



50
YEARS عاماً



SIDF
صندوق التنمية الصناعية السعودي

BUILDING RESILIENCE:

A FOCUS ON
LOCALIZATION AND
SUPPLY CHAIN

Table of Contents

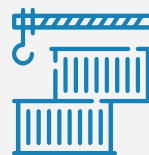
EXECUTIVE SUMMARY	3
GLOBAL SUPPLY CHAINS: CHALLENGES AND OPPORTUNITIES	6
SAUDI SUPPLY CHAINS: GROWTH AND INNOVATION	8
Localization in Saudi Arabia: A National Strategic Priority	11
Policy in Focus: National Industrial Development and Logistics Program (NIDLDP)	13
New Geography: Economic Cities and Special Economic Zones	14
🔍 CASE STUDY: King Abdullah Economic City (KAEC)	16
Saudi Made: Bringing Saudi Products to the Global Market	17
Tapping into Global Knowledge: The Saudi Advanced Manufacturing Hub (Saudi AMHUB)	18
PARTNERS IN GROWTH: HARNESSING THE POWER OF THE PRIVATE SECTOR	19
Driving Resilience: The Local Content & Government Procurement Authority (LCGPA)	19
Interview: Abdulrahman bin Abdullah Al-Semari, CEO, Local Content & Government Procurement Authority	21
Tawteen: Incentivizing Local Content	22
Interview: Lloyd Gencay, Chief Procurement & Supply Chain Officer, Ceer	24
BUILDING BLOCKS: RESOURCES AS CATALYSTS FOR SUPPLY CHAIN DEVELOPMENT	25
Empowering People: Creating a Human Capital Development Ecosystem	25
Key Inputs: Saudi Arabia's Natural Resources	27
🔍 CASE STUDY: Saudi Arabian Mining Company (Ma'aden)	28
🔍 CASE STUDY: Saudi Arabian Military Industries (SAMI)	29
Roundtable: Saudi Local Content Partners: Aramco, Ma'aden, SEC	30
FUNDING LOCALIZATION AND SUPPLY CHAINS	34
SIDF as Primary Financial Enabler for Industry and Logistics	34
Interview: Naif Samir Al-Khairallah, VP of Risk Management, SIDF	38
Liquidity and Supply Chain Financing	39
Recent Investment and Partnership Highlights	40
Interview: Eng. Ahmed Muhammad Al-Baqawi, VP of Studies, SIDF	41
SIDF'S ENABLING ROLE IN LOCALIZATION AND SUPPLY CHAINS	42
AFAQ Program	42
Tawteen Program	43
Mutajadedda Program	44
Tanafusiya Program	44
ABOUT SIDF	45

EXECUTIVE SUMMARY

Global supply chain patterns are changing. The onset of the Covid-19 pandemic and conflict in Ukraine have exposed fragilities in regional and international supply chain networks that will have ramifications for years to come. Despite a recovery in global trade volume, rising transport costs and supply chain bottlenecks threaten economic slowdown and elevated levels of inflation.



25%
 year-on-year increase in global trade in 2021 to \$28.5 tn (SAR 106.9 tn)²



457%
 increase in global container shipping rates between 2019 and 2022³

How to make supply chains more resilient and cost effective is therefore a key question for the supply chain ecosystem. The response in Saudi Arabia is a cross-government effort, and one in which SIDF is playing an important supporting role by aligning with national strategies and key government goals:¹



40%
 of pharmaceutical industry to be localized by 2030



85%
 of domestic food production to be localized by 2030



50%
 of overall defense and security expenditure to be localized by 2030

Saudi Arabia’s localization and supply chain agenda aims to bring supply chains closer to the domestic economy – reducing costs and boosting sustainability. It is taking place in a rapidly evolving economic landscape that includes emerging economic cities and Special Economic Zones (SEZs). It is also tapping into some of the Kingdom’s most valuable resources, from mineral wealth to a young and increasingly able workforce that is benefiting from massive investment in education, R&D, and global knowledge-sharing through platforms such as the SIDF-hosted Advanced Manufacturing Hub.

