport Sector

This policy aims to create a modern, market-oriented operating environment for the whole transport sector, with particular emphasis on:

- decentralization of management and operating responsibilities, supported by appropriate management skills;
- introducing and supporting competition wherever possible;
- reconsideration of those subsidies and other factors which affect the competitive balance between individual transport modes;
- encouraging further private sector development by initiating the necessary institutional, contractual and legal steps.

2. Coordinated Investment Policy

A coordinated investment strategy aims not only to avoid inefficient parallel investment in competing modes, but also to implement programs that are important from an overall development viewpoint, such as investment in secondary and earth roads for regional and agricultural development. The investment strategy for the transport sector during the Fifth Plan is composed of the following elements:

- completion of the rail system in order to achieve a reasonable rate of return on invested capital;
- replacement of equipment that has reached the end of its economic life and for which economic feasibility has been proven;
- investment needed to achieve important national development goals.

Main Programs

The main programs for the transport sector in the Fifth Plan are as follows:

Ministry of Communications (MOC)

- Road construction program with major emphasis on secondary and rural roads;
- Traffic monitoring program, including traffic statistics and control of weight limits; evaluation, processing and publication of traffic data;

- Research and studies program, including analysis of competitive imbalances in the transport sector and recommendations on how to reduce or abolish them; preparation of a Saudiization program for the shipping industry;
- Evaluation of institutional reorganization of the transport sector to improve operational efficiency.

Saudi Government Railroad Organization (SGRRO)

- Completion of the existing rail network, in particular the link to Jubail and the connection to Riyadh refinery, at an estimated total cost of SR 480 million.

Presidency of Civil Aviation (PCA)

- Completion of the King Fahd International Airport in the Eastern Province at an estimated cost of SR 2.5 billion;
- Development of the organizational structures of PCA and IAP (International Airport Project).

Saudi Arabian Airlines (SAUDIA)

- Fleet replacement program at an estimated cost of SR 2 billion, to be financed out of SAUDIA's own funds.

Saudi Ports Authority (SPA)

- Replacement program for port handling equipment at an expected cost of SR 386 million;
- Evaluation program for increasing private sector participation through lease contracts.

14.1.5 Fifth Plan Targets

Two types of target are defined for the transport sector:

(i) those which relate to additions to the physical infrastructure, and (ii) those concerning the operational efficiency of the individual agencies.

Major Physical Targets:

- The road infrastructure is expected to expand by 430 kms for the main roads, about 5,000 kms for secondary feeder and rural asphalt roads and 30,000 kms for earth-surfaced rural and agricultural roads;
- The rail connection to Riyadh refinery is scheduled for completion in 1415 and the link to Jubail in 1417;
- The King Fahd International Airport in the Eastern Province is scheduled to start operations in 1413;
- SAUDIA will gradually phase out the B737 and the L1011 fleet and replace it by 13 small aircraft and 10 medium size aircraft.

Major Efficiency Targets

- Operational self-sufficiency must be maintained or achieved for each of the main commercial and industrial ports throughout the Fifth Plan;
- SAUDIA will aim to reach operational self-sufficiency by the end of Fifth Plan; manpower productivity, measured in available (produced) ton-kilometers (ATK) per employee, must aim to reach the aviation industry average;
- SGRRO and SAPTCO are expected to further narrow the gap between operating expenditures and revenues.

14.1.6 Manpower Development

The percentage of Saudis in the labor force will increase from 95 percent in 1409/1410 to 99 percent in 1414/1415.

14.1.7 Financial Allocations: Transport Sector

Table 14.1 shows the financial allocations for the transport sector in the Fifth Plan.

TABLE 14.1

**Fifth Plan Financial Allocations: Transport Sector
(SR million)**

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
MOC	1,268	2,424	7,269	10,961
SGRRO	597	219	894	1,710
PCA	1,174	5,372	4,599	11,145
SAUDIA	—	600*	—	600
SPA	1,130	2,400	386	3,916

* Subsidy

14.2 POSTAL SERVICES AND TELECOMMUNICATIONS

14.2.1 Role and Development Objectives

Communication services play an increasingly important role in the overall performance and development of the economy. The Kingdom's post and telecommunication sector's value added was about SR 2 billion in 1989, while approximately 31,000 persons were employed in the communication infrastructure at the end of the Fourth Plan period.

More and more sectors are depending on the collection, storage, processing and distribution of information to raise productivity, to control costs, to manage decentralized units, to reach the customer and to promote new products. For certain services--such as banking, finance, insurance, airlines, travel or tourism--telecommunications have profoundly altered their production structures and now constitute the basic infrastructure for the provision of such services.

Problems in growth, diffusion, variety and quality of communication services can have far-reaching economy-wide repercussions that may become critical in the future. In this regard, the provision of high-quality communication networks and services in response to growing demand has become a necessary condition for the development of other sectors and for raising competitiveness and economic growth rates. In view of this close relationship between com-

munications and overall economic development, and in the context of the Kingdom's development strategy for a strong private sector, the creation of a communication network of the highest quality is a clear priority, with the following long-term objectives:

- To provide a reliable and complete postal service, reaching all areas;
- To provide a telegraph service covering the whole Kingdom and telephone, text and data services capable ultimately of serving any customer within four weeks of request in urban areas, and meeting at least 90 percent of currently unmet demand in rural areas;
- To provide a digital long-distance transmission network, a digital telephone network and new advanced services such as electronic mail, teletex, telemetry/teleaction services, and data transmission services for all standard speeds and interfaces;
- To provide a mobile telephone service and public information services on a countrywide basis;
- To provide a video conference service between major cities within the Kingdom, and between the Kingdom and other countries, in addition to ISDN (Integrated Services Digital Network) services;
- To provide hybrid satellite facilities to carry domestic and international telecommunication traffic and directly broadcast television channels to home users.

14.2.2 Achievements and Key Issues

During the Fourth Development Plan period, the coverage of the postal services increased by more than 12 percent, reaching 5,681 cities, towns and villages in the Kingdom. The newly introduced express mail service has been very successful in terms of revenue generation and acceptance by the public.

The number of villages and settlements covered by the telephone service increased by 14 percent to 350 during the past five years, and the number of installed telephone main lines rose by 34 percent to 1.2 million over the same period. The number of mobile telephone stations increased by 61 percent, and the number of private lines by 88 percent. All telecommunication services have been provided with high quality standards.

A packet-switched public data network was installed and put into operation at the end of the Fourth Plan period. This network is not service specific and will, therefore, accommodate many new text and data services through the use of diverse terminal equipment and computers connected to the network.

Key Issues

Notwithstanding past achievements, however, a number of issues have emerged which acted as a constraint on overall development of the sector in previous years. These issues must be addressed during the Fifth Plan period.

Coverage of Post and Telecommunication Services

The single most important unresolved issue in this sector is the incomplete service coverage. Post and telecommunication services have not yet reached all villages and settlements in the Kingdom. Furthermore, in some areas which already have services there is a large gap between the demand for telecommunication services and their supply. Substantial expansion of main lines supply during the Fifth Plan period is expected to reduce, but not eliminate, this gap (see Figure 14.4).

While this situation may not be critical in the short run -- especially during a phase of rapid network expansion -- it cannot persist over the longer term without adverse consequences for the development of rural areas, private sector industry and services, and the economy as a whole. The first priority, therefore, must be to address this issue and to aim at a major extension of services, especially in the telephone network.

New Technologies In Telecommunications

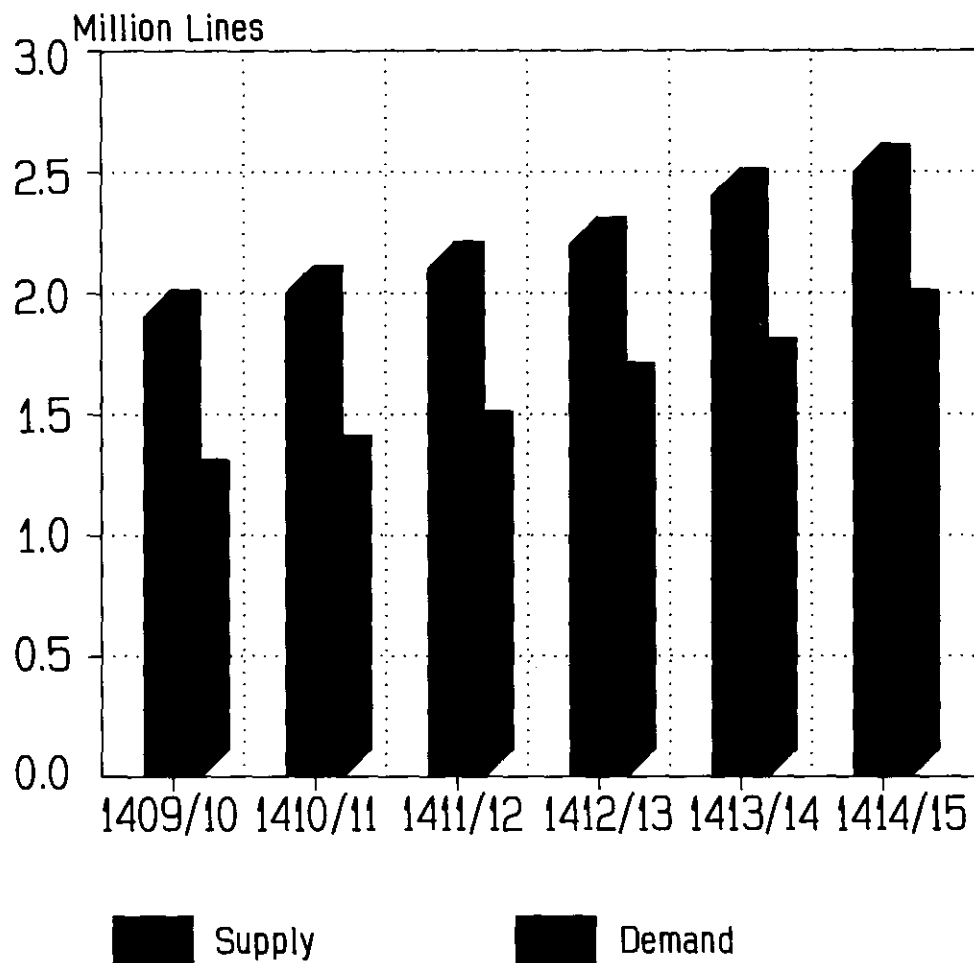
The use of new technology -- such as digital electronics, optical fibres and advanced satellite technologies -- has created a revolution in telecommunications. As a result, telecommunications and data processing -- two originally separate activities -- have grown together with significant economic implications in new markets for intelligent low cost electronic services. The rapid introduction of new technologies in the telecommunication network is now necessary in order to:

- increase the utilization of the network and meet the existing demand for new services;
- provide a digital long-distance transmission network and a digital telephone network;
- maintain the high quality standards and ensure that, as part of the global telecommunication network, the Kingdom's network keeps pace with the rapid development in other countries.

