

THE PRIVATE SECTOR

8.1 INTRODUCTION

The Eighth Development Plan continued the efforts designed to support the private sector and provide an environment conducive to its growth and leadership of the national economy. The Plan drew the policies and proposed the programmes needed to develop regulations, improve the investment environment, and open new investment opportunities for the private sector to employ its resources, striking a balance between appropriate returns and achievement of the strategic goals of the country; such as balanced development, economic diversification, increasing productivity and enhancing competitiveness. Concomitantly, infrastructure was developed extensively, and specialized government lending institutions were stimulated and their capital increased to enable them to provide soft loans to finance private-sector activity.

Notwithstanding the global financial crisis and its negative repercussions over the last two years of the Eighth Development Plan, the efforts made under the plan have enabled the private sector to achieve good results at various levels. However, the crisis necessitated continued efforts to open up new investment opportunities and provide more facilities to encourage national and foreign private investment in the Saudi market.

This chapter addresses the current conditions of the private sector, the key issues and challenges facing it and the objectives it is expected to achieve under the Ninth Development Plan. The policies adopted by the Plan to continue enhancement and development of an environment conducive to achievement of the development goals of the sector are also presented.

8.2 CURRENT CONDITIONS

8.2.1 Overall Performance

The Eighth Development Plan created an investment environment favourable to increasing the developmental role of the private sector and enhancing its contribution to various activities. In consequence, indicators of the performance of the sector improved, in terms of its relative contribution to GDP, as well as the size of its investments. Hence, its ability to achieve the growth rates targeted by the Plan was also enhanced.

The relative contribution of the private sector to non-oil GDP increased during the Eighth Development Plan from 71.9% to 74.5% at constant prices of 1999, at an average annual growth rate of about 5.5%, compared with a target of about 5.66%. This was due to the value-added by the sector increasing from around SR376.7 billion to around SR491.2 billion, which led to the contribution of the private sector to GDP increasing from 52.2% in 2004 to 57.4% in 2009 (Table 8.1).

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Table 8.1
Private Sector Performance Indicators*
Eighth Development Plan

Performance Indicator	Value (SR billion)		Average Annual Growth Rate (%)	Share in the Total (%)	
	2004	2009		2004	2009
Value added by private sector ^(*)	376.7	491.2	5.5	52.2	57.4
Fixed Investment in private sector ^(*)	117.7	190.9	10.2	77.3	73.6
Capital Stock of private sector ^(*)	1087.2	1472.2	6.3	55.4	58.9
Non-Oil Exports ^(**)	90.6	161.8	12.3	34.2	51.3
Total Employees (million)	6.1	6.9	2.5	84.8	84.3
Total Saudis Workers (million)	2.4	2.8	3.6	32.8	34.3

(*) Values at constant 1999 prices. Values, growth rates and percentages are rounded to nearest decimal.

(**) Includes all exports, except for crude oil and gas.

Source: Ministry of Economy and Planning.

Under the Eighth Development Plan, the private sector achieved real growth in investments at an average annual rate of about 10.2%, which is nearly equal to the target rate of 10.4%. The proximity of the two rates suggests that the impact of global financial crisis on private sector investments was limited. Indeed, these investments were in varied activities and to a large extent directed towards projects designed to meet the growing domestic demand for goods and services. Thus, private-sector investments rose from about SR117.7 billion in 2004 to about SR190.9 billion in 2009, and their share in total investments reached 73.6% by the end of the Plan (Table 8 .1).

Increased private investment contributed to an increase in the productive capacity of the national economy. The capital stock of the private sector rose under the Eighth Development Plan from SR1087.2 billion in 2004 to about SR1472.2 billion in 2009; representing approximately 58.9% of the total capital stock accumulated in the Kingdom, compared with about 55.4% in 2004. This accumulated stock of capital assets played a major role in increasing the value added of the private sector under the Plan.

