

CHAPTER 1

PLANNING AND DEVELOPMENT IN SAUDI ARABIA

1. PLANNING AND DEVELOPMENT IN SAUDI ARABIA

With the implementation of the Fifth Development Plan, the Kingdom has completed twenty-five years of balanced and comprehensive development planning. The resulting growth and structural change in all sectors of the economy have led to a unique mix of material and social progress, whose fruits have spread to all regions of the Kingdom. Throughout this process, development has been guided by Islamic values and teachings.

From the outset of the First Development Plan in 1390/91, the main role of planning has been to provide an appropriate conceptual, practical and organizational framework for the development process, with all of its economic, social and institutional dimensions. In the economic field, there was an early determination by the government to construct a national physical infrastructure of the highest quality (particularly with respect to industry, agriculture, ports, roads and electricity) and to start the industrialization effort with large public investments in basic industries, while extending to agriculture a comprehensive system of support. In the social field, the development plans have always considered the desires, aspirations and capabilities of the Saudi Arabian people. Free education has been created and expanded to promote equality of opportunity in attaining the skills required for sustained development. An elaborate system of free health and social welfare services has been established, giving protection to the old and disabled and those on limited income. The government also provided the institutional framework needed for economic and social development by establishing new ministries and agencies and by upgrading the existing administrative bodies, thus facilitating expansion in the absorptive capacity of the Kingdom's economy and greater economic efficiency.

1.1 PRINCIPAL DIRECTIONS OF DEVELOPMENT

The First Development Plan formally established the broad strategic goals for the Kingdom's longer term development, to provide a guiding foundation for future development efforts over a thirty-year planning horizon. Although some changes in emphasis have characterized the medium term strategy of the individual plans in line with prevailing local and international conditions, successive Five-Year Development Plans have sustained these long term goals, reflecting both the essential continuity and the staged nature of the Saudi development process. These long-term strategic goals and some of the major achievements realized during the period 1389/90 to 1414/15 are described below.

1.1.1 ECONOMIC GROWTH AND SOCIAL STABILITY

In its development plans, the Kingdom has always pursued the macroeconomic objectives of economic growth, full employment, stable prices and the avoidance of sharp fluctuations in economic activity. As international experience has shown, however, the simultaneous achievement of all these

objectives, particularly the attainment of full employment with price stability, is not easy. Nonetheless, the Kingdom can be justly proud of its achievements in these areas:

- over the first five development plans, between 1389/1390 and 1414/1415, the real average annual growth in non-oil GDP has been 6 percent;
- average annual inflation between 1389/1390 and 1414/1415 (measured by the private consumption deflator) amounted to 5.3 percent, and to less than 1 percent during the last ten years, which is significantly lower than international levels;
- total employment of Saudis has risen from about 1.2 million in 1389/1390 to almost 2.4 million in 1414/15.

Rapid economic growth and modernization have led to social instability in many countries, particularly when the benefits of development have been unevenly distributed and traditional values have been abandoned. The Kingdom has been keen to avoid such adverse impacts, however. The provision of opportunities for all members of Saudi society to participate in the development process has been a permanent goal of the Kingdom's development plans. The most distinguishing feature of Saudi development in this regard has been the inspiring and formative role of Islamic values and teachings that have helped to bring about such a unique blend of material and social development. Although the same institutional forces of government regulation and the market economy apply in the Kingdom as in other societies, such values keep the requirements for individual initiative and social responsibility in a morally acceptable and creative balance.