Saudi Arabia’s mix of competitive advantages means that a broad array of industrial and manufacturing segments is poised for rapid expansion, which will add further momentum to the Kingdom’s supply chain development.

However, ramping up supply chain capacity is a capital-intensive process that will require significant private sector input. Government strategy is aiding this development by creating an attractive investment environment, while SIDF - in its role as key financial enabler to the National Industrial Development and Logistics Program (NIDLP) - is providing vital financial support to private sector entities in key sectors.

SIDF cumulative approved loans until the end of 2022



4,904
approved loans by
the end of 2022



SAR 180.6 bn
(\$48.2 bn) in net
loans approved

Saudi Arabia’s localization and supply chain agenda is a major undertaking, but one that promises significant rewards. Boosting local content across the industrial spectrum is expected drive growth in new sectors, improve global trade performance, bolster economic diversification, nurture innovation, and create rewarding employment opportunities for the Kingdom’s growing population.

Supply chain snapshot: Saudi Arabia



\$34 bn
 (SAR 127bn) aviation market⁵



\$27.6 bn
 (SAR 112.5 bn) public sector investment in transport and logistics expected over next decade⁶



1st
 in the WEF's road connectivity index⁷



13 mn TEU
 handling capacity across 10 primary harbours⁸



\$18 bn
 (SAR 4.8 bn) logistics market size⁴



SAR 818 mn
 (\$218.1 mn) in loans awarded under Tawteen Program in 2021⁹



55%
 share of the total GCC logistics market¹⁰



40.8%
 increase in electricity generation efficiency by 2025¹¹



GLOBAL SUPPLY CHAINS: CHALLENGES AND OPPORTUNITIES

Global logistics systems and supply chains suffered an unprecedented shock in 2020, as the Covid-19 pandemic drove mass closures of air, land and sea freight shipping networks. While shipping and freight activities have resumed, disrupted supply chains recovered more slowly, leading to shipment bottlenecks, delays and a spike in rates.



2X

schedule delays in global average container traffic between 2020 and 2021, according to McKinsey ¹²



Reduced

airline capacity forced shipments from air to sea routes, increasing competition and delivery times



High

energy prices have increased freight costs

Russia's military action in Ukraine in February 2022 has further exacerbated supply chain disruption in some areas. McKinsey lists five categories of exports that are under threat given the protracted political conflict in Eastern Europe ¹³



Agricultural products



Manufacturing



Oil and gas



Chemicals



Metals

However, while capacity and rates remain an issue, global trade volumes are recovering.



10%

surge above pre-pandemic levels in global trade in goods by volume in May 2022¹⁴



3.5%

growth in global merchandise trade volumes in 2022¹⁵



\$32 tn

in global trade in 2022¹⁶

The mismatch between increasing global trade volumes and the capacity of global supply chains to accommodate them means that critical opportunities are emerging in the supply chain arena.



A growing trend of supply chain localization, as markets attempt to establish supply chain stability



Increased awareness of environmental, social and governance (ESG) concerns is favoring suppliers offering lower carbon footprints



Logistics firms are increasingly simulating and planning for future disruptive events



Increased appetite for partnerships that allow collaborative access to goods and shipping capacity

