

## **CHAPTER 10**

### **THE SERVICES SECTORS**



## 10.

## THE SERVICES SECTORS

This chapter is concerned with both public and private sector service activities which include:

- Commercial Services
- Banking and Finance
- Environmental Pollution Control
- Industrial Standards
- Statistical Information

Each sector is reviewed in terms of its main Third Plan achievements, and objectives and policies for the Fourth Plan. A summary is given of the public sector expenditure programs.

### 10.1 COMMERCIAL SERVICES

#### 10.1.1 BACKGROUND

Although commercial services<sup>★</sup> have traditionally been important activities, it was not until the mid-1390s, in response to the surge in demand for imports, that their growth really began to take off. Many new companies were established, most of which were connected to construction activities. Several of these companies have grown into diversified multinational corporations — some with turnovers estimated to exceed three billion Saudi riyals.

These new Saudi companies are typified by their corporate structure — few having limited liability and almost none being public companies. Control usually remains within a family or is shared with a foreign joint-venture partner.

Complementing the multinationals are numerous commercial companies, ranging in size from the very small traders to substantial retail and industrial companies. While smaller than the giants, these companies can be quite substantial — a great many achieving turnovers in excess of 250 million riyals. A large proportion still have ties to the construction sector.

#### 10.1.2 PRESENT CONDITIONS AND REVIEW OF THIRD PLAN PROGRESS

##### 10.1.2.1 Sector Development

Taken together, commercial services comprise the largest single sector (in terms of GDP) after the oil sector. By the end of the Third Plan period its contribution to GDP had increased to 19 percent, from 10 percent at the beginning of the Third Plan. In terms of non-oil GDP, 'Commerce' accounted for 31 percent in 1404/05 — a slight increase from its 29 percent share in 1399/1400.

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★ Trade, Finance, Real Estate and Personal Services.

Overall, the sector grew at an average annual rate of 7.5 percent, exceeding the target of 7.3 percent. Within the sector, only the distributive trades annual growth of 8.8 percent exceeded the Third Plan target (8.4 percent).

**10.1.2.2 The Distributive Trades**

The wholesale and retail trades continue to be dominated by a large number of individual establishments, which account for 93 percent of all companies in the commercial register. As shown in Table 10-1 almost all of the establishments are very small — employing less than five persons.

**Table 10-1**

**DISTRIBUTION OF ESTABLISHMENTS IN  
DISTRIBUTIVE TRADES BY SIZE (1401)**

	Number of Establishments	Percentage Share by Number of Employees			
		1-4	5-19	20 +	Total
Wholesale	4,460	73	22	5	100
Retail	80,266	94	5	1	100
<b>Total</b>	<b>84,726</b>	<b>93</b>	<b>6</b>	<b>1</b>	<b>100</b>

By comparison with five years earlier, the position has changed — with the proportion of retail and wholesale establishments employing less than 5 persons falling from 98 percent and 79 percent respectively.

These statistics do not fully reflect the major advances that have taken place in the distributive trades during the Third Plan. The last five years has been typified by substantial new investment, particularly in the retail trades. Many new supermarkets, department stores and shopping malls have been opened in all main urban centers, and more are under construction. New and more efficient methods of stock control have been introduced, including electronic bar codes. More attention has been given to studying market trends and consumer requirements, and more qualified management has been appointed.

Despite these advances the level of productivity in the sector, including restaurants and hotels, has fallen over the period at an average rate of -1.8 percent per annum.

**10.1.2.3 Warehousing and Storage**

Although an overall deficit in warehouse facilities still exists, the situation is rapidly improving. The Ministry of Commerce is continuing to take over land assigned for warehouse development

and to make it available to the private sector. Land has been made available for new warehousing in Jeddah, Makkah and Riyadh. As a member of the special review committee on warehousing, the Ministry also assists in relocating storage areas to more appropriate locations.

Progress has also been made by the private sector itself in providing commercial warehousing facilities. At the beginning of the Third Plan there was an acute shortage of adequate commercial warehousing, and storage prices were at a premium. This encouraged the private sector to construct its own warehousing facilities in response to the increased flow of imported goods. As a result, warehousing costs have decreased and prices have stabilized, following the intensive efforts of both the Ministry of Commerce and businessmen. This, in turn, was reflected in the prices of goods in the market.

The storage industry can now offer very sophisticated services, including security stores, shelved, air-conditioned and chilled storage capacities. SIDF also played an effective role in providing modern warehousing facilities; up to 1403, it had made long-term, interest-free loans to the private sector amounting to approximately SR 147 million for the construction of new cold stores.

During the last five years the Grain Silos and Flour Mills Organization (GSFMO) completed six grain silo projects located in Riyadh, Jeddah, Dammam, Buraydah, Khamis Mushait and Hail. All the grain silos are operating with modern automatic systems. In the last year of the Plan total capacity was close to one million metric tons of grain. In addition, GSFMO provides grain packing units in the main silo complexes, each with approximately 100 mt/day capacity on a one-shift basis.

#### **10.1.2.4 Hotels**

During the first three years of the Third Plan the capacity of the Kingdom's hotel industry more than doubled. The number of hotels increased from 118 to 239, and available rooms from approximately 9,400 to 21,000. This has resulted in substantial excess capacity, low average occupancy rates, discounting and the closure or conversion of several hotels.

Since then, investment in hotels has diminished considerably. The Ministry of Commerce now issues new hotel licenses only to projects in those areas not adequately catered for, and these are mainly for small hotels.

#### **10.1.2.5 Business Services**

##### ***Insurance***

Approximately 125 insurance companies and brokers currently operate in the Kingdom — handling around SR 4 billion worth of premiums per year. The industry is typified by a relatively large number of smaller concerns — mostly representative agents of offshore insurance companies.

The industry is dominated by expatriate personnel, who account for over 92 percent of total administrative, underwriting and sales employees. However, insurance studies are now included in university courses in the Kingdom and, as a result, the number of Saudi nationals working in the industry is expected to increase.

Marine and motor insurance account for 56 percent of premiums written; fire and engineering 13 percent each; and the balance comprises miscellaneous accident insurance.

#### ***Stock markets***

Although there is no formal stock exchange in the Kingdom, markets for shares do exist and operate with considerable stability, as dealing in post-dated checks is illegal. In 1402, SAMA prohibited the dealing in shares by any institution other than a licensed commercial bank. A committee made up of the authorized agencies is currently reviewing the recommendations of a study into the need for a formal stock exchange.