1.1.2 DIVERSIFYING THE ECONOMIC BASE AND REDUCING DEPENDENCE ON CRUDE OIL

Central to the Kingdom's overall development strategy has been the recognition that sustainable long term development requires a reduced dependence on the exploitation of depletable crude oil resources as the main source of national income. Thus, each development plan put a high priority on establishing other strong economic sectors and income sources to meet the needs of a rapidly growing population. While the statistical measurement of the diversification achievements is difficult, the Kingdom has recorded some notable successes:

- Non-oil GDP increased more than fourfold between 1389/1390 and 1414/1415, measured in constant 1409/1410 prices;
- The non-oil sectors' contribution to GDP rose from 53 percent in 1389/90 to about 67 percent by the end of the Fifth Plan (1414/1415);
- The contribution of non-oil revenues to total government revenues increased from 16 percent in 1389/1390 to 22 percent in 1414/1415;

- As a share of the Kingdom's total exports, non-oil exports rose from 8 percent in 1389/90 to about 21 percent in 1414/15;
- Value added by manufacturing industry grew at an average annual rate of 7.4 percent between 1389/1390 and 1414/1415, in constant 1409/1410 prices;
- Driven mainly by the huge growth in petrochemicals exports of the past ten years, non-oil merchandise exports have risen from almost nothing in 1389/1390 to more than SR 15 billion in 1414/1415;
- Agricultural output rose six-fold between the beginning of the First Plan and the end of the Fifth Plan, and the Kingdom has moved significantly towards achieving self-sufficiency in food.

1.1.3 DEVELOPING HUMAN RESOURCES

The real wealth of the Kingdom ultimately lies in the productive skills of its labor force. Accordingly, the development plans have placed great importance on human resources development through continuous advances in primary, intermediate, secondary and higher education, as well as in technical education and vocational training. The result has been a great increase in the productive employment of Saudi citizens and a steady upgrading of the skill levels and occupational achievements of the Saudi labor force. The following indicators point to the quality and scale of achievement in developing the Kingdom's human resources:

- The total number of schools at all levels rose from 3,283 in 1389/1390 to about 22,000 in 1414/1415, while enrollment in all educational institutions increased from around 600,000 in 1389/1390 to about 3.3 million in 1414/1415 -- an average annual growth rate of 7.1 percent;
- Seven universities and fourteen girls' colleges have been established, while the total number of students at these higher education institutions has risen from 8,000 in 1389/1390 to about 170,000 in 1414/1415, i.e. an average annual growth rate of 13.0 percent;
- Enrollment in vocational training centers rose from 578 in 1389/1390 to over 10,000 in 1414/1415 -- an average annual growth rate of 12.6 percent -- while enrollment at technical schools and institutes increased from 848 in 1389/1390 to over 28,000 in 1414/1415, or at an average annual rate of around 16 percent.

1.1.4 DEVELOPMENT AND PRESERVATION OF PHYSICAL INFRASTRUCTURE

The first three development plans laid the groundwork for the rapid development and expansion of the physical infrastructure needed for a modern economy and society, while the Fourth and Fifth

Plans concentrated on the completion and enhancement of such infrastructure. The quality, scale and speed of investment in Saudi Arabia's infrastructure have been historically unique and have provided an outstanding base for future economic and social development. Some of the major infrastructural achievements of the first five development plans can be summarized as follows:

- The paved road network grew from 8,000 kms in 1389/1390 to about 43,000 kms in 1414/1415;
- The number of airports rose from 16 in 1389/1390 to 25 in 1414/1415, including the three international airports which are capable of accommodating the latest types of aircraft; the number of passengers entering and leaving the Kingdom exceeded 25 million in 1414/1415;
- The number of berths at the Kingdom's main seaports rose from only 11 in 1389/1390 to 179 berths in 1414/1415, while the volume of cargo handled by all sea ports has increased from 1.8 million tons to 89 million tons over the same period;
- Usable electricity generating capacity increased from 344 megawatts in 1389/1390 to 18,238 megawatts in 1414/1415 -- an average annual growth rate of 17.2 percent;
- Desalination plants increased their capacity from 19,400 cubic meters per day in 1389/1390 to about 1.9 million cubic meters per day in 1414/1415, or at an average annual rate of 20.1 percent;
- The number of working telephone lines has grown from 29,000 in 1389/1390 to 1.53 million in 1414/1415, or at an average annual rate of 17.4 percent.