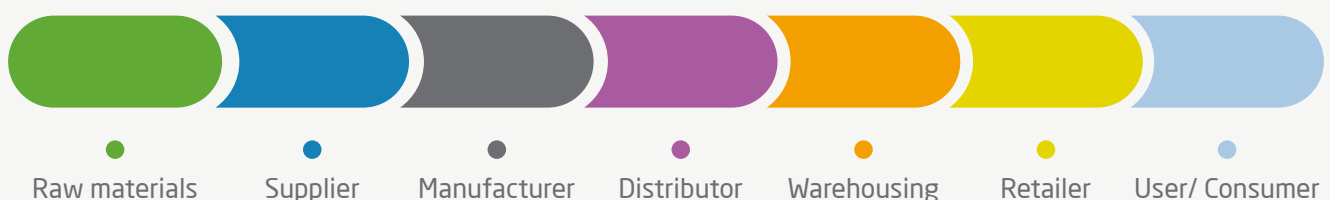


A sharpened focus on supply chain efficiency enablers

SIDF is already helping companies in Saudi Arabia to seize opportunities emerging from the altered supply chain landscape. Our support as funders, advisors and advocates targets the entire supply chain process, including manufacturers, vendors, warehousing providers, transportation companies, distribution centers, and retailers.

Key Components and Stakeholders of the Supply Chain Process

Source: LCGPA



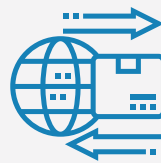
SAUDI SUPPLY CHAINS: GROWTH AND INNOVATION

Driven by economic reforms and development under the ambitious Vision 2030 program, the merchandise flowing to and from Saudi Arabia is growing in both volume and diversity.



4.4%

year-on-year increase in non-oil exports in October 2022, reaching SAR 24.9bn (\$6.64bn)¹⁷