#### ***Other Services***

The range of business services available in the Kingdom has continued to expand: for example, computing companies, advertising agencies, and international couriers have undergone substantial growth in the Third Plan period.

#### **10.1.2.6 Consumer Protection**

A particular feature of Saudi Arabia's development over the last 15 years has been the Government's concern for the well-being and protection of consumers against fraud. The Ministry of Commerce has played an important role in regulating the domestic markets to ensure that imported products sold in the Kingdom are of acceptable quality and appropriately priced.

During the Third Plan period the Ministry's efforts in this area were intensified. By 1403/04 the number of committees set up to combat fraudulent practices had increased to 108. This resulted in fewer cases of reported overpricing, fewer prosecutions for commercial fraud in weights and measures and out-of-date products, and lower incidence of imitation trade marks, and fewer complaints about the quality of spare parts for vehicles and electrical equipment.

Extensive progress has also been achieved by the authorities — in conjunction with the Chambers of Commerce and Industry — in combatting piracy on the high seas, which had grown into a considerable problem for many developing countries.

#### **10.1.2.7 Chambers of Commerce and Industry**

During the past five years the activities of the Chambers of Commerce and Industry have expanded both in scope and in their regional coverage. By the end of 1403, nine new Chambers had

been established, bringing their total number to eighteen. The activities of the Chambers include registration, training seminars, issuing certificates of origin, the organization of exhibitions and conferences, and research and studies into aspects of commercial life. The Chambers are now a very active and influential force in the Kingdom's business community.

#### **10.1.2.8 Key Issues**

Each sub-sector of commercial services faces difficulties which need to be identified and dealt with. In recent years, excess stocks arose in the wholesale and retail sector due to the substantial increase in imports, saturated markets and lower demand due to liquidity problems. Many individual establishments with less experience, could not withstand the traditional competition, and were obliged to withdraw from the market. Hotels in large cities also suffered from excess capacity.

The completion of major road and city development projects, the substantial role of the REDF in assisting construction activities, and liquidity problems have together resulted in the decline of land sales, particularly outside the cities.

#### ***Commercial Regulation Issues***

The present regulatory system is deficient in some respects: first, in its coverage, as not all companies or business activities fall within its jurisdiction; and second, in its procedures and administration, which require review to bring them into line with the current business situation. Moreover, although evidence of monopoly is increasing, no regulations exist for its control. Finally, measures are needed to facilitate the formation of joint-stock companies, which would also provide opportunities for small investors to participate in the sector's development.

#### ***Insurance Issues***

The insurance industry in the Kingdom is expected to grow rapidly, after the establishment of the necessary systems and regulations. However, of the SR 4 billion in annual premiums some SR 3.5 billion flows directly abroad. The main reasons for such a leakage of funds are the lack of supervision and regulation in the insurance sector, and the absence of domestic reinsurance facilities. The Royal Decree No. M/5 dated 27.4.1405, which has been issued for the establishment of the National Company for Cooperative Insurance, signals the beginning of a change in the situation.

#### ***Marketing and Promotional Infrastructure***

Because of increasing competition in domestic markets, the private sector has begun to focus its thinking on marketing and product promotion. No longer is Saudi Arabia a sellers' market; substantial autonomy is now enjoyed by the consumer. However, there is a shortage of local marketing and promotional infrastructure: few locally-established advertising agencies and marketing com-

panies; limited and expensive media outlets for advertising and promotion; and insufficient top-class design houses. As a result, there is a growing demand by local companies for marketing assistance, and the attention of new private sector investors must be drawn to the significance of this sub-sector of commercial services.

Strong marketing skills, high-quality design and the availability of promotional facilities will become increasingly important to the survival and growth of Saudi companies, not only in domestic markets, but also in laying foundations for the development of export markets.

### 10.1.3 DEVELOPMENT STRATEGY

There are two distinct features of the commercial services sector that have a bearing on the nature and direction of development in the Fourth Plan. *First*, much of its development to date has been in reaction to market opportunities and consumer demands. Growth of the allied financial and distributive structures has, therefore, been uneven. In some areas — retailing, for example — they have reached high standards of sophistication; in others — such as marketing and advertising — only the basic mechanisms have been established. *Second*, distinct changes have taken place in the business environment; government expenditure has been reduced; competition has increased substantially and the overall level of business expertise has improved. To operate effectively in these conditions requires much higher efficiency and productivity than has been the case in the past.

Future development of the sector will require a more active approach on the part of the Government and the private sector: to identify shortcomings in its operations and gaps in its institutional structure, and to respond with positive actions to overcome these deficiencies. The Government, represented by the Ministry of Commerce, will study the economic indicators and distribute the results of studies, research and statistical information to the private sector to assist it in making commercial and investment decisions.

Furthermore, in response to the changing business environment and the new problems facing the private sector, the Ministry of Commerce and the Chambers of Commerce and Industry will coordinate between the business community and the Government. Recognizing the changing environment, the Fourth Plan programs focus on providing assistance to the private sector in meeting and overcoming these new challenges.



### **10.1.3.1 Objectives and Policies**

#### ***Objectives***

The objectives set for the next five years' development reflect the Fourth Plan's strategic guidelines. Within the overall goal of 'ensuring that the sector grows and responds to the requirements of the economy' there are four specific objectives:

- to increase the involvement of the private sector in activities currently undertaken by the Government;
- to increase exports of the Kingdom's manufactured goods and improve trading links with other countries, particularly GCC countries;
- to maintain high standards of supply and consumer protection within the Kingdom;
- to ensure that the regulatory framework is consistent with the efficient performance of the commercial sector.

#### ***Policies***

To achieve these objectives the Government proposes to implement policies which reflect both the objectives defined for the commercial services sector and the issues currently facing it:

- encouraging the private sector to enter new areas of activity;
- improving productivity within the sector through the adoption of new technology and specialized training;
- establishment of joint-stock companies in order to increase the opportunities open to Saudi nationals to participate directly in the Kingdom's development;
- strengthening the marketing functions of Saudi companies so as to enhance their capabilities to compete;
- increasing liaison between the Government and the private sector through the Chambers of Commerce and Industry;
- developing new, and improving existing regulations, procedures and methods to support and control commercial activities and to accelerate the unification of commercial regulations in GCC countries;
- providing the private sector with better information and statistical data concerning trade and commerce;

- supporting efforts of private sector companies in marketing and distribution of non-oil exports;
- monitoring strategic stockpiles of commodities and food supplies to ensure that adequate warehousing and storage facilities exist.