As for export performance of the private sector, a significant increase in non-oil exports was achieved, from about SR90.6 billion in 2004 to about SR161.8 billion in 2009, which amounts to an average annual growth rate of about 12.3%. This positive development was achieved despite a drop in World Trade Indicators, as a result of the financial crisis and its repercussions on the economies that import Saudi private-sector products.

Expansion of private sector under the Plan was accompanied by an increase in provision of employment opportunities. The average annual growth rate of employment opportunities was about 2.5%, leading to workers in the private sector increasing from about 6.1 million in 2004 to about 6.9 million in 2009, which amount to approximately 84.3% of total employment (Table 8.1). Likewise, the number of citizens working in the private sector rose from about 2.4 million in 2004 to about 2.8 million in 2009, at an average annual growth rate of 3.6%. The country is making intensive efforts to raise this rate through

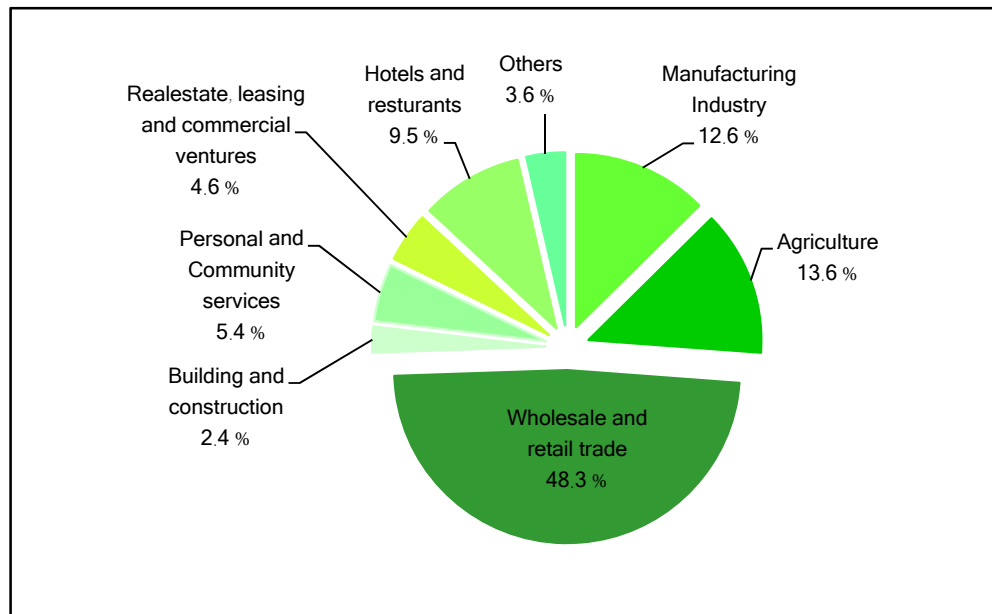
training and qualification of the national manpower to meet the needs of the labour market.

8.2.2 Private Sector Enterprises

In 2008, private-sector enterprises numbered 823.5 thousand, 94.2% of which were small enterprises. Wholesale and retail trade firms accounted for 48.3% of the total, followed by agricultural enterprises at 13.6%; manufacturing industries at 12.6%; hotels and restaurants at 9.5%; personal and community services at about 5.4%; real estate, leasing and commercial ventures at about 4.6%; and building and construction at about 2.4% (Figure 8.1). The number of enterprises of various sizes grew by the end of 2008 by around 31.9%, compared with the numbers recorded in the previous year.

Figure 8.1
Distribution of Private Sector Enterprises
by Type of Economic Activity, 2008

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Source: Central Department of Statistics and Information.

Notably, medium-size enterprises account for relatively high percentages in certain activities, such as: financial intermediation, education, health and social services, mining and quarrying, and building and construction (Table 8.2). In contrast, in 2008, large-size enterprises accounted for a modest percentage of the total. Hence,

SMEs need to be encouraged to merge into larger entities to take advantage of internal and external economies of scale.