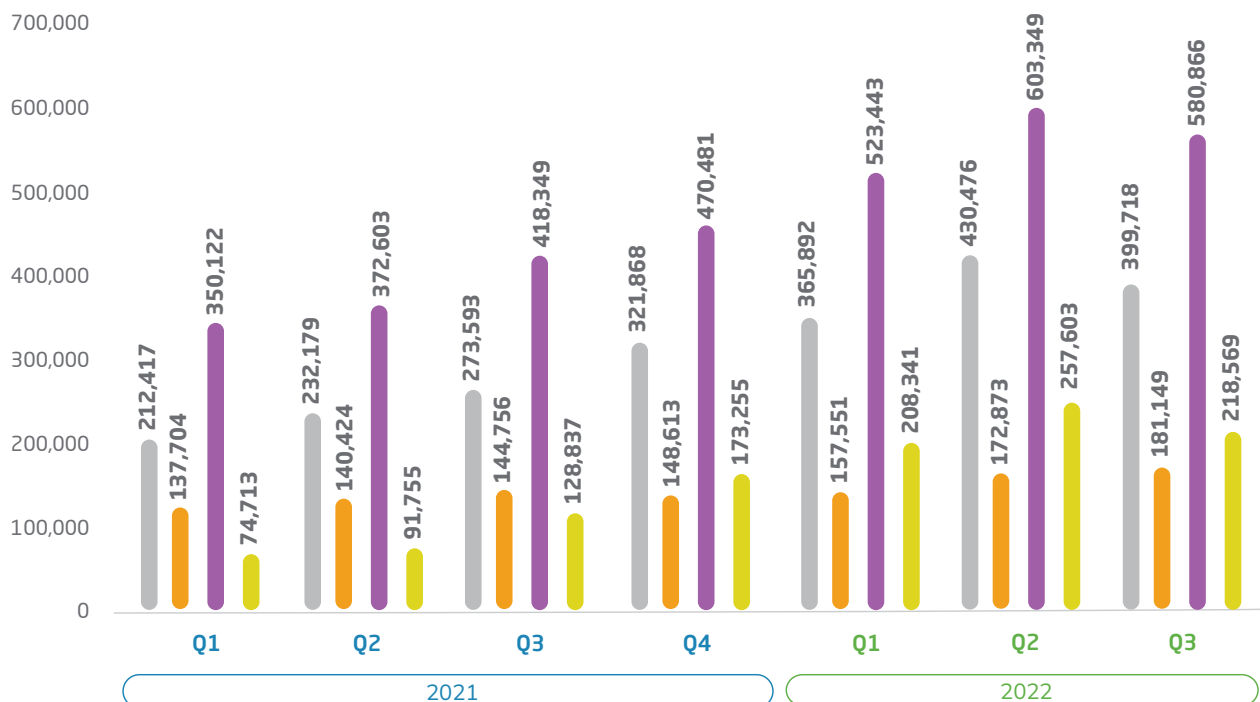
39%

ratio of non-oil exports to imports in October 2022¹⁸

Saudi Arabia Exports, Imports, Trade Volume & Trade Balance

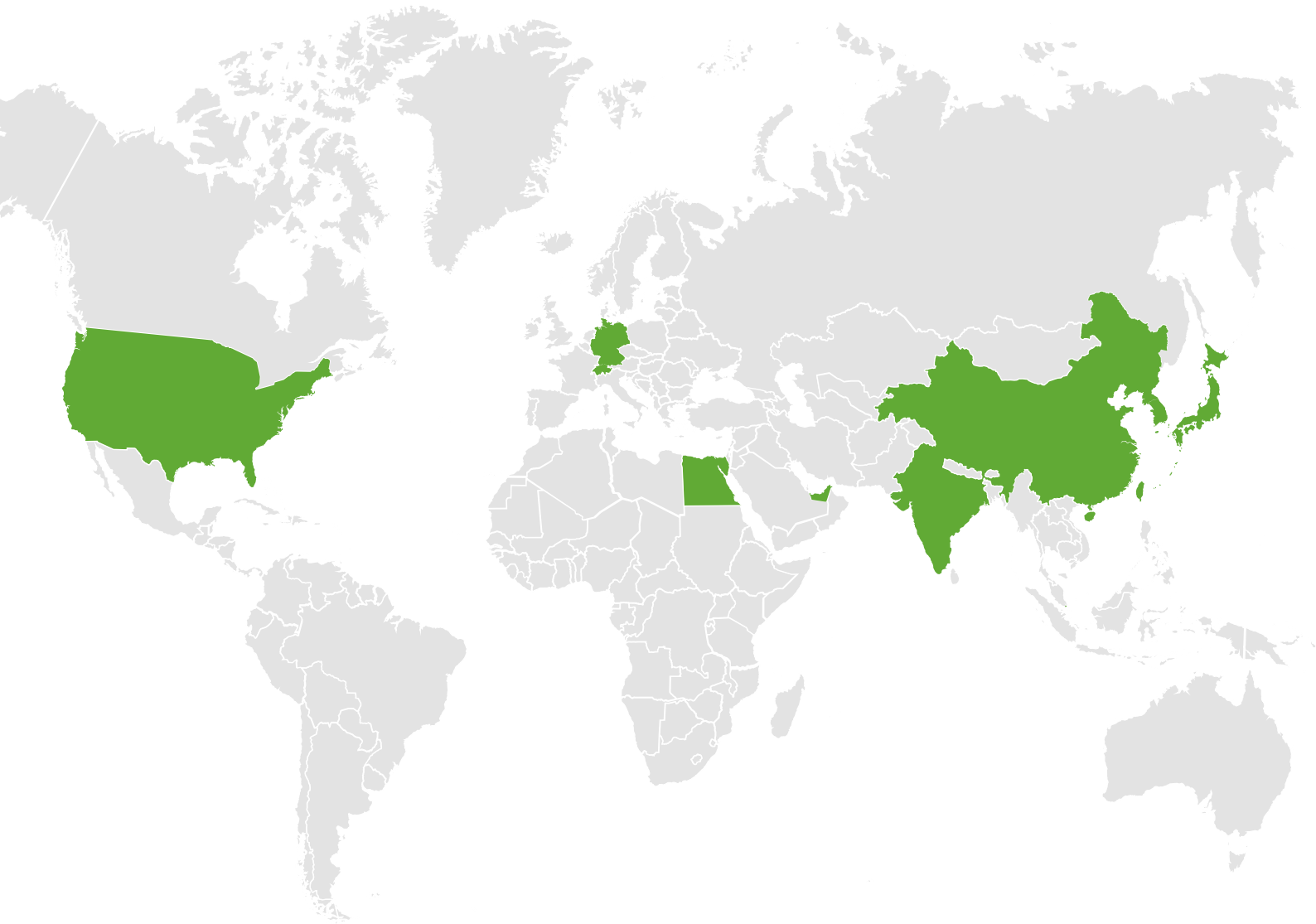
Source: GaStat¹⁹⁻²⁰

Million SAR



● Merchandising Exports ● Merchandising Imports ● Trade Volume (Imports + Exports) ● Trade Balance (Exports - Imports)