#### **10.1.3.2 Public Sector Programs**

The public sector programs for the development of the commercial services sector in the Fourth Plan are described below:

##### ***Sector Coordination***

As the government body responsible for coordination, regulation and monitoring of commercial activity in the Kingdom, the Ministry of Commerce will ensure that its structure and administration will keep pace with the development of the sector as a whole. To this end, detailed studies will be made of the Ministry's organization and management to determine ways in which its efficiency and performance can be improved. Additional branches will be opened as appropriate.

##### ***Trade Development***

This program aims to encourage and promote the development of both internal and external trade and improve the productivity of these sectors. Substantial attention will be given to project identification and investment promotion. A study will be conducted into productivity improvement in the wholesale and retail trades. Particular attention will be given to collecting and disseminating information to the private sector to aid investment and business decision-making.

An important task will be to review and amend the commercial regulations and guidelines to bring them into line with the needs of the commercial sector. In accordance with the Fourth Plan Strategy, the promotion of non-oil exports will be regarded as a key activity. To this end, the Government will encourage private sector companies to undertake promotional activities, establish an export promotion board, participate in trade exhibitions, and commission studies to identify export market potential.

##### ***Consumer Protection***

The Government will continue its activities in the field of consumer protection. New laboratories will be established for quality control in all the main ports of the Kingdom and new standards will be introduced in conjunction with SASO, covering both consumer and industrial products. Particular attention will be given to protecting individuals, and improved regulations will be drafted for this purpose. A review will also be made of the weights and measures regulations.

#### ***Warehousing and Storage Program***

The Government will monitor markets to ensure the availability of high-quality supplies and basic commodities at appropriate prices. It will continue to monitor the Kingdom's storage capacity, and studies will be conducted into both the availability and standards of storage and warehousing by type of facility. The Ministry of Commerce, the Ministry of Agriculture and Water, and MOMRA will coordinate their activities to make available sufficient land for warehouse construction as required. The Grain Silos and Flour Mills Organization will add a further 900,000 tons of grain silo capacity to meet the consumption and strategic reserve requirements. Additional flour mill capacity will be installed to achieve self-sufficiency in the Kingdom. The animal feed industry will be expanded to meet part of the demand, providing that the other part is produced locally by the private sector.

#### ***Finance and Business Services Program***

The Government will give priority attention to ensuring that adequate regulatory bodies are established to coordinate and monitor the activities of the professions. In this respect, the Government plans to sponsor an organization for chartered accountants.

A study will also be made of the demand for financial services and the appropriateness of their existing supply structure. The study will give specific attention to the domestic insurance industry, and to the possible establishment of a stock exchange. The Government will also examine ways of encouraging the private sector to establish new financial intermediaries.

#### ***Chambers of Commerce and Industry Program***

As part of the program to develop the Chambers of Commerce and Industry the Government will address the issue of marketing and marketing infrastructure; studies will be undertaken to identify ways in which the Government and Chambers of Commerce and Industry can assist. A study will also be made to identify marketing and investment opportunities. It is envisaged that the Chambers of Commerce and Industry will continue to focus attention on productivity improvement and training, and will organize appropriate courses and conferences. New Chambers will be established in regions where these services are needed.

#### ***Hotels and Motels Program***

To ensure that the hotel and motel industry develops in accordance with the needs of the economy the Government will examine its present structure and growth and prepare guidelines for its future development. New regulations will be drafted. Attention will continue to be given to the training of Saudi nationals in hotel management. The private sector will be encouraged to construct new hotels and motels in areas which have insufficient services of this kind.

**10.1.3.3 Program Expenditures: Commercial Services**

The planned government expenditures for each program in the commercial services sector during the Fourth Plan are shown below in Table 10-2.

**Table 10-2**

**COMMERCIAL SERVICES PROGRAM EXPENDITURES**

	<b>Fourth Plan Total</b>
	<b>(SR million)</b>
<b>Ministry of Commerce</b>	
Ministry Development	282.0
Trade	185.0
Consumer Protection	252.0
Chambers of Commerce and Industry	35.0
Finance and Business Services	30.0
Supplies and Storage	29.0
Hotels and Motels	12.0
<b>Total</b>	<b>825.0</b>

**10.2 BANKING AND FINANCE**

**10.2.1 BACKGROUND**

A notable feature of Saudi Arabian development over the last fifteen years has been the growth and Saudiization of the domestic financial system, which largely comprises the eleven commercial banks. These banks are coordinated and regulated by the Saudi Arabian Monetary Authority (SAMA). Complementing the commercial banks are four specialist credit institutions established by the Government to channel development funds to specific activities.

No formal capital or money markets exist in the Kingdom; the principal responsibility for mobilizing private capital and distributing it among sectors rests with the commercial banks.

An important objective for the future is to diversify the financial system and to increase the range of services and financial capabilities available within the country and, at the same time, to strengthen the system's effectiveness in harnessing private resources for development needs.

## 10.2.2 PRESENT CONDITIONS AND REVIEW OF THIRD PLAN PROGRESS

Considerable progress was made during the Third Plan period in strengthening and further developing the Kingdom's financial sector in terms of its size, structure and efficiency. This can be partly attributed to the guidance of the monetary authorities, but for the most part it was accomplished by the private financial sector itself.

### 10.2.2.1 Growth of Banking Sector

The growth of the banking sector continued to increase during the last five years in response to the expanding demand for trade and project finance. Towards the latter part of the Plan period this growth began to slow down in response to the decline in the overall level of economic activity.

During the first two years of the Third Plan the growth of commercial bank credit averaged 26 percent per annum, falling to 9.6 percent between 1402/03 and 1403/04, and thus producing an average growth over the period of 17.6 percent. The main reasons for this decline were the slower growth of the non-oil sector, lower inflation and an increase in the inflow of non-bank funds from abroad.

On average, deposits grew faster than commercial bank lending; nevertheless, the ratio of domestic credit to deposits increased over the period, thus signifying an increased domestic deployment of funds.

As indicated in Table 10-3, the acceptance and coverage of banking also grew over the period. Despite increasing by 8.3 percent, the importance of currency (as measured by its share of  $M_3$ ) declined consistently in favor of bank deposits. Moreover, within total deposits the proportion of time, saving and quasi monetary deposits increased substantially.