Furthermore, the additional investment in expanded and improved services can generate a sufficient return through increased revenues to pay for itself, as well as provide for the necessary improvement in services, whether funded through government expenditures or private sources.

Figure 14.4

Main Telephone Lines Demand and Supply During the Fifth Plan



Operational Efficiency

The further expansion of the telephone network, the introduction of new services and the expected increase in mail volume, all demand a corresponding increase in operations and maintenance in the future. In this regard, a major improvement in operational efficiency will be necessary. The most important ways of achieving this are:

- The application of commercial management practices in the post and telecommunication sector, so that operations will be guided according to customer needs. Budgetary autonomy should be the final target.
- Reorganizing the institutional structures.
- Developing manpower through upgrading the skills of in-service personnel. This involves the adjustment of all training programs and activities to actual operational needs.
- Introduction of university education in telecommunication sciences.

Postal Services Utilization

The postal service has not yet reached the required quality standard in terms of:

- consistent and short mail delivery times, particularly during peak traffic periods;
- customer information about features, conditions and usage of services;
- easy and comfortable access to services for the dispatch of letters and parcels; and
- reaching the customer.

This reduces the significance and utilization of the service, especially for commercial use. High service quality is, however, the main driving force behind an increase in mail volume and, therefore, also an important prerequisite for improvements in productivity.

14.2.3 Role of the Government and the Private Sector

Institutional Restructuring

In most countries, mail handling is essentially a public sector function that has important legal and institutional implications for the relationship between the citizen and the state, and cannot be performed entirely by the private sector. With the exception of specialized express delivery services, there is little scope for increased participation in the postal service by the private sector.

The telecommunication sector, on the other hand, offers many possibilities for private sector participation and financing. In this regard, reorganizing the institutional structure of the telecommunication sector is a complex task, which, although the subject of controversy, has been undertaken in many developed countries. In the Kingdom's case, intensive investigations will be undertaken in order to define, establish and operate an institutional structure that will allow for greater involvement by the private sector in appropriate areas.

Distinctions must be drawn between different aspects of the telecommunication system, such as terminals, services and networks. In the field of services and terminals some privatization and even competition between private companies is desirable.

For the networks, however, important government responsibilities for national security and the equitable distribution of services, in addition to the economies of large-scale production, all support the continued operation by public organizations.

Financing Investment

An important consideration for the development of telecommunications in the Kingdom is the question of financing future investment needs. Large capital expenditure is needed for the necessary network expansion and for the introduction of new technologies and services in response to growing market demand.

There is no theoretical or practical imperative to rely exclusively on government funds for future investment in the telecommunication sector, if appropriate guidelines can be established for joint public/private investment. Exclusive dependence on the state budget might even lead to a serious shortfall in investment and, equally important, could make the essential tasks of medium- and long-term planning hardly possible. Suitable policies will, therefore, be formulated to attract private capital investment in telecommunications.

The telecommunication sector generates considerable revenues in many countries, including Saudi Arabia, and is one of the public sector activities that can make a net contribution to the state budget. The full financial self-sufficiency of the Kingdom's telecommunication organization, in terms of both capital and current expenditures, is, therefore, both a realistic and desirable goal which must be achieved during the Fifth Plan period.

14.2.4 Sectoral Policies and Main Programs

The following policies will guide the development of the post and telecommunication sector in the Fifth Plan:

- Expand the coverage of services;

- Apply new telecommunication technologies and introduce new telecommunication services by using exclusively digital technology for all additional transmission and switching equipment, and providing the necessary prerequisites for the swift introduction of new services;
- Improve operational efficiency by redirecting both the postal and telecommunication organizations towards a more business-minded approach and promoting the development of human resources;
- Increase the postal services utilization by taking the necessary measures to improve the service quality;
- Reorganize the telecommunication organization through formulating an explicit policy to guide the development of the telecommunication system and take immediate short-term measures towards financing the necessary investments and restructuring the sector.

Main Programs

Expansion of Postal and Telecommunication Services

The postal service will be extended to more villages. In the case of the telephone network, all projects relating to the needs of private businesses and households for basic telecommunication services will have first priority. An estimated amount of SR 7,100 million will be spent for this purpose over the Fifth Development Plan period.

Modernization of the Telecommunication Network

A partial digital long-distance network will be installed -- with links between the main population centers -- to provide the urgently needed transmission paths for the planned digital telephone network and for digital data transmission services.

Facilities will also be provided for the digitalization of parts of the telephone network up to the subscriber's terminal to connect ISDN (Integrated Services Digital Network) subscribers. Approximately SR 1,400 million will be spent on this major program.

Development of Human Resources

Training activities will be improved at all skill levels, including managerial, operational, technical and planning.

Improve Postal Services Utilization

Appropriate measures will be taken to enhance service quality. Marketing and public relations activities will be introduced; access to the different postal services will be expanded; and improved means of reaching the customer will be studied and implemented at an estimated total cost of SR 53 million over the Fifth Plan period.

Telecommunications Reorganization

A major plan for the longer term development of the telecommunication system will be formulated. For this purpose, a study will be conducted to decide upon future telecommunication policies and organizational structures, with particular emphasis on financing investment, privatization and competition.

In the short term, the following intermediate financing measures will be evaluated through coordination with the Ministry of Finance and National Economy:

- Giving the MOPTT autonomy to use -- for specific, urgent investment projects -- those revenues that exceed current management, operation and maintenance expenditures.
- Allowing the MOPTT to raise funds from private sources for specific projects, including network expansion for local needs, possibly on the basis of lease-purchase agreements.
- Encouraging major foreign suppliers of telecommunication equipment, together with private Saudi companies, to reinvest in the Kingdom some of the revenues generated from MOPTT projects.
- Establishing higher installation charges for long-distance telephone subscribers in order to finance a greater portion of the high initial costs incurred in providing access to these services.

Further intermediate measures will be taken towards restructuring the telecommunication sector:

- Private companies will be allowed to expand their activities in the telecommunication terminal market and offer all kinds of terminal equipment. For this purpose, the MOPTT will establish an approval organization in cooperation with SASO to carry out type approval tests and certify equipment to be connected to the network.
- Private companies will also be allowed to provide specific telecommunication services under the regulation of the MOPTT.

14.2.5 Targets During the Fifth Plan Period

- The postal network will be expanded by 25 percent to a further 1,400 villages, and the total mail volume is expected to grow by more than 15 percent during the Fifth Plan period.

- 75 further telegraph stations will be added in remote areas of the Kingdom and the entire telegraph network will be modernized.
- The telephone network will grow by a further 700,000 main lines. This expansion will increase the penetration rate from 36.5 main lines per 100 households in 1410 to 48.3 main lines per 100 households in 1415. The number of public telephones will be increased by 5,000.

This network expansion will reduce operational costs through economies of scale and improved economic performance of the telecommunication organization, and provide the opportunity for raising productivity to a level of around 13 employees per 1,000 main telephone lines. Further network expansion to meet constantly growing demand will be possible, to the extent that ways are found to mobilize financial participation from the private sector.

14.2.6 Manpower Development

The percentage of Saudis in the total labor force will increase from 93 percent in 1409/1410 to 98 percent in 1414/1415.

14.2.7 Financial Allocations: Post and Telecommunication Sector

Table 14.2 shows the financial allocations for the post and telecommunication sector during the Fifth Plan Period.

TABLE 14.2

Fifth Plan Financial Allocations: Postal and Telecommunication Services
(SR million)

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
Telecommunications	2,873	8,609	9,583	21,065
Postal Services	2,801	334	68	3,203
Total	5,674	8,943	9,651	24,268

CHAPTER 15

REGIONAL AND URBAN DEVELOPMENT

15

REGIONAL AND URBAN DEVELOPMENT

This chapter discusses regional and urban development in terms of the main planning issues and policies affecting the Kingdom's spatial environment. The future development strategy for the continuing and expanding provision of urban and rural infrastructure is discussed, in addition to the increasingly important regional and environmental aspects of development.

15.1. REGIONAL DEVELOPMENT

15.1.1 Role and Objectives of Regional Planning

The Council of Ministers' approval of the Fifth Development Plan Strategy (Decree No.38 of 21/03/1409) places special emphasis on the regional aspect of planning, in particular on balanced regional development, the orientation of development to population needs and the full utilization of existing facilities and services, through the selection of growth centers which would eliminate the fragmentation of services and efforts.

The regional dimension of national development is the interface between socio-economic development for the whole Kingdom and physical planning. Regional planning ensures the coordination of sectoral development efforts by reinforcing the spatial linkages and functional interactions between sectors. Although the Kingdom's development efforts in the past have maintained a predominantly sectoral orientation for reasons of centralized fiscal responsibilities and better utilization of technical know-how, the spatial dimension of planning is currently gaining in significance.