The large-scale construction of infrastructure carried out through the development plans has supported the very rapid economic and social development of the Kingdom. However, the high demand resulting from a rapidly growing population and the requirements of an industrializing society have renewed the need to expand and modernize the Kingdom's physical infrastructure.

1.1.5 RAISING THE STANDARD OF LIVING AND IMPROVING THE QUALITY OF LIFE

The development plans have always aimed to distribute the benefits of economic growth throughout the population and to provide opportunities for all members of Saudi society to participate effectively in all aspects of the development process, while at the same time minimizing the negative impacts of rapid social and economic change. As a result, citizens now enjoy a quality of life that is equal to that of many people living in some advanced countries. The following indicators affirm the Kingdom's success (within 25 years) in providing its citizens with a standard of living that compares favorably to the achievements of many countries within a similar period:

- Private consumption of goods and services -- the best measure of living standards -- has risen at an average annual rate of 9.2 percent over the period 1389/1390 to 1414/1415;
- Infant mortality has fallen from 148 per 1,000 live births in 1389/1390 to about 30 in 1414/1415;
- The number of physicians in the Kingdom has risen from 1,172 in 1389/1390 to more than 28,000 in 1414/1415, while the number of hospital beds has grown from 9,039 to over 42,000 over the same period.

1.1.6 EXPANDING ROLE OF THE PRIVATE SECTOR

From the outset of development planning in the Kingdom, the adoption of free market principles ensured that private enterprise would always be the main focus of economic activity. Although the expansion of oil revenues in the first three plan periods necessarily accorded to the government the leading role in guiding and stimulating economic development, the rapid transformation of financial resources into productive physical assets during this period also required the active participation of the private sector in undertaking the necessary construction, operation and maintenance of these facilities.

By the beginning of the Fourth Plan, a suitable climate had emerged for greater integration between the government and the private sector. Most of the infrastructural projects had been completed and the priorities for development had shifted towards structural change and economic diversification. Through a wide range of financial and regulatory measures, the government encouraged the private sector to engage in joint ventures with foreign firms and to invest in new output-generating capacities using the latest available capital-intensive technology, mainly in agriculture and manufacturing industry. As a result, the private sector became less dependent than in earlier plans on government expenditure.

The growing maturity of the private sector and its resilience to declining oil revenues and government expenditure began to show in the Fourth Plan years and were reaffirmed in the Fifth Plan also, as the number of private sector companies continued to rise, along with the volume of private capital investment and the range of private manufacturing activity. The growing strength of the private sector and its important role in effecting structural change in the Kingdom's economy are evident in the following indicators:

- Private investment rose from SR 1 billion in 1389/90 to about SR 46 billion in the last year of the Fifth Plan;
- The private sector's contribution to GDP rose from 21 percent in 1395/96 to 45 percent in the last year of the Fifth Plan, while its contribution to non-oil GDP reached about 72 percent in 1414/15;
- Private sector employment rose by 4.7 million between 1389/1390 and 1414/1415;

- The number of operating (Saudi/foreign) joint ventures reached 352 in 1413/14, with total capital invested amounting to SR 81.5 billion;
- The stock market has grown rapidly in recent years, as the number of shares traded rose from less than 15 million in 1408/1409 to more than 60 million in 1413/1414, while the value of transactions over this period increased from about SR 760 million to over SR 17 billion.

1.2 CHANGING FOCUS OF THE DEVELOPMENT PLANS

The specific focus, targets and priorities of each of the five development plans have been established in the context of the Kingdom's long term goals and strategic objectives, which have been maintained consistently over the past 25 years, although their emphasis on economic, social and institutional aspects has varied in each Plan.