Table 8.2
Distribution of Private Sector Enterprises
by Size and Type of Economic Activity
2008 (*)

Economic Activity	Small Enterprises		Medium Enterprises		Large Enterprises		Total
	Number	%	Number	%	Number	%	
Agriculture, Forestry and Fishing	109,709	98.1	1,864	1.7	230	0.2	111,80
Mining and Quarrying	227	38.5	290	49.2	73	12.3	590
Manufacturing	94,264	90.8	7,739	7.5	1,793	1.7	103,796
Electricity, Gas and Water	2,465	88.1	248	8.9	85	3.0	2,798
Building and Construction	13,384	67.4	4,674	23.5	1,808	9.1	19,866
Wholesale and Retail	385,368	96.9	10,995	2.8	1,411	0.3	397,774
Hotels and Restaurants	73,029	92.9	5,144	6.5	381	0.6	78,554
Transport, Storage and Communications	14,352	85.0	1,993	11.8	535	3.2	16,880
Financial Intermediation	385	33.9	648	57.1	102	9.0	1,135
Real estate, Leasing and Commercial Ventures	35,662	93.3	2,147	5.6	431	1.1	38,240
Education	1,715	44.4	1,823	47.2	321	8.4	3,859
Health and Social Services	1,991	49.5	1,685	41.9	343	8.6	4,019
Personal and Community Services	43,361	98.2	642	1.5	146	0.3	44,149
Total	775,912	94.2	39,892	4.8	7,659	1.0	823,463

(*) Small enterprises employ 9 workers or less, medium enterprises 10–49, large enterprises 50 or more. Percentages are to nearest decimal.

Source: Central Department of Statistics and Information.

Under the Eighth Development Plan, small enterprises provided about 43.3% of all job opportunities, while medium and large enterprises employed 19.2% and 37.5%, respectively. As for distribution of employment by type of economic activity, the service sector continued to have the largest proportion, up from 69% in 2004 to about 71.7% in 2009. With about 28.3% in 2009, compared with 31% in 2004, productive sectors came second.

Table 8.3 shows the continued concentration of private-sector capital stock in the production sectors, at the expense of other economic activities. This is an indicator that the private sector is responding to the government policies designed to encourage it to increase

investments in productive sectors, with the aim of achieving economic diversification, as well as attempting to reduce recruitment of foreign labour by enhancing the drive towards capital-intensive production activities; especially the oil refining, petrochemicals, electricity, gas and water sectors. The capital stock of the private sector in the production sectors increased from about 53.1% in 2004 to about 59.4% in 2009; an increase that is attributable to the manufacturing sector, which attracted some 35.5% of the total capital stock of the private sector in 2009 versus 26.4% 2004.

Table 8.3
Percentage Distribution of Private Sector Variables
by Economic Activity
Eighth Development Plan^(*)

(%)

Sector	Capital Stock		Value Added		Employment	
	2004	2009	2004	2009	2004	2009
Productive Sectors	53.1	59.4	46.4	44.8	31.0	28.3
Agriculture, Forestry and Fishing	5.0	3.8	9.7	8.0	5.6	4.2
Non-Oil Mining	0.4	0.3	0.7	0.6	0.3	0.3
Manufacturing	26.4	35.5	20.7	21.3	9.3	8.6
• Oil Refining	7.8	15.8	5.5	4.7	0.3	0.3
• Petrochemicals	11.0	12.6	2.3	2.8	0.3	0.3
• Other Manufacturing	7.6	7.1	12.9	13.8	8.7	8.0
Electricity, Gas and Water	18.8	17.8	2.9	2.9	1.0	1.2
Building & Construction	2.5	2.0	12.4	12.0	14.8	14.0
Private Services Sectors	46.9	40.6	53.6	55.2	69.0	71.7
Trade, Restaurants and Hotels	6.6	5.6	14.5	14.7	18.8	22.7
Transport and Communications	6.6	6.1	9.7	11.5	4.6	5.5
Finance, Insurance, Business and Real Estate Services	30.9	26.5	22.6	22.4	4.9	6.0
Real estate Services	25.3	21.6	12.2	11.3	3.9	4.6
Finance, Insurance and Business Services	5.7	4.9	10.4	11.1	1.0	1.4
Personal and Community Services	2.8	2.4	6.8	6.6	40.7	37.5
Total Private Sector	100.0	100.0	100.0	100.0	100.0	100.0

(*) Percentages are rounded to nearest decimal.