In previous Development Plans the regional aspect of planning was considered primarily at the level of the five planning regions, which have fairly homogeneous characteristics in many respects. Sectoral agencies established their own regional directorates and branches to serve the needs of the widely dispersed population. Lack of adequate administrative representation, however, remained a constraint against the achievement of more balanced regional development.

The administrative and professional planning capacities of the 14 Amarahs have, therefore, been strengthened so that they are now capable of defining their own development needs. This will allow the central ministries to concentrate more on tasks of a national nature, such as program coordination, technology transfer, technical and administrative standardization and systematic staff training. One policy that has proved successful in the past, through the example of the Higher Commission for Riyadh Development, is the establishment of an organization in the urban areas, in addition to the existing municipality and under the supervision of

the local Emir, to coordinate various projects and undertake tasks related to planning and development at the local level. Therefore, the scope of the Commission could be extended to the whole administrative region as a pilot policy for regional development that might be applied to other regions also.

The Ministry of Planning will maintain its role as the central government coordinator and advocate of overruling national interests. From the Fifth Plan onwards, the regional component of planning will clearly address the Amaraḥs as the relevant administrative units, although the former planning regions will be maintained for analytical and aggregative aspects of spatial planning. The prerequisites for planning at the Amarah level have also been enhanced by the introduction of advanced data processing technologies and the regular completion of regional and local socioeconomic surveys that assess the resources of a region and how these resources are utilized, and investigate the region's problems and development needs. In addition, the follow-up element of the planning process can determine the region's performance efficiency and its productivity levels, while the strengths and weaknesses thus identified indicate where further development efforts and improvements are needed.

Although the geographic reference for regional planning has changed, the long-term objectives of regional development have remained essentially the same. Regional development planning continues to pursue the appropriate balance within the priorities of developing the economic growth potential of the regions and of simultaneously achieving at least minimum standards of infrastructure and services for all citizens. In the early stages of the Kingdom's planned development, economic growth and diversification were confined to the urban centers because of their population density and the consequent provision of supportive infrastructure and services. For the whole Kingdom, however, service standards were aimed initially at the satisfaction of basic human needs, such as health care and nutrition, primary education, employment and shelter.

15.1.2 Achievements and Key Issues

As development proceeds the Kingdom's population migration has been decreasing to more normal rates. Recently, small and medium-sized towns have witnessed relatively high net gains, through attracting population from surrounding villages and the return of migrants from the large cities. While this trend itself is evidence of the improved availability of public services and employment opportunities in provincial towns, it also verifies the need to further concentrate development on rural areas.

Regional disparities that originated mainly from the uneven distribution of natural resource endowments and the scattered distribution of population, have been redressed to a large extent by the provision of most essential infrastructure and services. The provision of health centers,

schools, feeder roads, electricity and municipal services has not only raised the standard of living outside the cities, but has also laid the foundations for future economic growth and diversification. Opportunities for regional growth have been further expanded through the completion of serviced industrial zones in all regional centers, the establishment of modern transport and telecommunication systems, and the provision of industrial and agricultural loans and other government support measures.

The provision of markets, slaughter houses, cold stores and rural roads has enhanced the socioeconomic conditions of traditional farming and has created the necessary conditions for small-scale agro-industries, while the cultivation of previously unfit areas has been facilitated by advances in technology and by financial support from the government.

It was essential for the efficient utilization of government resources that sectoral contributions to regional development were spatially coordinated and preferably made within the hierarchy of National, Regional and District Development Centers introduced by the MOP and the complementary village cluster system established by MOMRA.

In accordance with the Council of Ministers' approval of a regulation for the development of villages in the Kingdom (resolution no.3 of 1.1.1403), MOMRA founded 14 general committees and 120 local committees under the chairmanship of local Emirs. The task of these committees is to establish priorities for development projects according to local needs and to follow up their implementation. This is a crucial step towards further regional development.

Extensive regional studies have been conducted during previous Development Plans, including socioeconomic studies of the five planning regions by the Ministry of Planning (MOP). In addition, MOMRA prepared more than 30 master plans for the cities and towns, five socioeconomic and physical resource studies for the Amarahs of Baha, Hail, Makkah, Qasim and Tabuk, and a Kingdomwide survey of rural areas. In the Third and Fourth Plan periods the MOP updated socioeconomic studies of the five planning regions and extended them to the level of the 14 Amarahs. Together with the redefinition of planning areas, a systematic framework for data collection was established to coincide with the preparation of the Five-Year Development Plan.

Key Issues in Regional Development

Regional Imbalance

Because each of the development plans prepared during the past two decades has its own character in terms of scale, coverage, and timing of implementation, the benefits of development and improvements in living standards have varied from one region to another. Therefore, priorities should be carefully defined according to the needs of each region.

The three regions containing the large urban agglomerations thus enjoy the highest level of services and, through general multiplier effects, the widest economic diversification. These regions account for almost 92 percent of all licensed factories and establishments, produce more than 85 percent of the Kingdom's electricity, and avail of more than 87 percent of the country's telephone lines. In the agriculture sector, traditionally the domain of the Southwest region, the Central region alone now accounts for almost 63 percent of the country's total crop area.

The Northern region, and particularly the densely populated Amarahs in the Southwest, still have basic needs to be met. At the same time, these regions possess substantial natural and human resources which can be developed towards full self-sufficiency and can contribute to overall growth in the national economy. Additional infrastructure needs in the Southwestern Amarahs arise mainly from over-utilization of existing capacities. By contrast, large portions of the population in the Northern provinces are still without services, even though existing facilities and networks are far from being utilized to their design capacity, mainly as a result of the extremely scattered population in these areas.

The effects of public and private investments in the Development Centers will gradually spread to the surrounding regions. However, these efforts to promote social and economic development in the regions could be reinforced through the establishment of more regional branches by public agencies, through locating some technical and other professional institutions in Development Centers, and through better coordination of sectoral development at the level of each administrative region (14 Amarahs).

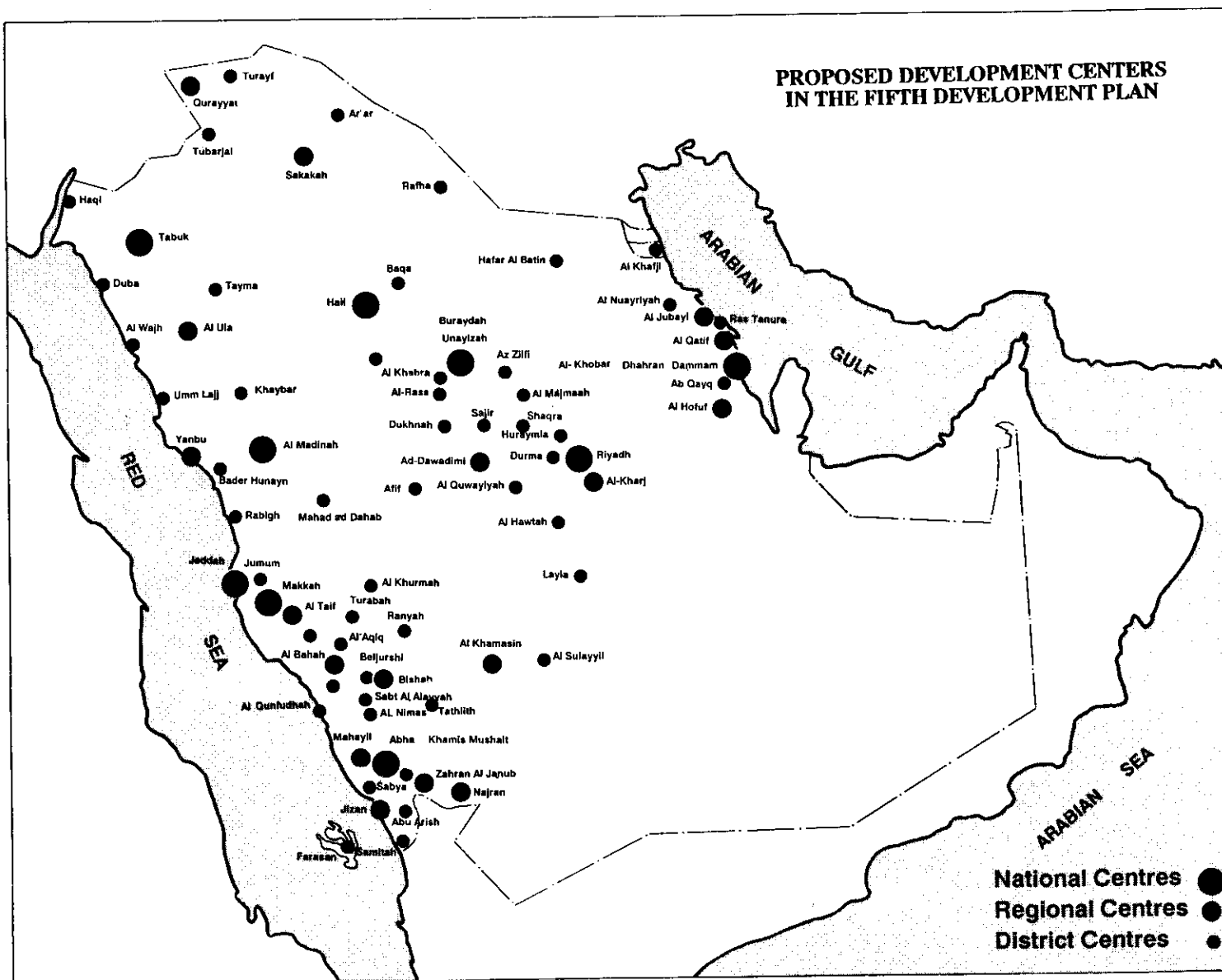
Water

The excessive exploitation of aquifers is seriously jeopardizing the future viability of traditional farming and its dependent settlements. At the same time, development agencies have great difficulty in evaluating the feasibility of their projects, due to the lack of adequate information on water resources at local and regional levels. The preparation of a comprehensive water management plan is now urgently needed for each locality and sub-Amarah, in order to determine water consumption limits from renewable and fossil sources for residential, agricultural and industrial uses.