**Table 10-3**

### STRUCTURE OF MONEY SUPPLY (1399/1400 to 1403/04)

	<u>1399/1400</u>	<u>1403/04</u>
	( Percent)	
Currency in circulation	33.7	24.1
Total deposits, of which:	66.3	75.9
Demand deposits	(40.7)	(35.9)
Time and saving deposits	(15.6)	(23.3)
Other quasi money deposits	(10.0)	(16.7)
<b>Total Money Supply(<math>M_3</math>)</b>	<b>100.0</b>	<b>100.0</b>

Bank clearings also increased during the period at an average rate of approximately 17 per cent over the first four years of the Third Plan. In addition, a new clearing house was established in Abha, which began operations in 1404. With the Saudiization of commercial banks completed in 1402, a significant stage in the development of banking was achieved.

The greater acceptance of banking is also reflected in the growing number of bank branches. From 1399/1400 to 1403/04 the number of branches almost trebled from 188 to 534. In addition, branches and representative offices were opened abroad and offshore joint-venture banks established. The eleven domestic commercial banks are complemented by two pan-Arab banks operating in the Kingdom: the Arab Investment Company and the Arab Petroleum Investment Corporation. There are also a number of representative offices of foreign banks.

Prior to 1400 syndicated lending to domestic projects was rare. However, the last five years has seen an increasing participation of the commercial banks in syndicated lending to finance large-scale projects.

#### **10.2.2.2 Regulation and Institutional Change**

Several significant policy changes were implemented during the Third Plan period. In accordance with the Plan, legislation was introduced to control the activities of money changers — traditionally the mainstay of personal banking services in the Kingdom. Since 1402, money changers have been required by SAMA to obtain a license; to refrain from taking deposits and issuing loans; and to have specified levels of capital and reserves according to the number of branches operated. The move was instituted to protect customers and to bring the money changers more into line with commercial banking regulations. The first license for a private Islamic banking company was issued to the Kingdom's principal money changer in 1403.

A major policy initiative introduced by SAMA was the Bankers' Special Deposit Account (BSDA) — a formal monetary instrument designed to complement other controls on commercial bank liquidity.

As part of its long-term policy to develop the domestic banking sector, SAMA issued a directive that commercial banks would need permission prior to inviting foreign banks to participate in Saudi Riyal syndications. The purpose of this directive was not merely to protect Saudi banks from foreign competition, but also to stimulate domestic banking capabilities.

In response to the growing number of Saudi Arabian company stocks, SAMA instructed that, as from 1.4.1405, equities trading could only be undertaken by registered commercial banks. This was designed to increase the level of protection to shareholders by reducing the risk associated with share dealing in an unregulated market.

**10.2.2.3 Productivity**

Faced with an acute shortage of qualified and experienced banking personnel, higher productivity was seen as a major target of the Third Plan, not only by the authorities, but also by the banks themselves. Most of the commercial banks now conduct comprehensive training programs, some to the extent of operating full-time training centers (complementing SAMA's Bank Training Center with specialized courses).

Probably the greatest contribution to raising productivity has been the adoption of advanced banking methods, including: electronic banking; modern management methods; and the construction of more efficient branch buildings. Two banks now offer on-line services to most of their branches. Automatic cash tellers, direct-dial account enquiry systems and bank service cards are now well established, whereas none existed at the beginning of the Third Plan. Substantial attention has been given to both retail and wholesale banking activities.

**10.2.2.4 Public Sector Lending Programs**

The principal objective of the Government's specialist credit institutions and lending programs during the Third Plan was to increase both loan disbursements and repayment rates. Table 10-4 summarizes the lending performance of each of the institutions by comparing the Third Plan lending targets with actual loan disbursements during the period.

**Table 10-4**

**CREDIT INSTITUTION LOANS DURING THE THIRD PLAN  
(SR million)**

	<u>Target</u>	<u>Actual Loan Disbursements</u>
Saudi Arabian Agricultural Bank	5,000	9,834
Saudi Credit Bank	330	1,085
Specialist Funding Programs	125	930
Saudi Industrial Development Fund:		
Industry	10,000	3,593
Electricity	21,996	17,032
Real Estate Development Fund	11,995	29,306
<b>Total</b>	<b>49,446</b>	<b>61,780</b>

With one exception, the lending achievements of all the Government's specialist credit institutions exceeded their Third Plan targets. In spite of the high priority given to industrial development, the SIDF failed to achieve its lending target. While to some extent this may be due to the slowdown in economic activity, the growth of industrial lending by the commercial banks and the demand for loans from the other lending funds both suggest that the SIDF's poor performance can be attributed more to its own lending policies. It is now evident that SIDF policy has lacked the necessary initiative towards the development of manufacturing. The Third Development Plan recommended the adoption of a more positive lending policy by SIDF, and also identified certain programs for the promotion of SIDF loans. But were not implemented in full.

#### **10.2.2.5 Key Issues**

The most important issues facing the financial sector center on the need for greater participation of the private sector in development finance, in particular on the most effective ways to harness the enormous reserves of private capital and to channel it into domestic development projects. Whether or not this can be achieved will depend largely on the structure and efficiency of the financial sector, and particularly on whether it can effectively reconcile the conflicting objectives of borrowers and savers in the Saudi Arabian context.

At present there are limited opportunities for the recycling of private sector financial surpluses into productive investment within the economy. Broadly, there are three alternatives: self-financing projects, equity holding in Saudi companies, and commercial bank time and savings deposits.

To attract private capital into the development process a greater range of opportunities and investment instruments is required. A more sophisticated financial market needs to be developed, including the creation of new financial intermediaries, new investment instruments, investment funds and venture-capital companies.

However, the mobilization of private sector capital is only one half of the equation; the second is to ensure that the funds, once mobilized, are made available for domestic development needs. This requires:

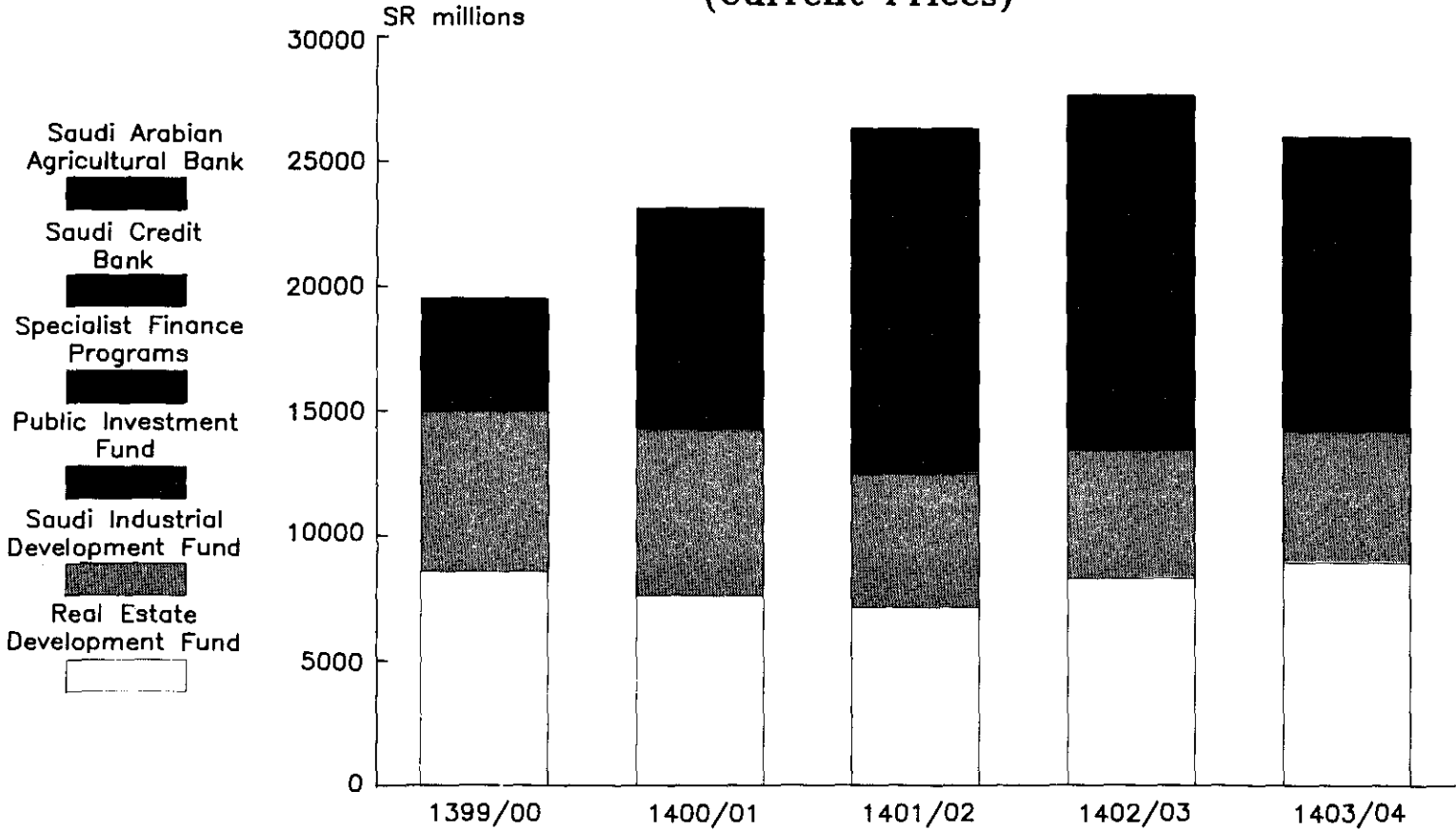
- a constant flow of potentially viable projects needing outside finance;
- institutions which can convert domestic private capital into appropriately-structured commercial finance.

The first requirement suggests that domestic entrepreneurs need to adopt a more positive attitude to forming public joint-stock companies, thereby offering Saudi citizens the opportunity to participate in development — either directly, through a shareholding, or indirectly, through investing with a financial intermediary.



Figure 10-1

### Credit Disbursements by Government Lending Institutions (Current Prices)





While it is recognized that the development of a more appropriate financial sector requires time, it is crucial that the existing financial institutions address the needs of the economy now and begin to develop the necessary institutions and instruments.

### **10.2.3 DEVELOPMENT STRATEGY**

The Fourth Development Plan marks a major turning point in the development of the financial and banking sector. The changing economic and business environment will place new demands on the financial sector; falling oil revenues have identified more clearly the need to harness private sector capital in the development process. With increased demands being placed on private enterprise to help maintain the pace of economic development, new needs will arise for greater involvement of the financial sector in private project financing. This will require significant changes in the sector; new services and specialist capabilities and skills will be required; and new financial intermediaries will need to be established for the effective channelling of surplus capital to development projects. Changes are also called for in the public sector; new attitudes to finance will be required by the Government funding agencies in order to increase the private sector participation in long-term financing and thereby develop its investment activities.

The financial sector's future must be seen in a comprehensive and longer-term context, as its development will be linked to changes and trends in other sectors of the internal and external economy. Decisions with respect to organizational changes should be based on future needs. The effectiveness of these decisions must also be valid beyond the Fourth Plan, and must have a positive influence on economic development.

#### **10.2.3.1 Objectives and Policies**

##### ***Objectives***

Essentially, the single guiding objective for banking and finance is to ensure that the financial sector recognizes, anticipates, and develops in accordance with the growing and changing needs of the economy as a whole.

##### ***Policies***

The Fourth Development Plan Strategy clearly states the policies with respect to the financial sector:

- promoting the incorporation of national financial institutions for the investment of private funds within the Kingdom;
- urging commercial banks to extend their credit facilities to production projects instead of concentrating on the import trade;

- encouraging the incorporation of more joint-stock companies to undertake large projects with economies of scale, so that the greatest number of citizens may benefit from investment opportunities;
- creating a system, under government supervision, for the exchange of company shares, with the objective of encouraging investment and avoiding the pitfalls of financial speculation;
- encouraging and inducing the public to invest in feasible, worthwhile industries using local raw materials, and production methods which require minimum labor and minimum quantities of critical physical resources such as water;
- encouraging the public to invest in agriculture by establishing joint-stock companies to invest in large feasible agricultural projects using modern agricultural equipment, and machinery and irrigation techniques;
- encouraging more rational pre-investment evaluation of projects;
- promoting the adoption of new technologies.

#### 10.2.3.2 Public Sector Programs

##### *Government Lending Institutions*

New lending targets (net) for the specialized credit institutions and funding programs during the Fourth Plan are summarized below in Table 10-5.

**Table 10-5**

**GOVERNMENT SPECIALIZED CREDIT INSTITUTIONS:  
NEW LOAN TARGETS (NET) IN THE FOURTH PLAN**

<b>Institution</b>	<b>Fourth Plan Total</b>
	<b>(SR million)</b>
Saudi Arabian Agricultural Bank	10,150
Saudi Credit Bank	1,250
Saudi Industrial Development Fund	7,500
Real Estate Development Fund	21,000
Specialist Funding Programs	1,500
Public Investment Fund	18,700
<b>Total</b>	<b>60,100</b>

### ***Improvement of Efficiency***

In addition to the lending programs, attention will be given to improving the procedures and systems through which the institutions operate, so as to reduce time between loan application and disbursement, and to improve the quality of loan application appraisal. Particular attention will be given to expanding the project promotion functions of the SIDF — through the introduction of a project identification unit and the provision of comprehensive information services.