The Kingdom’s significant trade relationships, meanwhile, span the globe.²¹



Top 10

import markets include China, USA, the UAE, India, Egypt, Germany, Japan, Switzerland, Singapore, and South Korea

Saudi Arabia’s position at the crossroads of critical international trade routes between Asia, Europe, and Africa provides a significant competitive advantage in an uncertain global logistics environment. The Kingdom’s plans to maximize the benefits of its geographic position and proximity to energy sources through new strategic partnerships will stimulate a new phase of industrialization and trade.

By strengthening local supply chains and boosting local content, Saudi Arabia stands to maximize the retention of capital spent on purchases by both the public and private sectors.



Reducing the risk of external shocks



Increasing opportunities to export and compete globally



Aiding progress in research, development, and training



Helping to diversify domestic investment



Boosting reinvestment in the national economy



Multiplying job opportunities



Making best use of domestic raw materials

The long-term benefits for the Kingdom in developing its local content and supply chain ecosystem are significant and wide-ranging, impacting vital areas of society and the economy - from human resource enablement to advanced research & development.

The Local Content & Supply Chain Ecosystem

Source: LCGPA



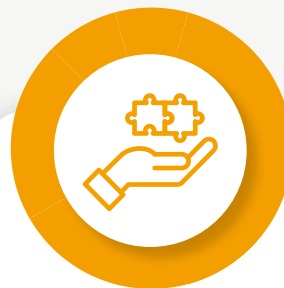
Assets

Sources and components of goods used to develop production chains



Labor

Workforce involved in producing goods or offering services



Goods or Services

Local components used for producing goods or services



Technology & other

Research & development and a capacity building of Saudi workers

Localization in Saudi Arabia: a National Strategic Priority

Government strategy is a key driver of the supply chain localization trend in Saudi Arabia. The ambition to meet the goals of Vision 2030 is supporting the growth of domestic private sector activity across a range of sectors - including the nation's vital oil and gas industry.²²⁻²³



50%

non-oil exports by 2030



75%

localization of oil and gas sectors by 2030



65%

private sector contribution by 2030



5.7%

contribution of foreign direct investment to GDP by 2030

Five of the Kingdom's Vision Realization Programs (VRPs), designed to translate Vision 2030 into action, work specifically towards enhanced local content and the maximization of the Saudi supply chain.²⁴

VRP

PROGRAM VISION

KEY COMMITMENTS BY 2025

Human Capability Development Program

- > Created to develop citizens' capabilities, support innovation and entrepreneurship culture
- > Prepares youth for the local and global labor market

- > **40%** of children enrolled in kindergarten
- > **6** Saudi universities ranked within top 200 universities globally
- > **45th** in the World Bank's Human Capital Index
- > **40%** increase of Saudization in highly skilled jobs

National Industrial Development and Logistics Program

- > Drives the Kingdom's economic diversification towards sustainable growth
- > Fosters a globally attractive investment environment and grows the industrial sectors

- > **40.8%** increase in electricity generation efficiency
- > **70%** increase in local content for the oil & gas sector
- > **8 SEZs** created
- > **SAR 1.24 bn (\$330.6 bn)** to be increased in the value of local content in non-oil sector