Administrative Coordination

A comprehensive body of information for regional planning purposes is now available. However, efficient use of these information resources requires common data management systems and data access to be established between the MOP, MOMRA, the Ministry of Finance and National Economy and other concerned ministries. Sectoral information gathered by development agencies must be regularly aggregated according to Amarahs. Furthermore, cooperation between the Amarahs, the development agencies and the MOP must be greatly intensified so that information on present conditions can be kept up to date.

Figure 15.1



15.1.3 Regional Planning Initiatives

Development Centers

With the issuance of the Council of Ministers' approval of the Third Plan Strategy (Decree No.222 of 14.8.1399), the MOP adopted the growth center concept as a means of achieving the following:

- Standardization of criteria and measures to ensure provision of public services to rural areas with high population density;
- The provision of basic services to all citizens in the Kingdom;
- Economies in the spatial distribution of public facilities and services at national, regional and district levels;
- A more even distribution of diverse socioeconomic opportunities throughout the regions of the Kingdom.

The three levels of Development Center are defined as follows:

1. **National Centers** where various economic and administrative functions relevant to the whole Kingdom are available and where highly specialized services are provided;
2. **Regional Centers** where less specialized administrative and service functions are performed for a number of local or District Centers;
3. **District Centers**, where institutions and services that are needed on a daily basis and serve a number of villages and village clusters, are located.

The service areas of these centers are defined according to the capacities of typical public facilities and acceptable travel time limits from most peripheral villages to the centers. MOMRA had already established its village cluster concept (which complements the MOP's Service and Development Center concept) by providing basic municipal and other services to groups of surrounding member villages from a central location, usually smaller than a District Center.

Towards the end of the Fourth Plan an evaluation of physical development confirmed the general viability of the combined 'central place' concepts of the MOP and MOMRA, and their applicability to the administrative regions of the Kingdom. This will lead to a proposed

increase in national, regional and district centers to 9, 17 and 51 respectively, in order to effect more economic delivery of services. At present, there are 44 village clusters (including Al-Jafr, which is administratively integrated with Al-Ahsa) of which nine function simultaneously as District Centers for yet larger service areas.

Over the next twenty years approximately 200 village clusters will have been established, extending essential service coverage to over 90 percent of the population. The nomadic population still without services will be assisted to resettle in or around existing centers, while continuing to attend to their land or livestock in their original locations.

15.1.4 Policies

The following policies will act as a framework for achieving the regional development objectives in the Fifth Plan period:

- Emphasize the regional dimension in development planning thus integrating urban and rural areas into the development process;
- Commit public agencies and the private sector to pursue regional development within the framework of defined Amaraḥs, Service and Development Centers, and existing and planned village clusters;
- Further improve cooperation and coordination between ministries and institutions involved in regional planning, by standardizing regional surveys, by aggregating sectoral data according to Amaraḥs and by working within the time schedules of the Five Year Development Plans;
- Standardize administrative divisions adopted by various government agencies such as the Ministry of Education, Ministry of Health and others;
- Evaluate and reclassify municipal categories to match the growth centers and Emirate centers in each administrative region;
- Define the potential of each administrative region for pursuing opportunities to encourage private sector participation in the development of each Emirate;
- Place more emphasis on efficiency and productivity by follow-up, performance evaluation and definition of strengths and weaknesses;

- Formulate measures related to the preparation, implementation and approval of regional development schemes so as to enhance the efficiency of development agencies, Amaraḥs and municipalities, as well as regional and local committees in all planning stages and processes;
- Establish institutional criteria for development of regional plans and updating of their information, and to preserve regional features and the architectural heritage of the Kingdom;
- Combine the efforts of both Deputy Ministries for town planning and rural affairs to ensure linkages between the programs and plans of both agencies at the level of the administrative regions.

The Ministry of Planning will continue to monitor closely the balanced growth of regions and Amaraḥs by carrying out socioeconomic surveys to develop short- and longer-term regional strategies. The Ministry will further undertake an extensive survey of the current hierarchy of development centers in order to ensure that these centers keep abreast of changing physical and socioeconomic conditions, thereby strengthening the development center concept as a flexible and efficient instrument in the regional development process. Geographic maps will be produced in different scales showing the spatial distribution of the main sectoral achievements in the Kingdom and serving as a tool for detailed planning and follow-up in regional development.

15.2 MUNICIPAL AND RURAL AFFAIRS

15.2.1 Role and Development Objectives of the Municipalities

The municipal sector's importance for national and regional development is manifested through the spatial planning of cities, towns, village clusters and larger villages, the provision of infrastructure and the upkeep of public hygiene and environmental safety. Sectoral contributions to GDP originate from a large number of construction projects, intensive government services and manpower development. Comprehensive local planning and investment in municipal infrastructure often serve as a catalyst for local development by other producing and service sectors. This gives the municipal sector a significance beyond its own immediate responsibilities.

Because of the rapid pace of development in the Kingdom, priority in the past was assigned to the provision of urban infrastructure in and around the major economic growth centers. This trend will take a different direction in the future as the municipal sector's long-term objective is to provide appropriate levels of municipal services to a maximum number of households in all provinces of the Kingdom. However, because of the country's vast area and the high

cost of bringing municipal services to every small settlement in the country, the nomadic population will be assisted to move to more promising communities where sufficient facilities and services already exist.

The main objectives of the municipality sector during the Fifth Plan and beyond are as follows:

- to provide an equitable and economic distribution of basic municipal infrastructure and services to all regions;
- to provide advanced municipal infrastructure to localities with realistic economic development potential;
- to further improve the economic efficiency of municipal infrastructure and services;
- to secure an adequate spatial development of localities through the coordination of activities between all relevant government agencies and local administrations.

15.2.2 Achievements and Key Issues

After a period of very rapid development, when the coordination and planned integration of services were difficult to achieve, the urbanization process at the beginning of the Fourth Plan resumed a more normal pace again. As a result, planned spatial development and the technical coordination of services were considerably improved. The large-scale migration from rural to urban areas, a feature of earlier years, decreased in recent years.

At present, there are five main urban centers in the Kingdom (Amanats). In order to rationalize administration and services in the municipalities, their number was further reduced from 97 to 96 with a total of 2,646 attached villages now receiving some basic community services. The number of village clusters remained at 43, with 2,084 serviced member villages.

Municipal development activities were concentrated on completing the main urban infrastructure projects of water, sewerage and street networks which had been planned during the Third Plan. Cities and towns were also provided with additional abattoirs, markets, and parks. Service coverage and the performance of existing facilities were improved and extended to more people at lower operational costs. In addition, improvements in public sanitation services, street landscaping and, in some districts, the application of zoning and building regulations, further contributed to an improvement in living conditions and raising the quality of life in the cities. Examples of special projects which have been completed or are being constructed

in Riyadh include: the diplomatic quarter, housing projects for Ministry of Foreign Affairs employees, development of the Riyadh Governor's palace area (Qasir Al-Hokm area) and the improvement of the city center. These projects are implemented by the High Commission for Riyadh Development.

In rural areas, the provision of basic facilities and services, and the establishment of village clusters, did not proceed at the same rate, with the result that most projects will have to be carried over into the Fifth Plan. The establishment of regional and local coordination committees and the encouragement of self-help and community participation in development, however, has enhanced the effectiveness of public spending.

In spite of the constraints on municipal expenditures during the Fourth Plan, a relatively high number of projects was implemented, since many had already been in progress by the end of the Third Plan. Increasingly, the focus of municipal projects will be on the need to adjust, relocate or replace installations and infrastructure built at an earlier stage of economic development and planning.

A total of 840 municipal projects was approved during the Fourth Plan until 1409, of which 480 have been finished or are nearing completion. Water, sewerage and street programs continued to absorb the major share of municipal spending.

Key Issues

Within the short span of less than twenty years the Kingdom has become an urban society, with the level and quality of services to a great extent similar to, if not higher than, that in most advanced countries. The scale and speed of development has been immense, as the physical environment was adapted to the needs of modern urban life. It is not surprising, then, that such major changes should be accompanied by the emergence of a number of negative consequences. In this regard, the following issues must be addressed during the Fifth Plan and in the years beyond:

- Inter-regional imbalances as well as urban-rural disparities persist in municipal development, although basic needs in villages have been largely satisfied.
- The boundaries of large cities have expanded out of proportion to demographic and economic requirements and there is a widespread locational mismatch between the urban infrastructure and newly built houses.
- Physical planning still lacks sufficient standardization and institutionalization of preparation, approval and, most importantly, of enforcement procedures; this inhibits the optimal utilization of municipal infrastructure and serviced land.