Attention will also be given to involving private sector banks in the provision of long-term funds to productive projects, rather than concentrating on the provision of working capital as at present.

### ***Stock Exchange***

The ongoing examination of the need for a formal stock exchange will be completed, bearing in mind both the advantages of an organized central capital market and the risks of speculation which characterize the non-official market.

### ***Small Business Lending***

There is imbalance in the present lending system in the form of a shortage of loans to small and medium-sized companies. The Government will study ways of facilitating the access of these companies to good-quality credit.

#### **10.2.3.3 Private Sector Considerations**

In response to government initiatives, the private banking sector will be encouraged to respond to the development needs of the economy and to increase substantially the proportion of lending devoted to project finance, to complement lending by government institutions. It is envisaged that the commercial banks will make fixed-term credit available for periods of five years and longer.

Opportunities also exist in other areas of finance. The Government is keen to see new financial intermediaries established to channel capital to the productive sectors, and also to establish acceptable consumer credit facilities.

#### **10.2.3.4 GCC Considerations**

Discussions and studies are at a preliminary stage concerning the establishment of a common currency unit for the the GCC states. Otherwise, the respective central banks and finance ministries coordinate banking procedures which allow autonomous, yet compatible, financial development in the member states.

## **10.3 GOVERNMENT SERVICES**

### **10.3.1 BACKGROUND**

Economic growth is not the sole objective of development, and by its nature is accompanied by a growing complexity in the institutional needs of society. In this regard, important development roles are played by government support and regulatory agencies in such activities as the establishment of industrial standards, the control of environmental pollution and the provision of statistical information.

The establishment of a comprehensive national system of standards and specifications is of great importance to consumers and the producing sectors of the economy alike. With growing emphasis on economic diversification and the development of the export capabilities of Saudi manufacturing, the adoption of standards acts as an important technical and quality control channel for products, in both domestic and international markets. In response to this urgent need, the Saudi Arabian Standards Organization (SASO) was established by a Royal Decree in 1392 with responsibility for developing and approving standard specifications for commodities available in the Kingdom. In addition, SASO has the responsibility of establishing a 'quality marks' system, issuing conformity certificates and participating in Arab and other international organizations relating to specifications and standards.

The relationship between the economic expansion of recent years and the Kingdom's climate and natural environment has led to a growing need for sophisticated meteorological and climatological services. Similarly, the Government recognizes the need to conserve and protect the environment from the adverse impacts which can accompany rapid economic growth. The Meteorology and Environmental Protection Administration (MEPA) is the government agency with responsibility for providing these services.

It is widely recognized that the need for comprehensive and reliable statistical data expands in parallel with the development process in any country. The economy and society of the Kingdom have now reached a level of development and a degree of complexity such that accurate, relevant and timely statistical information is indispensable. The primary uses of data are in the planning of overall national development; the monitoring of progress in a rapidly changing and modernizing society; and the scientific observation of economic and social developments — as the basis for rational administrative and economic policy decisions.

The Central Department of Statistics (CDS), under the authority of the Ministry of Finance and National Economy, is the principal agency in the Kingdom responsible for the collection, compilation and dissemination of statistical information, while the main data processing activity is the responsibility of the National Computer Center (NCC) under the authority of the Ministry of Finance and National Economy.

## **10.3.2 STANDARDS AND SPECIFICATIONS**

### **10.3.2.1 Present Conditions and Review of Third Plan Progress**

SASO targets during the Third Plan included the drafting of 400 standard specifications, 300 of which were to be approved by government as Saudi national standards. While the 667 standard specifications drafted during the Third Plan exceeded the target level, the 259 drafted specifications receiving final government approval as Saudi standards, were slightly below target. Emphasis during the last five years has been in the fields of agriculture and food (24 percent of total approvals), mechanical engineering (26 percent), chemicals and petroleum (19 percent), industrial health and safety (28 percent) and other fields (3 percent).

During the Third Plan period SASO continued its active participation in the International Standards Organization (ISO) and the Arab Standards and Metrology Organization (ASMO), becoming a member of the Board of Directors of ISO and chairman of five technical committees of ASMO. In addition, SASO is the acting Secretariat of the Gulf Arab Standards and Metrology Organization (GASMO), following a resolution of the Supreme Council of the GCC to create a unified standards organization for the Gulf States.

### **10.3.2.2 Key Issues**

Three constraints have affected the work of SASO during the Third Plan period. *First*, though compliance with approved Saudi standards is obligatory, SASO has no direct responsibility for enforcement. Hence, where enforcement lags behind approved minimum standards, cooperation with other specialized ministries is required to find means of adhering to approved standards and specifications. *Second*, the absence of a suitable calibration and metrology laboratory in the Kingdom has meant that some equipment continues to be sent overseas for calibration. The construction of a new calibration and metrology laboratory is scheduled to begin during the Fourth Plan. *Third*, adoption of a full testing and consultative procedure for each draft standard has slowed their processing and final approval. Abbreviated procedures may be required for routine items which have no special sensitivity to local conditions and social customs.

### **10.3.2.3 Development Strategy**

SASO objectives are fully in accord with the Fourth Plan Strategy to improve the economic and productive standards of the services, utilities and products which the Government provides for citizens. They are also a vital component of the Fourth Plan Strategy, which emphasizes qualitative improvements in the performance of utilities and facilities already established. Further, SASO's work relates directly to the strategic principle of standardizing the technical specifications of projects to facilitate and reduce costs of maintenance.

### ***Objectives***

Within these overall strategic directives of the Fourth Plan the following key objectives have been identified:

- to develop a body of approved Saudi standards appropriate to the priority needs of the Kingdom's industrial and commercial sectors;
- to enhance compliance with approved Saudi standards, particularly in the national industrial sector;
- to maintain a high standard of relevant research activities in support of the development of Saudi standards and quality control systems;
- to participate in the implementation of a united Gulf Arab Standards and Metrology Organization (GASMO).