VRP

PROGRAM VISION

KEY COMMITMENTS BY 2025

VRP	PROGRAM VISION	KEY COMMITMENTS BY 2025
		<ul style="list-style-type: none"> > 30% of pharmaceutical market to be localized > 20% of defense budget to be localized
National Transformation Program	<ul style="list-style-type: none"> > Develops the necessary infrastructure > Creates an environment that enables the public, private, and non-profit sectors to achieve the goals of Vision 2030 	<ul style="list-style-type: none"> > 19.2% contribution of digital economy to GDP > SAR 95.4 bn (\$25.4 bn) in foreign direct investment inflows > 92% maturity level of major government e-services
Privatization Program	<ul style="list-style-type: none"> > Identifies government assets and services that can be privatized > Defines public and private sector partnership frameworks to enhance the quality and efficiency of public services > Supports contributions to economic development 	<ul style="list-style-type: none"> > SAR 143 bn (\$38.2 bn) total non-oil revenues > SAR 62 bn (\$16.5 bn) in investments from private-public partnerships > SAR 14 bn (\$3.7 bn) in total financial value for efficient government spending through partnership operations
Public Investment Fund Program	<ul style="list-style-type: none"> > Enhances the role of the Public Investment Fund, the engine behind economic diversification > Develops specific strategic sectors by cultivating and maximizing the impact of the fund's investments 	<ul style="list-style-type: none"> > SAR 150 bn (\$40 bn) to be invested annually in new projects in Saudi Arabia > 21% share of assets in new and growth sectors > 24% share of assets in international sectors > SAR 1.2 tn (\$320 bn) total accumulated contribution to non-oil GDP > 1.8 mn cumulative jobs to be created > 60% renewable local share > SAR 1.2 tn (\$320 bn) total accumulated contribution to non-governmental investment

Policy in Focus: NIDLP

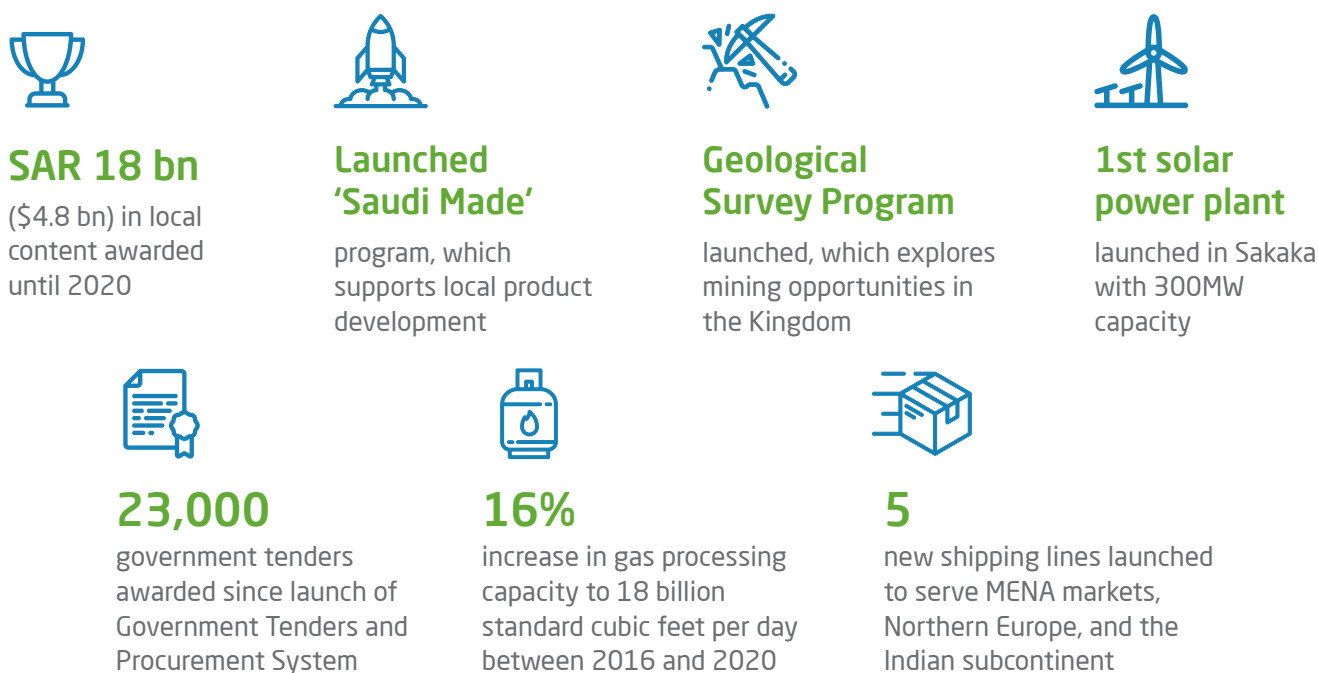
SIDF's work as funder, advisor and advocate to the energy, mining, industry, and logistics sectors supports several of Vision 2030's Vision Realization Programs. As the principal financial enabler to NIDLP, SIDF's catalyzing effect is felt at the heart of government strategy.