Source: Ministry of Economy and Planning.

8.2.3 Bank Credit

Bank credit to the private sector increased during the first four years of the Eighth Development Plan at an estimated average rate of about 23.8%; an increase that is attributable to increased financing by commercial banks of private sector activities in general, and its imports and exports in particular. Private sector imports financed by the commercial banks increased in 2008 to about 121.3% of its value in 2004, while private-sector exports financed by commercial banks increased during the same period to about 184.3% (Table 8.4).

Table 8.4
Evolution of Bank Credit to Private Sector
Under Eighth Development Plan ^(*)

(SR billion) ^(**)

Year	Bank Credit to Private Sector	Private Sector Imports Financed By Banks	Private Sector Exports Financed by Banks
2004	303.0	96.0	14.7
2005	420.8	116.2	16.9
2006	462.1	132.3	24.3
2007	557.4	168.5	30.8
2008	712.7	212.4	41.8

(*) Up to the end of the fourth year of the Eighth Development Plan.

(**) Values are rounded to nearest decimal.

Source: Saudi Arabian Monetary Agency.

8.2.4 Business Environment

According to the Doing Business report issued by the IFC of the World Bank, the Kingdom has made remarkable progress in improving the business environment under the Eighth Development Plan. It jumped from rank 67 among 145 states in 2004, to 38 among 155 in 2005, and maintained the same position in 2006 despite even though the number of competing states increased to 175. In 2007, 2008, and 2009, the Kingdom continued to improve its rank to 23 among 178, 16 among 181, and 13 among 183, respectively.

As a result of this outstanding performance, the Kingdom ascended to the list of the 25 countries providing the best environment for doing business. In addition, the 2009 Doing Business report put the Kingdom among the top seven countries in terms of reforms designed to stimulate investment. Moreover, the Kingdom came in this report top among Arab states, for its numerous organizational and procedural reforms to encourage investment by both the national and the foreign private sector.

The Kingdom adopts a comprehensive concept of business-environment development, based on integrating institutional and regulatory development of government agencies, especially those relating to private sector activities, with other efforts to create an investment climate. Hence, the pace of implementation of electronic transactions has been accelerated, and the e-government initiative (YESSER) was launched, along with implementation of an ambitious programme dubbed 10 × 10 for raising competitiveness of the Kingdom internationally, for it to become one of the top ten countries in 2010. These measures were reinforced through issuance of several regulations and rules, such as the Real- Estate Investment Funds Regulations, the Corporate Governance Regulations, the Investment Funds Regulations, and the Mergers and Acquisitions Regulations.

8.2.5 Chambers of Commerce and Industry

Private sector development was paralleled by development of the activities of institutions concerned, notably the 25 Chambers of Commerce and Industry, spread across the Kingdom. These play an important role at various levels, such as organizing private-sector activities and promoting common economic interests of private-sector institutions. Partnership between the government and the private sector was bolstered by the activities of 29 national committees operating under the Council of Saudi Chambers. The committees studied several important issues of interest to the private sector, in addition to studying regulations, decisions and measures taken by government agencies to ensure their implementation or propose amendments aimed at protecting the interests of the private sector.

Moreover, Chambers of Commerce and Industry support competitiveness of the private sector, develop relationships between employers and employees, settle disputes and eliminate conflicts of interests among institutions of the sector, as well as participating in the activities of similar institutions within the Gulf Cooperation Council, in the Arab and Islamic world, and internationally.