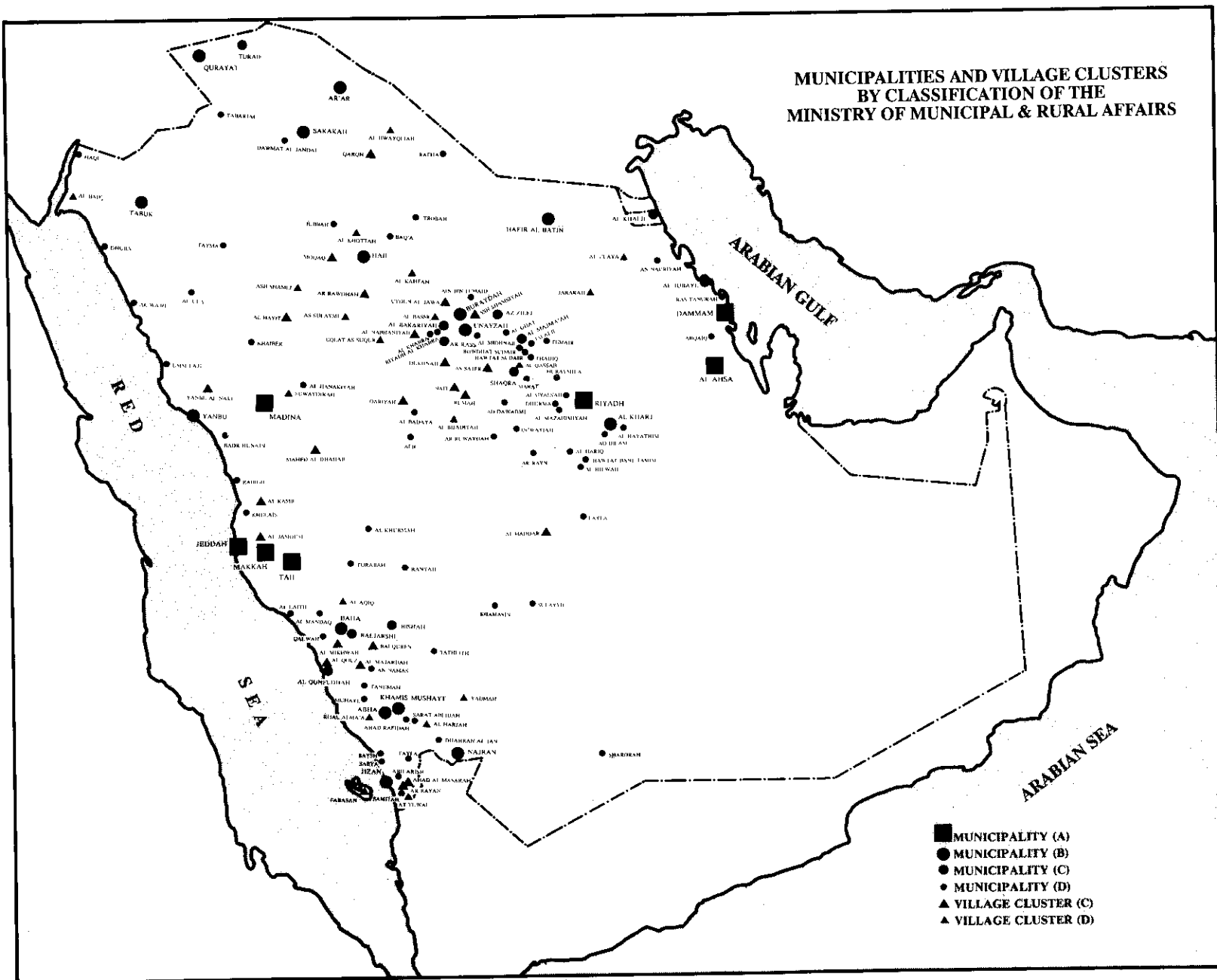
- Lack of coordination of responsibilities between MOMRA and some other government agencies, especially with regard to water and traffic planning and organization, lead to duplication of efforts on the one hand, and insufficient service coverage on the other.
- Greater delegation of administrative, technical and financial responsibilities to medium and small municipalities still controlled by MOMRA are likely to improve inefficient performance and indifferent attitudes at the local level, while permitting the main ministry to concern itself more with matters of national importance.
- Revenues from municipal services remain below production costs due to problems of urban development control, thus preventing the improvement of performance and the cost effectiveness of services and resulting in continuous large subsidy payments.
- Valuable cultural heritage, in the form of old town and village centers, are abandoned and allowed to decay, while new settlement structures, intended to replace them, remain incomplete.
- The stability of buildings and public utilities in low lying areas of cities is affected by rising groundwater tables as a result of some water and sewerage network losses and intensive irrigation.

15.2.3 Role of the Government and the Private Sector

Municipal works and services offer much wider possibilities for participation of the private sector than previously realized, particularly in water supply and distribution systems, refuse collection and disposal, and the operation of slaughter houses, cold stores, markets, recreational and car parking facilities. However, to render such cooperation feasible it will be necessary to provide stronger legal support and to review present user charges so as to cover at least the operating and maintenance expenditures of facilities. The government would still have to finance the initial investments and subsidize those service charges which are untenable for some groups of the population. The government will also have to retain a strict quality control over the performance of privately delivered services.

After a dramatic decline in the construction sector during the Fourth Plan, some firms will find new opportunities in meeting the growing demand for operation and maintenance of completed physical infrastructure.

Figure 15.2



15.2.4 Policies and Main Programs

The main supporting policies to achieve the development objectives of the Fifth Plan will be:

- to reduce the urban-rural disparities by founding new village clusters and further developing existing ones as a means to bring municipal and other public services closer to the rural population at reasonable costs;
- to concentrate municipal development within the designated Service and Development Centers so as to avoid duplication of efforts and to make use of economic linkages and the catalyst effects of investment;
- to consolidate the Kingdom's settlement structure so as to bring the scattered rural and nomadic population closer to those villages with existing public facilities and services;
- to prepare for the institutionalization of urban planning and its enforcement in coordination with other concerned agencies;
- to improve the operational efficiency of municipal services and increase revenues, with further involvement by the private sector where appropriate.

Main Programs

In line with the foregoing sectoral objectives and policies the following priority programs will be undertaken or continued during the Fifth Plan:

Planning

This program aims at expanding the scope of spatial planning to include all administrative regions and updating the general layout and plans of cities in response to changed conditions, in order to achieve a more efficient utilization of physical infrastructure. Forty village clusters and seven model villages will be newly established.

Water Supply

More reservoirs, water towers and networks will be constructed, especially where new water resources have been made available. Existing installations will be modernized to improve the quantity and quality of water supply at all times.

Sewerage and Drainage

Conventional sewage and storm water collection will be expanded in densely populated urban areas. Other forms of sewage disposal will be applied in sparsely populated areas. Treated

effluents will be increasingly used for irrigation purposes. For endangered settlements flood protection programs will be improved. Comprehensive measures will be undertaken to control rising artificial groundwater tables in cities.

Parks

The number of parks and playgrounds will be increased, particularly in the large cities in order to provide convenient access to short-term recreation.

Markets and Public Facilities

Public utilities, especially markets and slaughter houses, will be set up in rural centers, while the private sector will be encouraged to build more cold stores. These facilities are likely to promote agriculture-based economic growth in certain areas.

Municipal Streets

Street networks will be expanded and furnished with lighting, side walks and roadside greenery. At critical junctions traffic flow will be eased through flyovers and underpasses, street corrections and other improvements. Traffic guidance and organization and off-road parking will further enhance the capacity utilization of existing urban street networks. Feeder roads will make public facilities in rural centers accessible to a larger number of peripheral villages.

Municipal Buildings

More municipal main and branch office buildings and technical depots will be built to enhance the quality and coverage of municipal services. These measures represent a step towards decentralization.

Environmental Improvement

More environmentally safe garbage disposal areas will be established and swamp filling will be carried out to protect water aquifers, air and soil from contamination.

Other Programs

Operation and maintenance for a growing number of municipal installations will be provided. Land will be expropriated or purchased only where urgently needed for additional public facilities or street alignments. Kingdomwide physical planning regulations will be developed and submitted for government approval. Systematic staff training will be undertaken so that smaller municipalities can become responsible for their own technical and administrative affairs.

15.2.5 Fifth Plan Targets

Given its financial allocation, the program and geographic priorities and the absorptive capacities of the sector, the main targets for municipal and rural development during the Fifth Plan are shown in Table 15.1.

TABLE 15.1

Main Development Targets for Municipal and Rural Affairs in the Fifth Plan

Sub-Program	Unit of Measurement	Targets
Water Networks	Kilometers	5,524
Water House Connections	number	20,800
Water Tower Capacity	cubic meters	78,798
Sewerage Networks	kilometers	3,721
Sewerage House Connections	number	235,000
Sewage Treatment	cubic meters p.d.	1,532,071
Pumping Station Capacity	cubic meters p.d.	90,000
Municipal Streets:		
Temporary Asphaltting	'000 m2	29,400
Permanent Asphaltting	'000 m2	39,300
Foundation of new:		
Village Clusters	number	40
Model Villages	number	7

With regard to the development of manpower, emphasis will be put on replacing non-Saudis, and the percentage of Saudis will increase from 58 percent in 1409/1410 to 67 percent in 1414/1415.

15.2.6 Financial Allocation: Municipal and Rural Affairs

The total planned public expenditure for municipal programs during the Fifth Plan is summarized in Table 15.2 .

TABLE 15.2

**Fifth Plan Financial Allocation: Municipal and Rural Affairs
(SR mil lion)**

Agency	Salaries and Supplies	Operations and Maintenance	Projects	Total
MOMRA	11,680.0	8,200.0	19,006.0	38,886.0

15.3 HOUSING

15.3.1 Role and Development Objectives

Adequate housing is a basic need of every citizen and a major determinant of living standards. It contributes directly to individuals' well-being and indirectly to health and productivity which are vital for national economic growth. The provision of housing, therefore, has been a consistent feature of the government's long term development strategy.

Investment in housing is expected to be the single largest category of investment during the Fifth Plan period, amounting to over 10 percent of total investment. Housing construction has a significant multiplier effect on the growth of a wide range of economic activity, not only in real estate and construction, but also in consumer durables, building materials and furniture, thus stimulating the market for national goods and services.

15.3.2 Achievements and Key Issues

During the first three development plans, considerable progress was made in increasing the number of modern houses and in improving the overall quality of the housing stock. Lack of housing ceased to be a major development constraint by the second year of the Third Plan. However, the high growth of housing supply continued until the Fourth Plan, when the growth in housing construction fell sharply against both past performance and plan targets.

The total number of housing units by the end of Fourth Plan is estimated at 871,700 units, of which 172,607 were built during the Fourth Plan period as shown in Table 15.3.