The **First Development Plan** laid the foundation for the Kingdom's rapid transformation into a modern industrializing nation by focusing on the provision of essential basic infrastructure and government services and the establishment and expansion of supporting institutions. From today's perspective it was modest in scale, with government expenditure amounting to SR 78 billion. This was funded mainly by higher revenues resulting from the oil price increase from \$1.80 per barrel to around \$10.70 over the course of the Plan.

The government placed special emphasis on the expansion of water supply and electricity generation. In the transport sector, road construction, airports and sea port development projects were implemented. The oil sector was expanded and a new refinery was constructed in Riyadh. Many new schools and hospitals were built. Social programs, including social insurance, were revised and broadened. The capabilities of government agencies were strengthened. The private sector was encouraged to expand, especially in agriculture and manufacturing.

Rapid economic and population growth generated a dramatic increase in the demand for infrastructure, services and housing during the **Second Development Plan** period. At the same time, rapidly rising oil revenues enabled these needs to be met and the creation of jobs in both government and private sectors. Government expenditure reached SR 658 billion in the Second Plan, an increase of more than eight-fold over the First Plan.

The focus of government expenditures in the Second Plan was on the provision of physical infrastructure to support the Kingdom's rapid development and to overcome barriers to economic growth, such as the "bottlenecks" that occurred in the transportation system and shortages in housing, water supply, electricity and ports. The Plan also aimed to expand social services, especially in education, health and social security. The private sector concentrated primarily on the construction and trade

sectors. To assist in achieving the objective of economic development and diversification, the government created many major institutions, including the specialized credit funds, the Saudi Ports Authority, SABIC (Saudi Arabian Basic Industries Corporation), the Ministry of Industry and Electricity, and the Royal Commission for Jubail and Yanbu, whose mission was to develop two large new industrial cities.

With many large projects already under way, the **Third Development Plan** concentrated on the completion of those major infrastructural projects that provided the foundation for a more diversified economy and on meeting the rapidly increasing demand for improved educational, health and social services. The volatility of oil revenues re-affirmed the need for the private sector to expand and for the economy to become less dependent on government activity and the oil sector.

The government encouraged economic diversification through large public sector investments in capital-intensive industries linked to the Kingdom's petroleum resources. In the private sector, manufacturing industries became more prominent and agriculture emerged as a high growth sector in response to government incentives and funding. The rapid pace of economic development required a large number of foreign workers, thus highlighting the need to develop Saudi human resources and gradually reduce the reliance on expatriate labor.

As the Kingdom embarked on the **Fourth Development Plan**, its development priorities were to continue the diversification of the economy by encouraging the growth of the private non-oil sector and to expand government services to meet social needs. The virtual completion of most of the country's physical infrastructure enabled the government to shift its expenditure priorities towards other important areas and needs.

Table 1.1 shows the major focus of the first four development plans and the amounts spent on the major sectors. During the First and Second Development Plans, expenditure on infrastructural development accounted for 41.4 percent and 49.3 percent of total expenditure respectively. In the Third Development Plan, 41.1 percent of expenditure was devoted to the completion of physical infrastructure, while 30.7 percent was directed towards the development of economic resources. Because of the Fourth Plan's concentration on qualitative development and improvements in economic performance, human resources development accounted for 33 percent of total expenditure, while expenditure on health and social development amounted to 17.7 percent of the total. Thus, these two sectors accounted for more than half of total expenditure during the Fourth Plan.

Table 1.1

**Expenditure of Development Agencies in the first Four Development Plans
(1390-1395 to 1405-1410)**

Plan Development Sector	First		Second		Third		Fourth	
	SR million	%	SR million	%	SR million	%	SR million	%
Economic Resources	9,469	27.7	97,279	28.0	192,185	30.7	71,193	20.4
Human Resources	7,034	20.6	51,035	14.7	115,007	18.4	115,133	33.0
Health and Social	3,515	10.3	27,600	7.9	61,237	9.8	61,882	17.7
Infrastructure	14,116	41.4	171,298	49.3	256,795	41.1	100,738	28.9
Total	34,134	100.0	347,212	100.	625,224	100.0	348,946	100.0

The **Fifth Development Plan** enhanced and broadened the main objectives of the previous development plans. At the same time, through appropriate regulatory policies and support measures, it gave the highest priority to the private sector's role in accelerating the process of economic diversification. Another aspect that gave the Fifth Plan its own unique features was the increasing emphasis on new long-term initiatives. Other priorities included the acceleration of the Saudiization process through strengthening the capabilities of the labor force and the improvement of health, education and a wide variety of other social services.