Furthermore, in an effort to enhance trade and investment relations with sisterly and friendly countries, the Council of Saudi Chambers organized visits of Saudi delegations to most countries. In addition, 32 business councils were established by the end of the Eighth Development Plan. The councils and the visits of the delegations played an important role in promoting trade and flow of goods with all countries, as well as improving the investment climate by identifying obstacles and presenting them to the relevant public institutions.

Chambers of Commerce and Industry have constructed at their headquarters well-equipped buildings with meeting halls for businessmen to meet visiting foreign delegations. They also organized symposia addressing issues of interest to all businessmen, including traders, industrialists and professionals; built well-equipped exhibition centres; and established training centres to help young people enter the labour market.

Some of the work of the Chambers was specifically targeted towards helping achieve the goals and aspirations of the Kingdom in relation to increasing participation of women in economic activity. Centres for businesswomen were established, and the obstacles to economic empowerment of women were addressed.

8.2.6 The Private Sector and the Privatization Strategy

Council of Ministers Resolution 219 of 11/11/2002 listed the facilities and activities to be privatized. There followed several important developments, the most important of which was a Council of Ministers Resolution in 2004 that offered for public subscription all state-owned shares in the National Company for Cooperative Insurance, which amounted to 50% of total shares.

Privatization efforts continued under the Eighth Development Plan. In 2006, studies of privatization of the Saline Water Conversion Corporation were completed and implementation of the transitional phase started: a plan for implementing the requisite organizational structure and administrative, financial and legal procedures was drawn, and a timetable for implementation set. The private sector was also allowed to contribute to electricity generation and transmission services, under the umbrella of the Saudi Electricity Company, which has attracted investments in important power generation projects, such as Rabigh on the Red Sea coast, and the eleventh generation plant in Riyadh.

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In 2007, privatization contracts for a number of facilities in ports were completed, such as the general cargo and the bulk grain terminals at King Fahd Industrial Port, the container terminal and cargo berths at Jubail Commercial Port. In addition, the northern and southern support terminals at Jeddah port and the cargo terminal at Yanbu Commercial Port were leased. Likewise, the Saudi Industrial Property Authority began implementing the privatization of industrial cities, by allowing the private sector to implement projects to develop and expand these cities, as well as by privatizing the support services in them.

Currently, privatization plans for Saudi Arabian Airlines are being finalized, and the private sector is undertaking operating the free markets in the international airports. Telecommunications have been given over to a Saudi joint-stock company and the sector opened up for competition, while conversion of the railways to Saudi joint-stock company is underway.

8.3 ISSUES AND CHALLENGES

8.3.1 The global financial crisis

Since mid 2008, the world economy has been experiencing a severe financial crisis that turned into a deep economic crisis, which has had a negative impact on various countries to varying degrees, depending on the strength of their linkages to the main crisis economies. The economy of Kingdom was one of the least affected. Nonetheless, there

have been some consequences, the most notable of which are:

- Private sector export activity was affected by the global recession caused by the decline of demand in international markets leading to a decline in the volume of world trade. This constitutes a challenge to plans aimed at developing non-oil exports, especially of chemical products.
- Rates of growth of foreign direct investment inflows will probably be lower.

Prevailing uncertainty and low level of confidence throughout the world due to the global financial crisis notwithstanding, forecasts indicate that the national economy and the private sector would for several reason weather the crisis and its repercussions. Among the most important of such reasons is that the Kingdom has allocated of SR1500 billion (400 billion dollars) to investment expenditure, as was announced at the G20 summit in 2009 and has adopted an expansionary fiscal policy.

These steps reflect confidence in the ability of the national economy to overcome the consequences of the global financial crisis. Among other policies and measures, they are expected to provide more investment opportunities for the private sector; supported by the Saudi Arabian Monetary Agency continuing to adopt appropriate monetary policy instruments to enhance bank credit, support the resources of specialized credit institutions, and adopt an integrated set of corrective actions designed to advance the capital market.

