

CHAPTER 4

KEY ISSUES

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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.