### ***Policies***

To achieve these objectives SASO will implement the following policies during the Fourth Plan:

- preparing draft standard specifications which are suited to the environmental conditions found in the Arabian peninsula;
- ensuring that Saudi standards are written with uniform terminology and updating them through the approval of revised versions;
- improving the approval rate for Saudi standards, by reducing the backlog of draft standard specifications, which have passed the necessary preparatory stages;
- introducing a system of Quality Marks and Conformity Certificates to identify goods which meet or surpass the necessary quality criteria;
- developing SASO's capabilities to monitor the degree of compliance with established standards;
- conducting in-house research relating to the development of standards and establishing suitable laboratories to support research and development;
- organizing and initiating meetings among GCC member countries for developing uniform standards, methods and procedures for quality control, and developing the Secretariat of GASMO.

### ***Programs***

These policies will be implemented both individually and through coordinated programs. The programs themselves are directed at three groups of activities. The first program deals with the ongoing operations, manpower development and administrative activities of the agency. The second



program focuses on the construction of the quality control laboratory and on establishing a rigorous system of quality marks and conformity certificates. The third program centers on the creation of a calibration and metrology laboratory, with the first phase of construction beginning in the last year of the Fourth Plan period. Table 10-6 shows the proposed expenditure for each program.

### **10.3.3 METEOROLOGY AND ENVIRONMENTAL PROTECTION**

#### **10.3.3.1 Present Conditions and Review of Third Plan Progress**

##### *Meteorological and Climatological Services*

An important element in the promotion of safety in maritime and civil aviation activities is the need to observe, classify, analyze, store and report information about the Kingdom's weather, atmospheric and climatological conditions. The meteorological services of MEPA aid commercial and defense activities in the Kingdom by providing valuable information about the environment, including forecasts for the time intervals of three hours to three days. These services are used by commercial aviation, air traffic control stations, oil drilling platforms, ships in the Red Sea and the Arabian Gulf and the general public. Climatological services include long-term weather information to assist all government organizations and commercial establishments.

Among the achievements of the Third Plan period were the establishment of: a new wireless communication network, new weather observatories, automatic weather stations, additional forecasting stations and marine services.

##### *Environmental Protection Services*

The threat of environmental pollution is one of the adverse side-effects of rapid economic development: industrialization is accompanied by the problem of how to dispose of industrial waste; rapid urbanization leads to the need to dispose of domestic refuse and sewage in large quantities, while minimizing the hazards to health; the quality of domestic drinking water must be protected from pollution; rapid economic and social development poses a threat to the natural environment and the habitats of the Kingdom's fauna; the use of chemical fertilizers in agriculture also carries potential pollution problems if not properly controlled.

Under the terms of its charter, MEPA has the responsibility to protect and improve the Kingdom's environment. In this regard MEPA also has the authority to issue permits and licenses and to make inspections of factories and other facilities. During the Third Plan period MEPA has concentrated on the collection of information necessary for the establishment of pollution standards. Environmental pollution impact studies were carried out on a number of activities, such as the cement and quarrying industries. Further environmental protection projects completed were: the mapping of marine habitats, publications on the animal life of Saudi Arabia, publication of environmental and water pollution standards, computer-modelling of pollution dispersion, oil pollution contingency plans

and emergency action in the Nowruz oil spill. As the agency expands its experience and information base, its role will become increasingly executive, rather than educational and advisory in nature, and mechanisms will be established for the enforcement of standards based on environmental pollution findings.

#### **10.3.3.2 Key Issues**

Two main issues will affect the development of the Kingdom's ability to protect the environment from pollution. The first is the ability of MEPA to expand its capabilities in the retrieval, monitoring, storage and analysis of information. The second issue relates to MEPA's capability to enforce its environmental pollution standards. Although the agency places great emphasis on educational efforts designed to improve the environmental awareness of citizens, it recognizes also that direct regulatory intervention may be necessary in the future. In this regard, it is important that MEPA should prepare and submit draft legislation to the Environmental Protection Coordination Committee. Through this committee it is important also that the extent of MEPA's licensing, inspection and other enforcement authority be determined.

#### **10.3.3.3 Objectives and Policies**

##### ***Objectives***

The Government's objectives for the development of the Kingdom's meteorological and environmental protection services during the Fourth Plan period are:

- to contribute effectively to the improvement of the health, safety and quality of life of the Kingdom's citizens, through the provision of meteorological, climatological and environmental protection services;
- to conserve the Kingdom's environment and to protect the natural land, marine and water resources from pollution, desertification and environmental deterioration;
- to improve the operating efficiency and the coordination and effectiveness of MEPA's activities;
- to encourage, support and promote the participation of individuals, agencies and institutions in the conservation of the Kingdom's natural environment and heritage.

##### ***Policies***

To achieve these objectives the following policies will be implemented by MEPA:

- promulgate a comprehensive set of environmental standards and build up a capability for monitoring, inspection and surveillance of the environment;

- improve the safety of both civil and military aviation through expanding the range and quality of weather information;
- identify and conduct surveys of environmentally threatened areas of the Kingdom and store meteorological and climatological data for public uses;
- develop methods of exercising control over the discharge of pollutants to air, water and land;
- expand public awareness of environmental issues through publication and distribution of studies and surveys, and by including environmental studies in the education system's curricula;
- promote the development of meteorological and pollution control technologies within scientific and research institutions in both the public and private sectors.

#### 10.3.3.4 Programs

**Meteorological Services:** This program includes the following basic meteorological services: aviation and marine meteorology, meteorological support for the armed services, and weather analysis for the general public. Marine meteorological services for shipping and offshore drilling will include the further development of a marine meteorology network.

**Environmental Protection:** This program is aimed at expanding MEPA's capacity for monitoring, assessment and control over discharges and waste disposal, and the handling of hazardous goods. Included also are planned surveys relating to the conservation of the Kingdom's environmental resources.

**Environmental Information:** The need to expand MEPA's environmental information base will be addressed by this program, which also aims to promote public awareness of the citizen's role in the preservation of the environment.

**Automation of Systems:** The systems automation program will expand MEPA's observation and forecasting capabilities, based on the use of quantitative models. The observation systems component of the program will increase the agency's ability to observe meteorological conditions automatically.

**Administration:** The main components of this program relate to the up-grading of operational capabilities of staff through training in the operation and maintenance of complex meteorological and environmental pollution monitoring equipment, and the development of the agency's headquarters building. Table 10-6 shows the expenditure for each program.

#### 10.3.3.5 Private Sector Considerations

The private sector can make a considerable contribution to environmental protection through exercising responsible controls over pollution. Thus private industrial companies must ensure that pollution control equipment is installed and used whenever necessary, private farmers should continue their careful use of agri-chemicals, and all private citizens are expected to refrain from discarding litter.