8.3.2 The World Trade Organization (WTO)

The Ninth Development Plan is expected to witness intensive international cooperation efforts by the Kingdom to enable the global economy to recover from the financial crisis and economic recession, as well as to enhance the ability of the private sector to benefit from accession to the WTO. The opportunities offered by membership of the WTO notwithstanding, there are challenges that require combined government and private-sector efforts, most notably:

1. Competitive capabilities of national firms, since predictions indicate that some enterprises, particularly small and medium (SMEs), may face great competitive challenges and difficulties.
2. The need for further technical support (within the limits allowed by the WTO) to enable industrial activities that are affected by accession to adapt to the emerging challenges resulting from increased competition between their products and imported ones.
3. Intensification of plans for promoting highly competitive national exports, especially to benefit from the status of most favoured nation in the markets of member states of WTO. Companies can benefit from various channels for promoting national exports, such as the Saudi Fund for Development, in addition to programmes provided by the Chambers of Commerce and Industry.
4. The need to enhance support for programmes to develop the regulatory environment for services, since the majority of companies and institutions that provide services need large investments in infrastructure and technology transfer.

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8.3.3 National Employment

Employment of nationals is an issue that receives a great deal of special and growing interest from all those responsible for economic and social development. Unemployment in the Kingdom is classified as “structural”, resulting from qualitative and quantitative incompatibility between demand for and supply of national manpower. As such, unemployment among nationals is not due to a lack of jobs, but rather to mismatch between outputs of the education system and labour market needs, as well as to reluctance to work in the private sector, due to relatively low salaries and wages.

Considerable efforts have been made by the state to qualify and train national manpower to meet the requirements of the private sector. A number of resolutions committing the private sector to employ national manpower have been issued, to which the sector responded relatively positively. Nonetheless, the average annual growth rate of national employment in the private sector under the Eighth Plan was limited to

about 3.6%, compared with a target rate of 7.2%. Hence, challenges of employment of nationals in the private sector call for continuous action under the Ninth Development Plan, through an integrated, effective strategy.

8.3.4 Microfinance

In addition to being essential seeds for medium and large enterprises, small ones play a key role in providing employment opportunities, development of less developed regions, and entrenching the culture of work and production. Successive development plans, particularly, the Eighth, sought to promote small enterprises. Yet, they still face at all stages of their evolution (establishment, building and equipping, and operation and expansion) several obstacles that negatively affect their performance and their contribution to private-sector growth.

Access to concessional financing is the major obstacle to development of small enterprises. Other obstacles are poor marketing, inability to procure high-quality production inputs, poor production and operation techniques, a weak regulatory and legal environment, and administrative obstacles.

Thus, small enterprises need suitable funding sources. Islamic finance could help meet the financial needs of small enterprises. Hence, the Ninth Development Plan adopts policies aimed at encouraging Islamic banks and financial institutions to expand Islamic finance formulae, the most important of which are lease-to-own, profit sharing (Murabaha) and partnering (Musharaka).

8.3.5 Institutional Framework for Development of SMEs

The Ninth Development Plan adopts a number of measures in support of SMEs, the most important of which is removal of the administrative, organizational, technical, financial and marketing obstacles they face. Indeed, activation of the developmental role of SMEs requires establishing a specialized institution that addresses the challenges they face, coordinates facilitation of adequate funding, provides technical

and marketing support, and facilitates government procedures. Moreover, there is a need for stepping up creation of business and technology incubators and other basic facilities.

8.4 DEVELOPMENT STRATEGY

8.4.1 Future Vision

An efficient and diverse private sector that enjoys competitive advantages at a global level and attaches great importance to research, development and innovation, thereby contributing to socio-economic development, diversification of the national economy and enhancement of the competitiveness of national products internationally.

8.4.2 Objectives

- Accelerating growth of the private sector and expanding its production and service activities, to enhance its role in diversifying the economic base, employment of national manpower, and increase its relative contribution to GDP.
- Achieving integration between government and private initiatives, reinforcing efforts to improve productivity and competitiveness, providing technical development requirements, and moving towards a knowledge-based economy.
- Developing systems to facilitate procedures related to private-sector activities, expanding opportunities for participation of women, and developing dispute settlement mechanisms.