Key Issues

In recent years a number of factors have influenced developments in the housing market, including: the stabilization in the number of foreign workers; a slowdown in the rate of

migration from rural to urban areas; and rationalization of REDF loans. As a result, the housing sector at the start of the Fifth Plan shows the following features:

- excess overall housing supply, with a large number of vacant housing units, both public and private, particularly in urban areas;
- a significant decrease in real estate and rental values;
- the stabilization of construction costs.

TABLE 15.3

Housing Completions and Total Stock in the Fourth Plan

	Fourth Plan		Total Units at end of Fourth Plan
	Target	Actual	
Public Housing			
- Deputy Ministry of Housing	7,800	2,207	20,026
- Government Agencies for Employees	67,200	46,400	221,600
Private Housing			
- Financed by REDF Loans	150,000	87,000	475,700
Privately Financed (estimated)	60,000	37,000	154,374
Total	285,000	172,607	871,700

In spite of the surplus of modern housing, there is much sub-standard and deteriorating housing stock occupied by non-Saudis and in need of rehabilitation, both in urban and rural areas. The recent government decision to put into use the uninhabited public housing stock of the Deputy Ministry of Housing will lead to savings on further government expenditure.

In the past, the main emphasis was on providing soft loans for the construction of new houses in response to rapidly increasing demand. An important initiative of the Fourth Plan

was to make the purchase of an existing house equally attractive to individual Saudis. Similarly, REDF lending policy during the Fifth Plan period should consider the extension of loans for the restoration of existing houses.

With regard to building quality, the need to develop a national building code and to concentrate on proper construction supervision has become more urgent. However, this should not result in an undue increase in construction costs.

There is a need to establish reliable housing data on the basis of a comprehensive statistical survey, in order to provide the private and public sectors with detailed information about the overall housing market.

15.3.3 Role of the Government and the Private Sector

The past development of housing was characterized mainly by public construction activities and large government soft loans to citizens for housing construction. During the Fourth Development Plan, the direct supply of new public housing, as well as public agencies' own housing construction, was considerably reduced.

The housing sector has now reached a more stable stage of development, so that the government can concentrate its future activities on defining necessary framework and regulatory conditions for an efficiently functioning free market. Thus, future housing development will depend increasingly on private sector activities and resources.

15.3.4 Housing Policies and Main Programs

The main housing sector policies in the Fifth Plan include:

- review the organization of responsibilities for housing affairs in the public sector;
- limit public agencies' housing construction activities to indispensable needs;
- develop a viable approach to improving the housing conditions of low-income citizens;
- review REDF lending policies and extend their scope to include the purchase of existing apartments, and modernization and rehabilitation activities, without increasing public expenditure;
- mobilize private capital into financing housing construction, purchase and renovation, through such channels as building and loan associations, in conjunction with the REDF;

- identify areas with sub-standard housing in need of rehabilitation;
- unify and enforce construction standards and building codes.

Main Programs

Apart from government agencies' own housing programs and the REDF loan programs, the housing sector's Fifth Plan programs are organized mainly through the Deputy Ministry of Housing (DMH) and include:

- Complete the direct housing projects currently under way in Makkah, Madinah, Al-Qatif and Al-Ahsa and continue the operation and maintenance of existing units in Jeddah, Dammam, Riyadh, Madinah, Buraydah and Al-Ahsa until they are distributed and occupied.
- Establish an information center for the construction and housing sector; complete and regularly update the Kingdomwide housing survey and statistical database.
- Evaluate the potential benefits and the necessary conditions of allowing real estate ownership by non-Saudi nationals in coordination with GCC countries.

15.3.5 Growth during the Fifth Plan Period

The housing sector is characterized by a general over-supply of housing. However, the combination of population growth, higher rates of household formation, and expected income growth will lead to a steady increase in housing demand during the Fifth Plan.

The incremental demand estimate of about 400,000 households will be met from various sources, as shown in Table 15.4.

TABLE 15.4

Fifth Plan Housing Targets

	Available Units at the End of 4DP	Targets for 5DP	Available Units During 5DP
Public Housing			
Deputy Ministry of Housing	20,026	5,676	25,702
Private Housing			
Financed by REDF Loans	—	78,792	78,792
Privately Financed	—	36,741	36,741
From Existing Stock	258,765	—	258,765
Total	278,791	121,209	400,000

In addition to these housing units, there is further latent demand from occupants of sub-standard housing. However, this demand can be met by private investment and through the use of existing vacant units. The expected growth in housing supply will be financed mainly by private investment, supported by 65,660 planned REDF loans amounting to SR 18.4 billion.

Regarding the development of manpower and greater emphasis on the replacement of non-Saudis, the percentage of Saudis employed by the Deputy Ministry of Housing (DMH) will increase from 83.1 percent in 1409/1410 to 89.6 percent in 1414/1415.

15.3.6 Financial Allocation: Housing

The financial allocation for government agencies in the housing sector during the Fifth Plan is shown in Table 15.5.

TABLE 15.5

Fifth Plan Financial Allocations: Housing*
(SR million)

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
Public Housing (DMH)	138	155	2,721	3,014
Real Estate Development Fund**	438	0	0	438
Total	576	155	2,721	3,452

* Excludes agencies' own housing

** REDF will extend a total of SR 18.4 billion as loans to be financed through repayment receipts.

15.4 Development and the Environment

15.4.1 Role and Objectives of Environmental Protection

Interest in environmental protection has increased substantially during the past decade and has recently gained great momentum and strong global significance. Issues of conservation, protection, management and development of environmental resources have moved to the forefront of both state and international politics and cooperation. Because of its effects on the quality of life and the general well-being of its people, the Kingdom of Saudi Arabia accords considerable attention to environmental protection and conservation.

Development and environmental protection should not be perceived as separate or conflicting challenges; both are inexorably linked. Development cannot flourish upon a deteriorating environmental resource base; neither can the environment be protected when development ignores the costs of environmental destruction. If economic growth were to take place at the expense of ever deteriorating environmental resources and conditions, the quality of life and the well-being of people -- the ultimate goal of all development -- would be seriously affected. Environmental neglect destroys assets that are vital to life itself.

The Kingdom's rapid economic expansion and unprecedented rate of development and urbanization during the past two decades carried with it certain harmful effects on the country's natural and environmental resources, such as: pollution and health hazards arising from the inadequate handling and treatment of industrial, agricultural and urban waste and sewage; air pollution in large cities and industrial areas; marine pollution, especially in the vicinity of harbors, industrial complexes and desalination plants; the dangerous rise of the groundwater table under big cities; waterlogging and soil sanitization; open sea marine pollution which affects local marine environs; danger to wildlife and a reduction in genetic diversity; and last but not least, the decrease in ground water reserves and a deterioration in its quality.

The government's concern for these adverse side effects of economic development was expressed in the establishment of the Meteorology and Environmental Protection Administration (MEPA) and the Environmental Protection Coordination Commission (EPCC) in 1399, and the establishment of the National Commission for Wildlife Conservation and Development (NCWCD) in 1406. The establishment of these agencies as mainly coordinating, catalytic, regulatory, and monitoring institutions, reflected the special intersectoral nature of environmental issues, in that they cannot be limited to or isolated in any single sector of the economy.

Environmental policies and programs, by their nature, affect most sectors of the economy and society.

Sustainable development should meet the present needs of society without compromising the ability of future generations to meet their needs. The following long-term development goals are based on the notion of interdependence between development and the environment:

- i) To upgrade and enhance the quality of life and the well-being of citizens, and to ensure a pollution-free environment with fresh air, clean water and healthy food;
- ii) To achieve sustainable development on the basis of prudent management of available natural resources and environmental capacities, and the rehabilitation of the environment previously subject to degradation and misuse.

In recognition of the multisectoral nature of environmental work, all government agencies will be guided by the following objectives during the Fifth Development Plan:

- to protect the environment and preserve its natural characteristics and ecosystems, and to conserve natural resources;
- to protect and develop the different wildlife forms in the Kingdom, whilst maintaining ecological equilibrium and preserving diversity in animal and plant genetic resources;

- to achieve a sustainable balance over time between population distribution and environmental capacities, with due regard to the effects of population growth and consumption patterns on the natural resource base;
- to provide sufficient energy at reasonable cost in ways that minimize the risk of environmental degradation, that conserve non-renewable energy resources, and that realize the full potential of renewable and clean energy sources, such as the sun and wind;
- to achieve the highest feasible degree of industrial expansion through the use of the most recent available technology which strictly adheres to environmental protection standards at all stages of design, construction and operation;
- to attain the highest feasible degree of food security without resource depletion or environmental degradation, and to restore the resource base (water and land) where environmental damage has been occurring.

15.4.2 Achievements and Key Issues

During the Fourth Plan period MEPA provided important meteorological services to marine and air navigation activities, oil drilling platforms, agriculture, and the general public. MEPA also achieved some success in the implementation of its environmental protection program and services, particularly with respect to: environmental studies on the use of lead free fuel and the control of dust in cement factories and quarries; the preparation of a draft environmental code for the Kingdom; controlling marine pollution by oil in emergency cases; monitoring air quality in selected areas of the Kingdom; starting the development of an environmental information system; active cooperation with regional and international environmental organizations and agencies.

In the relatively short time since it was set up in 1406, the National Commission for Wildlife Conservation and Development (NCWCD) has achieved some notable success, particularly through the establishment of several wildlife reserves and two wildlife research centers in the Thumama and Al-Taif. The achievements of NCWCD have been most conspicuous in the campaign to create a strong public awareness about the conservation and protection of wildlife in the Kingdom.

