

## **CHAPTER 7**

### **PRIVATE SECTOR DEVELOPMENT**



## **7. PRIVATE SECTOR DEVELOPMENT**

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

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

### **7.1 PRIVATE SECTOR CONDITIONS AND GROWTH OUTLOOK**

#### **7.1.1 Current Conditions**

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

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

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

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

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

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

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

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

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

### **7.1.2 Private Sector Growth During the Fifth Plan**

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

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

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

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

TABLE 7.1

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

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

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

TABLE 7.2

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

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

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

## 7.2 CHANGING ROLE OF THE PRIVATE SECTOR

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

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

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

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

### **7.3 DEVELOPMENT OBJECTIVES OF THE PRIVATE SECTOR**

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

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

- **Diversify the Economy**

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

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

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



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

- **Deploy Private Capital in the Economy**

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

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

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

## 7.4 LONG TERM DEVELOPMENT STRATEGY FOR THE PRIVATE SECTOR

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

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

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

### B. Encourage Competitiveness among Saudi Producers

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

### C. Develop Domestic Financial Markets

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

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

**D. Strengthen Private Sector Business Capabilities**

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

**7.5 DEVELOPMENT OPPORTUNITIES FOR THE PRIVATE SECTOR**

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

In the **producing** sectors:

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

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

In the **service** sectors:

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

## **7.6 INSTITUTIONAL MEASURES TO SUPPORT PRIVATE SECTOR DEVELOPMENT**

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

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

- Expansion of business services;
- Other institutional initiatives.

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

### **7.6.1 Private Sector Department in the Ministry of Planning**

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

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

- **Evaluation of Private Sector Conditions**

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

- **Policy Impact Assessments**

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

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

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

- **Proposals for Action Programs**

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

### **7.6.2 Privatization**

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

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

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

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

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

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

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

### **7.6.3 Business Services**

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

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

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

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

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

#### **7.6.4 Other Institutional Initiatives**

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



- **Export Promotion and Development**

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

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

- **Export Financing**

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

- **Trade Relations**

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

- **Foreign Investment Promotion**

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

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

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

- **Technology Commercialization**

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

- **Business Education**

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

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

- **Small Business Development**

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

- **Private Sector Associations**

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

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

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