NIDLP operates under 12 broad objectives which encompass the oil, manufacturing, military, SEZs, economic cities, mining, gas, renewables, energy, logistics, trade, and local content sectors.

NIDLP has made several commitments to be achieved by the end of 2025²⁵



NIDLP has reached several milestones in its drive to enhance localization²⁶⁻²⁷



New Geography: Economic Cities and Special Economic Zones

Supply chain localization in Saudi Arabia is also being supported by dedicated areas of manufacturing and enterprise that offer an array of targeted financial, logistical, and regulatory incentives.

Two Economic Cities, the King Abdullah Economic City in Rabigh and the Knowledge Economic City in Medina, have been launched with clearly defined objectives.



Grow the national economy and raise the standard of living for Saudis



Offer a pro-business regulatory environment



Enhance the competitiveness of the Saudi economy



Create new employment opportunities



Improve the skill levels of Saudis



Develop specific regions in the Kingdom



Diversify the economy



As well as economic cities, Saudi Arabia is developing Special Economic Zones (SEZs) that will offer incentives including attractive tax, labor and customs frameworks, in addition to favorable ownership legislation. These SEZs have been chosen for their strategic locations, connectivity, and potential for harnessing the full power of the private sector in the development of the national economy.

Policy in Focus: Global Supply Chain Resilience Initiative

NATIONAL
INVESTMENT
STRATEGY

Within Saudi Arabia’s National Investment Strategy, implemented by the Ministry of Investment, the new Global Supply Chain Resilience Initiative (GSCRI), looks to develop strategic supply chains and strengthen the Kingdom’s position as a production and trade hub.

Sectors targeted by GSCRI are:



Aerospace and defense



Agriculture and food processing



Healthcare and life sciences



ICT



Financial services



Mining and metals



Real estate

GSCRI looks to utilize Saudi Arabia’s competitive and strategic advantages as key attractions for supply chain localization and resilience building:



Raw materials:

Easy access to key raw materials such as metals, chemicals, oil and gas for manufacturing and industrial development



Industrial infrastructure:

Advanced maritime, air, road, and rail infrastructure, alongside over 40 industrial and economic clusters, each equipped with advanced physical and digital infrastructure



Geographic location:

Located on two of the world’s busiest shipping routes - the Red Sea and Arabian Gulf - and a prime geographic location as a transport and logistics hub



Production costs:

Competitive input costs for electricity, water, natural gas, and land, compares favorably to global manufacturing hubs



Sustainability:

Increasingly positioned as a renewable energy leader and may produce up to 4 million tons of green hydrogen by 2030

Through GSCRI, companies looking to benefit from Saudi Arabia’s distinct advantages as a key input in global supply chains will find the Kingdom to be a market that is low on costs, low on risks, and, progressively, low on carbon output.