The Fifth Plan emphasized the importance of private sector expansion and the need to improve its competitive position in world markets. It also stressed the need for a greater private sector role in economic activities (such as the utilities and transport sectors) where the government had traditionally been the main provider of services. Other important development initiatives included measures to improve the technological base in many economic sectors, and the introduction and development of innovative technologies that are uniquely suited to Saudi needs.

The Gulf crisis interfered with the orderly implementation of the Fifth Plan, as the government modified its expenditure priorities and the environment for private investment changed. Despite the uncertainties of the period, however, substantial progress was made towards achieving the Fifth Plan's objectives.

The **Sixth Development Plan** will continue to enhance and broaden the main objectives of the previous development plans and will meet the Kingdom's development needs through: maximizing

the private sector's contribution in the provision of jobs; diversifying the economy to lessen its dependence on oil revenues; building new physical infrastructure to meet the needs of the growing population; achieving a growth rate that is commensurate with the expansion of job opportunities for the Saudi labor force; improving social services, such as education and health; raising per capita incomes; and maintaining a balanced budget over the Plan period.

To obtain maximum benefit from new budget expenditures, the Sixth Plan places special emphasis on improving economic efficiency by raising labor productivity through training, by using the latest technology, by other measures aimed at accelerating the Saudiization of the work force, and by implementing programs and management techniques for the fuller utilization of existing infrastructural capacity. For example, in the case of electricity generation and distribution, appropriate measures may be introduced to reduce peak load demand. In the transport sector, new traffic management techniques may be introduced to increase the volume of traffic that can be handled on existing roads. Such efficiency measures will help to slow down the rising costs of providing services and to expand the useful life of facilities. Thus, new infrastructural investments will be extended over a longer period, thereby reducing annual capital expenditure on these facilities.

The substantial domestic and foreign resources of Saudi individuals, businesses and financial institutions can be invested in infrastructural development and other activities, as appropriate financing mechanisms are introduced. A key focus of the Sixth Plan is on privatization and other initiatives for the private sector to provide some facilities and services that have traditionally been supplied by the government. Thus, the private sector is expected to play an increasing role in financing, building and operating key facilities in the fields of basic infrastructure, economic and social services, thereby reducing the financial burden of the government. A wide range of privatization methods may be employed, from the selling of stock in public companies so that a majority of ownership becomes privately held, to a variety of configurations for build/operate/transfer schemes. Such privatization initiatives will open up new opportunities for many Saudis to invest in, benefit from, and participate in the future development of the Kingdom.

Strong encouragement will be given to the private sector to expand in domestic and international markets, especially in the GCC and other trade areas. Expanding domestic markets and the emergence of privatization opportunities are expected to attract the private investment that is needed to generate growth in the national economy.

Another key focus of the Sixth Plan period will be the replacement of non-Saudi manpower by Saudis (referred to as "Saudiization"). This will be achieved by the provision of appropriate training programs to improve the skills and capabilities of Saudis in various occupations, and by appropriate steps to implement the related policies.

With the completion of the Sixth Development Plan by 1419/1420, the Kingdom will have made substantial progress towards achieving its ambitious objectives, developing its social and economic resources and ensuring the welfare of present and future generations.