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8.4.3 Policies

- Continuing to create an attractive investment environment for national and foreign private investment.
- Using appropriate monetary and fiscal policy tools to enable the private sector to overcome repercussions of the global financial crisis.

- Providing the private sector with more promising investment opportunities, with emphasis on strengthening linkages and integration among enterprises operating in industrial complexes, creating an enabling environment for competition and reducing monopolistic practices, and supporting technical development through joint initiatives between government and private sectors; as well as expanding public-private partnerships, focussing on infrastructure projects and developing health, educational and social development services.
- Reducing the size of the informal sector, fighting commercial and industrial fraud, and overcoming the obstacles to development of SMEs; with emphasis on providing skilled human resources and material resources to the agencies entrusted with inspection, and control of industrial and commercial fraud and counterfeit goods as well as on enforcing the provisions of the anticommercial fraud regulations, issued by Royal Decree No. M / 19, 2008 consistency.
- Continuing to adopt corrective measures for advancing of the stock market and other financial services, in order to promote efficient functioning of the private sector.
- Intensifying efforts of the Council of Chambers of Commerce and Industry to improve the capabilities of the private sector, to enable it to deal efficiently and flexibly with changes and developments at local, regional and international levels, through provision of information and data on regional and global markets, as well as studies and research to support its productive, marketing, management and competitiveness capacities; along with holding seminars and conferences to promote consultation and partnership between the public and the private sectors at all levels.
- Continuing to offer incentives to national and foreign private investment, with the aim of raising technical content in non-oil products and exports, thereby improving their competitiveness.
- Enhancing government and private sector initiatives related to development of SMEs and developing appropriate regulatory

frameworks to increase their contribution to non-oil GDP, with an emphasis on the following:

- Urging banks and financial institutions operating in the Kingdom to expand the financing of this sector
 - Removing administrative, organizational, technical and marketing obstacles facing these enterprises.
 - Studying the feasibility of establishing a programme to provide soft loans to support technical development of medium enterprises integrated with larger ones.
- Strengthening measures of ensuring the transparency and credibility of the financial statements published by joint-stock companies and providing specific mechanisms for legal accountability.
 - Toughening the sanctions against monopolistic practices, strengthening the competition law established by Royal Decree No. M / 25, 2004, and coordinating the work of the relevant agencies of the Ministry of Commerce and Industry, the Council of Saudi Chambers, and the Consumer Protection Society, particularly as regards raising the awareness of the private sector of competition and of means of combating monopolistic practices.
 - Raising environmental awareness among businessmen and investors in the private sector, and intensifying the support services and technical advice provided by the Saudi Industrial Development Fund to industrial projects, especially in the use of modern production techniques for waste disposal and recycling.
 - Adopting a comprehensive set of measures to deal effectively with the challenges arising from accession to the WTO, while taking advantage of the opportunities afforded by it.
 - Strengthening the export potential of the private sector, through reinvigorating the Saudi Exports Development Authority; preparing a long-term plan for the development of non-oil exports; and developing policies, programmes, incentives and technical assistance to exporters, in accordance with the specific

tasks entrusted to the Authority.

8.4.4 Targets

- Increasing the value added in the private sector at constant 1999 prices from SR 491.2 billion in 2009 to about SR677.6 billion in 2014, i.e., at an average annual growth rate of about 6.6%.
- Increasing the share of private sector in GDP from about 57.4% in 2009 to about 61.5% in 2014.
- Increasing private investment expenditure at an average annual growth rate of about 11.8% to reach around SR334 billion in 2014.
- Growing non-oil exports at an average annual rate of about 10%.
- Growing total employment in the private sector at an average annual growth rate of about 2.5%.
- Growing Saudi employment in the private sector at an average annual growth rate of about 5.3%.

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