#### 10.3.3.6 GCC Considerations

Pollution hazards do not respect national boundaries, and many environmental protection measures require international coordination. The Meteorology and Environmental Protection Agency will therefore continue to coordinate and cooperate with its counterpart organizations in the GCC states.

### 10.3.4 STATISTICAL SERVICES

#### 10.3.4.1 Present Conditions and Review of Third Plan Progress

During the Third Development Plan the CDS extended and consolidated the system of continuous and regular data collection and statistical reporting. The main achievements can be summarized as follows: *Demographic surveys* carried out in 1401/02 provided information on demographic characteristics such as population estimates by age and sex, educational attainment, fertility and mortality. *Labor Force Surveys* conducted between 1400 and 1403 estimated the size, growth and structure of the Saudi and non-Saudi labor force. Important data relating to economic activities, occupations, hours worked and other aspects of the labor market were included. The 1400 *Consumer Expenditure Survey* provided information on the expenditure, size and structure of private (urban) households in the Kingdom.

The above-mentioned surveys formed part of the Saudi Arabian Multipurpose Household Survey, which is carried out on a quarterly basis and covers some 20,000 households. The Multipurpose Household Survey covers a wide range of subjects and thus has developed into a key instrument of data provision.

Considerable progress was also achieved on statistics relating to private sector economic activities. A complete census of registered private non-agricultural establishments was conducted in 1401, providing information on the number, size, and economic activities of such private establishments in the Kingdom. Employment data were also included. The 1401 census constituted the framework for a series of sample surveys of private establishments in the mining, manufacturing, and utilities sectors; in construction; and in trade and services. Data collection included employment, value added, gross capital formation and costs. A comprehensive *Agricultural Census* was completed in 1401/02 and included data on employment, crop production, agricultural holdings, livestock, irrigation and other aspects of agriculture.

The improvement of CDS's data collection activities broadened the data base of the National Accounts. CDS continued to present its annual information on the main macroeconomic aggregates according to the System of National Accounts of the United Nations. A Social Accounting Matrix for 34 sectors was presented for the first time in 1402/03. Price statistics (including a new all-cities cost-of-living index for Saudi and non-Saudi households), foreign trade and annual pilgrimage statistics represent other areas of achievement.

In recent years, cooperation with the statistical agencies of other GCC member countries have become another facet of CDS activities. The CDS contributes to common GCC activities, such as directors' meetings on statistical harmonization, the GCC Information Center, and participation in national surveys, censuses and training courses.

#### ***Main Issues Relating to Statistical Information***

The importance of up-to-date and reliable statistics has great significance for both the Government and the private sector. The efficient provision of public services, in response to the actual needs of society, depends critically on adequate information.

As the economy becomes more complex, data requirements of both government and the private sector become more sophisticated. An important element of such needs will be the dissemination of data in greater detail, quantifying economic activity within and between sectors, especially the main structural and dynamic variables concerned. Such data include information on markets, products, prices and investment opportunities in both the industrial and agricultural sectors.

#### **10.3.4.2 Development Strategy**

The greater part of the Kingdom's overall strategy for the Fourth Development Plan relies on the availability of a comprehensive statistical data base as its main information source. In accordance with this strategy, government objectives and policies in the provision of statistical services are outlined below.

#### **10.3.4.3 Objectives and Policies**

##### ***Objectives***

- to provide users with reliable statistical information in support of the strategic guidelines of the Fourth Development Plan;
- to improve the range, quality and timeliness of statistical information;
- to continue to provide and improve centralized automatic data processing support to the Ministry of Finance and National Economy and to other government agencies;

- to improve the range and level of qualifications of Saudi statisticians and staff in allied fields at all levels.

#### ***Policies***

To achieve these objectives the following policies will be implemented:

- identify new information needs, extend the present working program accordingly, and, at the same time, preserve continuity (comparability) of the existing series;
- further develop and refine computer-based consistency checks of census and survey data;
- strengthen the field organization and the cartographic services and improve sampling techniques;
- strengthen the cooperative relationship with respondents and further safeguard and stress the confidentiality of individual data; purchase new computer equipment to increase processing and storage capacity;
- strengthen the management, administration and operation of the central-site hardware and software resources;
- improve printing and binding facilities;
- upgrade technical assistance provided to NCC users with respect to system design, programming, operations, training, and security;
- provide adequate on-the-job training, as well as special courses and seminars, both in the Kingdom and in specialized training institutions abroad.

#### **10.3.4.4 Programs**

The operations and activities of the CDS for the Fourth Development Plan period are covered in five programs which relate to administration, data collection, qualitative improvements, training, and facility expansion. The data collection program, which represents the central functions and responsibilities of any statistical agency, comprises the following: housing census; multi-purpose household survey; private establishment census; national accounts; price statistics; foreign trade; pilgrimage statistics; and ongoing secondary statistics pertaining to education, health, social services, petroleum, industry, utilities, transport, finance and agriculture.

#### **10.3.4.5 Private Sector Considerations**

While the Government will make every effort to provide accurate and timely statistics, the private sector companies will still need to satisfy their own particular requirements for data, by carrying out market surveys and studies.

**10.3.4.6 GCC Considerations**

Coordination with statistical departments in other GCC countries will continue.

**10.3.5 PROGRAM EXPENDITURES: GOVERNMENT SERVICES**

The planned expenditures for each of the government support services described above are shown below in Table 10-6.

**Table 10-6**

**GOVERNMENT SERVICES PROGRAM EXPENDITURES**

	<b>Fourth Plan Total</b> <b>(SR million)</b>
<b>Saudi Arabian Standards Organization (SASO)</b>	
Standards Development and Administration	262.1
Quality Control Improvement	239.9
Laboratories	5.0
<b>Sub-total</b>	<b>507.0</b>
<b>Meteorology and Environmental Protection Agency (MEPA)</b>	
Meteorological Services	838.9
Environmental Protection	482.4
Environmental Information	91.4
Automation of Systems	232.6
Management, Operation and Maintenance	979.1
Training	61.4
Headquarters	145.0
<b>Sub-total</b>	<b>2,830.8</b>
<b>Central Department of Statistics (CDS)</b>	
Data Collection	285.8
Administration	234.1
Facility Expansion	17.0
Quality Improvement	13.6
Manpower Development	7.5
<b>Sub-total</b>	<b>558.0</b>
<b>Total</b>	<b>3,895.8</b>