1.3 PLANNING AND THE LONGER TERM DEVELOPMENT OF THE SAUDI ECONOMY

The Sixth Development Plan was prepared with a long term view of national economic development that is both ambitious and optimistic. Persistent changes and developments in the global environment make clear and accurate predictions of the future difficult. However, long-term economic forecasts for the next 20 years suggest positive growth for the oil sector and expanding potential for the development of the non-oil sectors. Such forecasts are supported by the private sector's steadily expanding role in the development process and by continuous efficiency improvements in its investment activities, production techniques and organizational structures.

Certain key structural factors will influence future Saudi development:

- Saudi Arabia's proven oil reserves constitute one quarter of total global reserves, which ensures the continuity of its leading role in stabilizing world oil markets, particularly in the face of rising world oil demand, on the one hand, and the limited supply of alternative energy sources on the other. Over the longer term, the combination of higher Saudi oil prices and export volumes can be expected to raise oil revenues at a faster rate than the growth in the Kingdom's population.
- The Kingdom possesses a wide range of other mineral resources that have not yet been fully explored or exploited. These natural resources will further enhance the Kingdom's long-term development potential.
- The Kingdom's population is growing rapidly and this high growth rate has important positive implications for the development process in the longer term. First, the relative shortage of Saudi manpower, which has been a feature of the development process in the past, will gradually become less important, as the development plans have always assigned a high priority to the expansion and development of the Kingdom's education and training systems. Second, the rising population will gradually expand the domestic market and thereby facilitate the growth of newly established Saudi industries and their contribution to the long term diversification of the economic base.
- The scope of the existing Offset Programs can be extended to cover more civilian contracts along with military contracts, through the compliance of foreign companies in re-investing 35 percent of the contract value in advanced technology joint venture projects with the Saudi private sector. Thus, the successful operation and expansion of the Offset Programs will enhance optimism about the future potential of the long run economic development process in the Kingdom.
- The Kingdom has had continuous monetary stability and has steadfastly maintained the internal and external purchasing power of the national currency. Furthermore, a new

dimension has been added to the Kingdom's long term development aspirations by the scope and potential that now exist for private sector investment, through the gradual introduction of privatization programs and the planned development of the domestic financial markets. These new initiatives and investment incentives will provide an encouraging climate for the repatriation of Saudi private capital and its investment inside the Kingdom.

Undoubtedly, such an optimistic long term development perspective requires the continuous implementation of an integrated and effective set of economic policies. In this respect, the government will give priority to policies that have direct positive impacts on the state budget, on manpower development, on enhancing the role of the private sector in the development process, and on increasing productivity. At the same time, however, there are many important positive indicators that support this optimistic perspective of the Saudi economy, such as:

- (i) The Saudi hydrocarbons sector will gradually encourage more foreign participation, which will accelerate future growth in the national economy.
- (ii) Appropriate methods of privatization will be implemented in some of the government's commercial activities.
- (iii) Saudi ARAMCO is expected to play a major role, not only in the development of oil production capacities, but also in consolidating its complementary refining and distribution activities in the importing countries, with a view to reducing its sensitivity to volatile world oil markets. Long term forecasts indicate that ARAMCO is expected to sell only 50 percent of its oil in crude form in the international markets, while the remainder will be refined and marketed by ARAMCO inside the Kingdom and abroad.
- (iv) The Kingdom enjoys a comparative advantage in capital-intensive industries that use advanced technology and are capable of achieving the maximum possible value added per worker. Such industries will be supported by the Kingdom's intensified efforts in the fields of general, higher and technical education and vocational training.