The achievements of other government agencies involved in environmental and natural resources issues include works carried out by the Ministry of Agriculture and Water in the areas of natural resources surveys and evaluation (land, water, climate), establishment of a pasture land management and maintenance system, the formulation of policies to develop virgin land, and the establishment of national parks. The Royal Commission for Jubail and Yanbu achieved

high standards in environmental protection and pollution control in the two largest industrial cities, which were internationally recognized by the 'Sasakawa' international award granted to the Commission for its environmental protection efforts. The High Commission for the Development of Riyadh carried out a series of in-depth studies and investigations on the rise of the ground water table in the city and the associated problems. The High Commission has already started to implement some of the solutions recommended by these studies, in addition to the environmental maintenance activity at Wadi Hanifa, and the completion of basic environmental surveys for Al-Thumama wildlife park area. King Abdul Aziz University has successfully developed alternative solutions for the treatment of the rising ground water table in some residential quarters in Jeddah.

Key Issues

Several important environmental issues and constraints need attention during the Fifth Plan period:

Environmental Standards : There is a need for a clear set of environmental standards, regulations, specifications, and guidelines that must be observed in industrial, agricultural, commercial, and urban activities affecting the environment. In this regard, the review, consolidation and appropriate amendment of all existing rules and regulations concerning licensing, monitoring, inspection, implementation and enforcement will be carried out to protect the environment.

Environmental Impact Assessments should become an integral part of feasibility studies for new projects and programs. Up till now there has been no general system for the inclusion of environmental impact assessments and social cost-benefit analyses in program and project decision making.

Environmental Awareness : Public awareness of the environmental implications in all aspects of every day activity is not adequately developed. This requires the cooperation of various public and government agencies through education and the more widespread dissemination of information about the effects of public behavior on the environment. The citizens' role and cooperation in conserving and preserving the environment is essential and has no substitute.

Enforcement of Environmental Regulations : Enforcement of existing environmental regulations is inadequate, because there is no clear definition of mandates, responsibilities and authority to enforce these regulations. This is all the more serious in the absence of a sense of awareness and voluntary cooperation on the part of the general public. Violators of environmental codes should be made fully aware of the penalties for violation, which should help in their enforcement.

Environmental Monitoring : There is a need to develop and implement an effective system of monitoring pollution parameters and environmental degradation.

Coordination of Environmental Activities : The activities of many government ministries have direct or indirect effects on the quality of the environment, including the Ministries of Agriculture and Water, Defense and Aviation, Municipal and Rural Affairs, Petroleum and Mineral Resources, Industry and Electricity, Interior, Health, Communications, Commerce and Planning; other public sector agencies include the Ports Authority, the Standards Organization, the High Commission for the Development of Riyadh and King Abdul Aziz City for Science and Technology (KACST). There is a lack of coordination between MEPA and these other decision-making bodies involved in the planning and implementation of environmental work. Positive steps should, therefore, be taken to remove these obstacles and to enhance cooperation among relevant agencies.

These issues and constraints are not unique to the Saudi Arabian situation; their roots lie in the inter-sectoral and long term nature of environmental work, both in the Kingdom and in other countries as well.

15.4.3 Role of the Private Sector in Environmental Protection

The private sector can play an important role in protecting the environment in three ways:

- First** : Private sector establishments can help protect the environment by adhering to environmental regulations already in effect.
- Second** : The private sector can have an important role in developing an ‘environmental industry’:
- by adopting the new conservation technologies that are now emerging, and possibly developing them in Saudi Arabia in the long run;
 - by participating in and leading the development of environmental recreation facilities and nature parks in view of the Kingdom’s natural endowments of major environmental resources, such as its vast coastal and sea shore areas, mountains and desert;
 - Nature parks, recreation areas and resorts are presently being developed in many countries by the private sector. Such activities establish important linkages with other sectors of the economy and the labor force, in travel, services, tourism and education.

Third : There are many potential commercial benefits from sponsoring environmental conservation projects. Throughout the world, corporations are learning that their images are enhanced through their support of environmental efforts, and damaged by a lack of responsibility towards the environment. In this regard, the establishment of effective channels for private support of environmental efforts (such as foundations) would be an important private sector initiative.

15.4.4 Policies and Main Programs

The environmental impact of actions in one sector are often felt in other sectors, so that harmonious environmental policies must be adopted for all sectors of the economy, and coordinated amongst many government agencies. In this regard, MEPA -- as the principal environmental protection agency -- will have an important role in coordinating and implementing the following policies in the Fifth Development Plan:

- developing and enforcing a comprehensive set of environmental regulations relating to: air, water and land pollution; disposal of solid, liquid and gaseous waste; use and disposal of all chemical, pesticide and radioactive materials; control of pollution to food and drinking water;
- establishing and implementing a system of environmental impact assessments in all projects undertaken by government agencies, so that factors influencing project feasibility and licensing decisions will include environmental considerations, rather than its construction, economic or urban significance alone;
- enhancing the technical capabilities to monitor and analyze information necessary to anticipate environmental damage and take preventive measures;
- maintain and update a permanent inventory of the Kingdom's natural and environmental resources, key eco-systems and wildlife;
- reducing the adverse environmental impacts of transportation, especially in highly populated areas, through the enforcement of emission standards for vehicles, the encouragement of fuel efficiency and the use of lead-free fuel, and improved traffic management and urban planning programs;
- adopting national plans for the use of agricultural land, pastures, forests and water resources, with due regard to the conservation of these resources for use by future generations and the prevention of their degradation;

- adopting appropriate measures to carry out the required liaison among the different agencies involved with environmental issues and protection, and to enhance MEPA's role and mandate in this regard;
- cooperating closely with other environment-related organizations, both within the GCC countries and internationally.

Main Programs

Environment-related policies will be implemented through the programs of a wide range of government agencies. The main programs of MEPA and NCWCD, through which these policies will be implemented, are the following:

- review and amend a complete set of standards, regulations and specifications dealing with environment and pollution abatement, that must be adhered to in all sectors of society;
- monitoring environmental indicators, including levels of pollution;
- complete the development of nationwide environmental information and database;
- intensify educational and awareness campaigns with regard to environmental protection and wildlife conservation;
- improve and expand the weather information system and services;
- complete the establishment of a network of wildlife reserves, and the development of two major wildlife research centers.

15.4.5 Future Outlook

The effective realization of the strategic long-term environmental objectives requires an understanding of the wider aims of development so that 'quality of life' (with its cultural, spiritual, environmental and recreational dimensions) rather than the mere pursuit of material possessions, should become the principal criterion of success and achievement. Patterns of production and consumption in society should be reoriented towards the conservation and reuse of resources, and away from waste and extravagance. While this is a long term process of re-orienting some lifestyles, it is one that is actively encouraged by the tenets of Islam and its Shariah. Social policies must aim to ensure that the entire Saudi population has more opportunity to participate in the fields of culture, education, sports and recreation, the arts and humanities -- those non-physical areas of development which represent the highest levels of human achievement.

As part of the international community of nations the Kingdom is witnessing the emergence of a new worldwide cultural, economic and political awareness of nature, the environment and the pressing need for its protection. This movement is growing stronger each day and is bound to appreciably affect people's thinking and ways of life. It is, furthermore, compatible with the Kingdom's cultural heritage and the thrust of its development plans, through which the government has assumed an early leading role in accommodating the principles of this environmental awareness. The government will continue to play such a role in the public interest in the future.

15.4.6 Fifth Plan Financial Allocation: Environmental Protection

The financial allocation for the environmental sector during the Fifth Plan is shown in Table 15.6.

TABLE 15.6*

**Fifth Plan Financial Allocation: Meteorology and Environmental Protection Administration
(SR million)**

Agency	Salaries and Supplies	Operation and Maintenance	Projects	Total
Meteorology and Environmental Protection Administration	422	355	197	974

* Table does not include environmental projects carried out by NCWCD and other government agencies.

CHAPTER 16

PLAN MANAGEMENT AND IMPLEMENTATION

16. PLAN MANAGEMENT AND IMPLEMENTATION

This chapter describes the process of planning in the Kingdom, the planning focus of the Fifth Plan, and outlines the basic approach and the main tasks involved in managing the implementation of the Plan.

16.1 THE PLANNING SYSTEM

The distinctive feature of the Saudi planning system is its philosophy of achieving economic and social development within the framework of a free market economy based on Islamic values and concepts.

The planning system serves four basic functions:

- To provide a long term conceptual vision to guide development;
- To provide an organizational framework for coordinating the development efforts of the private sector and the government to guide and initiate structural change;
- To direct government resources towards achieving the long term development objectives for the economy and towards ensuring the availability of essential public services;
- To strengthen the on-going management of the economy through periodic reviews and by preparing for emerging conditions which could seriously affect the development process.

The key elements of the planning system include:

- The national development strategy, which outlines the long-term objectives and strategic principles for development.
- The Five-Year Development Plans, which are prepared in accordance with the national development strategy, and are composed of:
 - the **Plan Document**, which outlines the objectives, policies and development targets at national and sector levels for the Plan period;

- the detailed **Operation Plans** for each public sector agency, which set out the objectives and policies, demand analysis and issues, development programs and targets, resource allocation, and implementation schedule for the agency;
- **Emirate Reports**, which describe the existing socio-economic conditions and identify future development needs.
- For the private sector, the Plan outlines the regulatory and economic framework for its operations, and provides information on the likely course of economic development, and government policies that will affect potential business opportunities.
- The management of Plan implementation, which includes the preparation of annual follow-up reports for the Council of Ministers, and the continuous process of monitoring, evaluating and assessing the Plan's performance in light of the emerging circumstances, all of which are vital elements for the effective management of national development.

While all government agencies are involved in the planning process, the key role is assigned to the Ministry of Planning, which is responsible for preparing, coordinating, and evaluating the implementation of the Development Plans. The individual government agencies are responsible for preparing and submitting to the Ministry of Planning their five-year Operation Plans and for ensuring the implementation of their Plans according to the planned schedule.

16.2 PLANNING FOCUS IN THE FIFTH PLAN

The Fifth Development Plan marks the beginning of a new phase of development that follows the achievements of the past:

- the process of economic diversification and of restructuring have been initiated and are well under way;
- the physical infrastructure has been largely completed;
- high living standards and a healthy quality of life have been largely secured;
- most of the institutional framework for development is in place;
- the foundations have been laid for a strong private sector, which is now ready to absorb more of the tasks previously handled by government agencies.

In response to these circumstances, the focus of planning has shifted towards placing a higher priority on the role of the private sector; on the policy and institutional innovations essential to economic diversification; on maintaining flexibility in government expenditures within the boundaries of approved program structures; and on improving efficiency in the utilization of available resources. In this new planning stage, the pattern of growth will be less influenced by the size and distribution of government expenditures; rather, it is the extent and direction of private sector investment that will increasingly influence the shape of the economy.

16.2.1 Strengthening the Private Sector's Role in the Economy

The willingness of the private sector to assume a leading role in economic development will significantly influence the achievement of the Fifth Plan's objectives. Therefore, the government has committed itself to creating a positive environment to facilitate the development of a stronger and more diversified private sector, by establishing a wide range of policies, incentives and new institutional mechanisms in support of the private sector. Ensuring the timely implementation of these economic, regulatory and institutional measures is an important goal of the Fifth Plan.

16.2.2 Program-Based Approach and Indicative Planning

Program-based planning was emphasized in the Fourth Plan to provide a functional framework for defining the expenditure structure of development agency activities and services into homogeneous groupings. This approach required agencies to adhere to the financial allocations by program, while simultaneously increasing their flexibility in the management of spending within individual programs. It shifted the focus of planning from projects to programs, from the detailed implementation of individual projects to responsibility for managing expenditure priorities and structure, within a sectoral rather than an agency context.

The continuation of this program-based approach is an important element of the Fifth Plan's planning methodology. The program structure and expenditure allocations of individual agencies represent an important benchmark for monitoring the implementation of the Fifth Plan.

For the private sector, the Fifth Plan has introduced a new emphasis on indicative planning that involves:

- clarification by the government of the main directions of development within each sector;

- identification of the volume and structural composition of the total investment needed to achieve the development objectives and the private sector's share of this investment;
- the creation of a positive environment for investment through stable government expenditure focusing on key sectors of the economy, institutional changes to facilitate the expansion of medium and long-term capital financing, and trade policies that will support the expansion of exports;
- the identification of opportunities and the stimulation of investment that will both generate good returns for the private sector and contribute directly to the achievement of the Fifth Plan's growth and diversification objectives.

16.2.3 Flexibility in Planning and Implementation

The implementation of past plans, particularly the Fourth Plan, has been affected by events in the international arena. Although such problems are likely to be encountered in the future also, and specific policies have been built into the Fifth Plan to dampen the effects of international economic fluctuations, the degree of change in these external factors cannot be predicted and the resultant uncertainty cannot be fully eliminated, thus emphasizing the continuing need for planning. The Fifth Plan, therefore, incorporates contingency planning through a comprehensive Mid-Term Review by the Ministry of Planning, as part of its Plan management and implementation monitoring activities.

16.3 MANAGEMENT OF PLAN IMPLEMENTATION

Managing the implementation of the Plan is an integral part of the planning system, without which the Plan's objectives cannot be effectively achieved. An increasingly important part of this task is the coordination between the Plan and the budgeting process. Furthermore, compared with earlier plans, the Fifth Plan places added emphasis on policy innovations, institutional development and flexibility in the allocation of resources, thus necessitating a more comprehensive and dynamic approach to managing its implementation.

While the Plan's implementation is the task of all government agencies and of the private sector, the management of this task and the coordination of development activities is the responsibility of the Ministry of Planning. In performing this role the Ministry of Planning will adopt a multi-faceted approach.

16.3.1 Ministry of Planning's Role

The Ministry of Planning's approach to managing the implementation of the Fifth Plan will include a number of important activities. These are described below, along with the appropriate roles of various public sector agencies.

Follow-Up and Evaluation

The follow-up function is concerned mainly with assessing the progress of Plan implementation, in terms of its intended impacts, the effects of unpredicted external influences, as well as the delays and deviations from the Plan which might occur. It consists of a series of continuous, interrelated and responsive activities, the key elements of which are:

- ensuring that development programs and policies effectively achieve and are consistent with the strategic objectives of the Plan;
- evaluating -- through analytical studies and field visits -- the effectiveness of policies and relevant programs in achieving their objectives, and providing alternative policy options, when needed;
- assessing efficiency in the allocation of resources, thereby improving the Ministry's effective input to expenditure decisions and promoting the achievement of strategic objectives;
- expanding and upgrading the available information for decision makers to minimize deviations from the Plan and to identify the obstacles or constraints to implementation.

To initiate this follow-up process within the first three months of the Fifth Plan period, the Ministry of Planning will prepare a 'follow-up agenda' or work program, in cooperation with other concerned agencies. This agenda will outline the policies, programs and institutional measures of all ministries or agencies that have intra-sectoral and/or inter-sectoral linkages and whose timely implementation is critical for achieving the Plan's objectives. It will also provide the Ministry of Planning's broad framework for monitoring and coordinating the efforts of agencies responsible for implementing items on the agenda, and for assessing the impact and effectiveness of these efforts. The expertise and capabilities of the Ministry of Planning in the fields of policy and program review, analysis and evaluation will be further strengthened to carry out these tasks.

Coordination between the Plan and the Annual Budget

An important feature of Plan implementation has always been the coordination between the Plan and the annual budget, albeit through somewhat limited participation by the Ministry

of Planning in the budget formulation process. During the Fifth Plan period, this coordination will be rendered more effective, thereby ensuring that annual government expenditures conform to the program structure and Plan priorities of each agency, and budget allocations conform to the Plan targets in terms of the optimal balance between recurrent and investment expenditures, and between public and private sector investment.

Periodic Plan Reviews

To safeguard against unexpected fluctuations in the economic environment and to ensure that the thrust of the development strategy is maintained, the Ministry of Planning will:

- monitor and review progress in resolving the key issues presented in the Plan, and identify critical issues that may emerge as a result of changing conditions;
- closely monitor new developments in the international economic environment and assess their impact on the Plan; periodically review the economic and social impacts of the development programs, as part of the Ministry's contingency planning activities, and if necessary, prepare appropriate revisions to the Plan; present the findings of these reviews in an 'Annual Report';
- prepare a comprehensive mid-term review of the Fifth Plan's implementation efforts before the end of the third year, thereby ensuring the Plan's greatest possible relevance under the prevailing conditions.

In conducting these reviews, the Ministry of Planning will cooperate closely and share its findings with other concerned agencies, thereby facilitating their planning, budgeting, and follow-up activities.

Private Sector-Government Consultation

In view of the special emphasis on the role and functions of the private sector in the economy, the achievement of the Fifth Plan's objectives will require greater coordination between the government and the private sector, and improved dissemination of timely, reliable information and analysis on the performance of specific sectors and the economy in general. Several mechanisms for business-government consultations already exist and these will be further expanded during the Fifth Plan period. In addition, consideration will be given to establishing a Private Sector Department that will provide a forum for consultation between the government and the private sector and generate feedback on the effectiveness of development programs. The Department will sponsor research on private sector issues which cut across ministry and agency functions, and initiate actions within the government sphere to facilitate the development of the private sector.

The Department is expected to conduct some studies and analyses necessary for achieving its objectives. Furthermore, this Department will function as the focal point for developing and disseminating relevant information on strategic issues affecting the private sector and its activities.

Long-Term Perspectives

In managing the Plan's implementation, the Ministry of Planning will establish 20 year development perspectives for the key social and economic sectors, identifying their development needs, and thereby facilitating longer term strategic planning and policy formulation. In fulfilling these functions, the Ministry of Planning will act as a focal point within the government, whereby these strategic perspectives will be coordinated more closely with the Plan follow-up and budgeting activities of the development agencies.

16.3.2 Data Base and Information System

To strengthen the management of Plan implementation activities, the Ministry of Planning will develop and expand its data bases, management information systems and capabilities in the fields of policy analysis and program review. Furthermore, it will actively encourage other relevant agencies to improve the quality and scope of socio-economic and demographic data necessary for effective planning. Similarly, the development agencies themselves will strengthen their data bases and management information systems to meet the needs of decision makers within these agencies, as well as to provide the Ministry of Planning with the information and analysis needed to monitor and evaluate the implementation of the Plan.

16.3.3 Private Sector and Plan Implementation

The achievement of the Fifth Plan growth targets and the direction of future development will depend, to a large extent, on the growth of private sector investment in new production capacities. For its part, the government is committed to creating a positive environment through a wide range of policies and incentives, and will use its financial and information resources in support of private sector expansion in priority areas. Furthermore, the government will establish institutional mechanisms to enhance the private sector's participation in the government's planning process.

It is widely acknowledged that the private sector now has an increasingly important role to play in national development. In this regard, the government's commitment to economic and social development within the framework of a free market economy, combined with its numerous incentives to the private sector, make Saudi Arabia indeed an attractive investment location where entrepreneurs can prosper.

16.3.4 Feedback for Further Planning

The Fifth Plan forms a part of the continuous process of long term planning in the Kingdom of Saudi Arabia. While this plan is being implemented, work will start on the formulation of strategies for the next stage of development. The preparation of socio-economic perspectives and the formulation of long term development policies (15-20 years) will require significant efforts and on-going cooperation between government agencies and the private sector at all levels. Furthermore, the feedback and exchange of ideas among these agencies will greatly boost and facilitate the long term planning activities. The Ministry of Planning will have a major responsibility in formulating the framework and perspectives of the long-term development process, and for establishing solutions which are compatible with these perspectives. The Ministry will carry out these tasks through its units entrusted with the management of the plan, the evaluation of national and international economic conditions, and the on-going follow-up of the implementation process, in terms of projects, policies and key issues in both public and private sectors.

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