Considering these long term objectives, the priorities of the future development strategies of the Kingdom can be summarized as follows:

- developing Saudi manpower in line with the requirements of development plans and implementing Saudiization programs;
- maximizing use of the Kingdom's long term comparative advantages; developing the production capacities and improving the competitiveness of national products in domestic and world markets within the context of intensified efforts to diversify the economic base;

- preparing the private sector for leadership of the development process;
- rationalizing government spending through improved administrative efficiency and productivity in government agencies, through the privatization of some government-owned commercial activities, and through private capital participation in some government projects, provided that such measures will reduce government spending without adversely affecting the quality and availability of public services.
- achieving balanced budgets by adopting a fiscal policy that matches government revenues and expenditures, while devoting intensive efforts to the development of non-oil revenues, provided that no undesirable social and economic impacts will result;
- enhancing the foreign reserves of the Kingdom, while promoting continuous monetary stability by maintaining the purchasing power of the national currency at the national and international levels, as well as creating the appropriate investment climate to attract private Saudi and foreign capital;
- maintaining the standard of living and welfare of citizens;
- expanding the fields of technological development and environmental protection;
- boosting regional and international economic cooperation.

1.4 PLAN MANAGEMENT AND IMPLEMENTATION

1.4.1 THE PLANNING SYSTEM

Planning has been the primary instrument of development in the Kingdom. As conceptual frameworks, the Five-Year Development Plans represent structural designs for economic, social and institutional development, while as organizational frameworks they provide guidelines for implementation.

The Five-Year Plans are prepared according to the General Objectives and Strategic Bases as approved by the Council of Ministers. Specifically, they include the **Plan Document**, which outlines the medium-term economic objectives, policies and development strategy for the national economy during the Plan period, as well as sectoral trends in output, investment and expenditure, and the detailed **Operation Plans** for each Ministry and public agency, which set all government expenditure, development programs and annual schedules for the implementation and costs of projects. Hence, the documents (the national Plan Document, the agency Operation Plans and the Regional Reports) integrate the main elements of development: the structural priorities and directions of the economy, and the development and expenditure programs of government. The latter then become the guidelines for the annual budgets, which, as the first stage of Plan implementation, function as the main annual instruments of economic policy. The individual **Regional Reports**, describing existing socioeconomic conditions and future strategies and development needs of the regions, are also an important element of the overall planning system.

For the *private sector*, the planning system defines the regulatory and economic framework in which to operate. In a broader sense, the Five-Year Plans also provide orientation for the private sector on the likely course of the economy, on related government policies, and on potential business opportunities. The private sector is influenced by the set of policies adopted by the government, particularly privatization, the activities of the specialized funds, and the range of support measures and incentives.

Although the planning process involves all government agencies, the key role is assigned to the Ministry of Planning, which is responsible for the preparation and coordination of all sectoral plans at the national level.

1.4.2 COORDINATION BETWEEN THE FIVE-YEAR PLANS AND THE ANNUAL BUDGETS

Since its inception, development planning in the Kingdom has had inseparable links with the annual preparation of the State budget. The Plan could always be seen as annual budgets combined, while each annual budget could be regarded as the finalization of its earlier corresponding parts in the Plan. In the past, therefore, the combined system of Five-Year Plan and annual budget determined the level and pattern of expenditure for the various government agencies, with all the associated implications for the progress and direction of sectoral development. The most frequent problem associated with this relationship was the way in which individual agencies could modify their original project proposals over the period of implementation. Thus, flexibility in Plan implementation has always been a feature of the annual budget process. Such flexibility was given added emphasis with the adoption of the program-based approach to the planning process in the Fourth Development Plan.

The need for such flexibility has become even more significant in the Sixth Plan, as the planning emphasis moves increasingly from capacity creation to efficiency aspects, from the concentration of earlier plans on expenditure programs to the design and implementation of comprehensive and consistent policies, and from filling a need for the output of public sector projects to analyzing their overall consequences and impacts.

1.4.3 PLANNING METHODOLOGY

The Kingdom adopts a dual system of *program-based* planning for government agencies and *indicative* planning for the private sector. Program-based planning was first introduced in the Fourth Plan to provide a functional framework for defining the structure of development agency activities and services. This approach required agencies to adhere to an agreed program structure, while simultaneously increasing their flexibility to manage expenditure on projects within individual programs, according to prevailing funding conditions. It thus shifted the focus of planning from projects to programs,

from the detailed implementation of individual projects to responsibility for managing expenditure priorities and structure. Government agencies will continue their program-based planning in the Sixth Plan also.

With the onset of the Sixth Development Plan, planning methodology will enter a new phase of development, commensurate with the Kingdom's current circumstances and a changing world economy. Over the previous five development plans, the government has played a major role in driving the socio-economic development process through spending on development programs and projects. The economy has now entered a more mature stage and remarkable progress has been made in diversifying the economic base. After twenty-five years in which planning has been concentrated on government spending, the need has emerged to concentrate planning on objectives and policy measures aimed at raising efficiency and improving performance, so that government spending can be rationalized through a balanced framework of demand management measures and improvements in the administrative and operational efficiency of government services. Thus, the focus of planning will shift from the expansion of productive capacity towards raising economic efficiency, from the direct contribution of projects to the satisfaction of demand towards the analysis of the overall impacts of these projects. Based on this comprehensive view, the emphasis of the Sixth Development Plan is on policies, measures and instruments that will achieve greater economic efficiency and the optimal utilization of resources, thereby encouraging the private sector to increase investment and generate more job opportunities for Saudi citizens.

The new emphasis on indicative planning for the private sector, introduced in the Fifth Plan, will continue in the Sixth Plan through:

- clarification by the government of the main directions of development within each sector;
- identification of the volume and structural composition of the total investment needed to achieve the development objectives and the private sector's share of this investment;
- the creation of a positive environment for investment through the adoption of appropriate fiscal and monetary policies to facilitate the expansion of medium and long-term capital financing, and economic policies that will support agricultural and industrial production and promote exports;
- the identification of privatization and other investment opportunities that will generate good returns for the private sector and contribute directly to the achievement of the Sixth Plan's growth and diversification objectives.

1.4.4 MANAGEMENT OF PLAN IMPLEMENTATION

Managing the implementation of the Plan is an integral part of the planning system, without which the Plan's objectives cannot be effectively achieved. The Ministry of Planning's approach to this task will include a number of important activities, as described below.

1.4.4.1 Follow-Up and Evaluation

The follow-up function is concerned mainly with assessing the progress of Plan implementation, for its intended impacts, the effects of unexpected external influences, as well as possible delays and deviations from the Plan. A number of continuous, inter-related and responsive activities comprise the follow-up function, the key elements of which are:

- ensuring that development programs and policies effectively achieve and are consistent with the strategic objectives of the Plan;
- evaluating the effectiveness of policies and relevant programs in achieving their objectives, and providing alternative policy options when needed;
- assessing efficiency in the allocation of resources, thereby improving the Ministry's effective input to expenditure decisions and promoting the achievement of strategic objectives;
- expanding and upgrading the available information for decision makers to minimize deviations from the Plan and to identify the obstacles and constraints to implementation.

1.4.4.2 Consultation between the Government and the Private Sector

Because of the special emphasis on the private sector's role in the economy, greater coordination is needed between the government and the private sector. Improved dissemination of timely, reliable information and analysis about the performance of specific sectors and the economy in general will also be required. Several mechanisms for business-government consultations already exist, such as the conferences and symposia organized by the government or by the Saudi Council of Chambers of Commerce and Industry, studies undertaken by the government with private sector participation (such as the survey of businessmen), and the studies on investment opportunities undertaken by the Chambers of Commerce and Industry. These will be further expanded during the Sixth Plan period.

1.4.4.3 Data Base and Information Systems

To strengthen the management of Plan implementation activities, the Ministry of Planning is developing and extending its data bases, management information systems and capabilities in the fields of policy analysis and program review. Furthermore, it is actively encouraging other relevant agencies to improve the quality and scope of socio-economic and demographic data necessary for effective planning. Similarly, the development agencies themselves will strengthen their data bases and management information systems to meet the needs of decision makers within these agencies, as well as to provide the Ministry of Planning with the information and analysis needed to monitor and evaluate the implementation of the Plan.