CASE STUDY: King Abdullah Economic City (KAEC)



The flagship project of the Economic Cities development program is the King Abdullah Economic City (KAEC) in Rabigh.²⁸



Strategically positioned at the convergence of the world's most vital maritime and air shipping routes

Focus on port and logistics sectors, as well as light industry and services



34.7 mn

square meters of developed area



180 mn

square meters total land area



116

industrial tenants



SAR 53 bn

(\$14.13 bn) in total investment



191 km

of built roads

KAEC houses several key projects

King Abdullah Port

- > Covers 17.4 km²
- > Interlinks three continents
- > Saudi's largest port and one of the fastest growing in the world
- > Handled 1.5 mn twenty-foot equivalent units (TEUs) in H1 22
- > Once completed, it will have capacity for 25 million TEUs

Haramain High-Speed Railway Station

- > Provides access to the 450km-long Haramain High-Speed Railway
- > Link between Makkah and Madina
- > Operational speed of 300 km/h
- > First high-speed railway in the Middle East

Industrial Valley

- > Clusters designed by sectors: FMCG, pharmaceutical, automotive, logistics, packaging and building materials.
- > 50 mn sq foot master plan
- > Total investment of SAR 11 bn (\$2.9 bn)
- > Hosts 116 leading companies

Saudi Made: Bringing Saudi Products to the Global Market



The **Saudi Made** initiative is another key strategic driver of supply chain localization. Launched by the Saudi Export Development Authority and the National Industrial Development and Logistics Program (NIDLP), it aims to increase Saudi non-oil exports to priority markets by promoting domestic goods and services.

- > Promote Saudi products locally, regionally, and internationally
- > Certification program guarantees quality
- > Establishing a unique national identity
- > Raising awareness of and confidence in national products among local and foreign consumers
- > Enhancing interaction between members of national companies and transferring experience and expertise through workshops and interactive meetings
- > Boosting Saudi non-oil exports in priority export markets
- > Increasing the attractiveness of the Saudi industrial sector to domestic and foreign markets

Since its establishment, the Saudi Made program has achieved numerous important milestones²⁹⁻³⁰



20+

private and public sector partners



190

companies have **Saudi Made** logo on their products



1,500

companies registered in the program



7,112

registered products

Tapping into Global Knowledge: The Saudi Advanced Manufacturing Hub

SAUDI AM HUB
منصة الصناعة المتقدمة السعودية

Launched in November 2021 and hosted by SIDF, Saudi Arabia's Advanced Manufacturing Hub (Saudi AMHUB) forms part of the World Economic Forum's Global Network of Advanced Manufacturing Hubs.



Vision

To become one of the **leading hubs** in the Global Network of Advanced Manufacturing Hubs by upgrading regional manufacturing towards **advanced manufacturing**.



Mission

To build a **collaborative community** between academia, civil society, private and public sectors, and effectively connect with the Global Network of Advanced Manufacturing Hubs to **develop the industrial ecosystem**.

Saudi AMHUB's strategy is the result of a collaborative effort by its membership of leading institutions from the fields of government, the private sector, and academia.

Key Focus Area

Coordination across CEOs/leaders from manufacturing companies and their transformation strategies.

Priorities

- > Addressing access to talent, skills gaps, and lack of incentives for workers
- > Technology transfer, applied research & development, ESG alignment, and the commercialization of innovations to upgrade manufacturing facilities
- > Support to SMEs to help accelerate their digital transformation journey

PARTNERS IN GROWTH: HARNESSING THE POWER OF THE PRIVATE SECTOR

Government support, low domestic energy costs, a ready supply of raw materials, and an increasingly capable workforce combine to make the Kingdom an attractive prospect for domestic and foreign investment. National strategies aim to leverage these advantages to attract private sector capital that will strengthen and localize the Kingdom’s supply chain ecosystem. A range of industrial and manufacturing segments offer particularly promising expansion prospects.³¹



Aerospace



Automotive



Chemicals



Medical Devices



Renewables



Machinery &
Equipments



Building
Materials



Minerals &
Metals



Pharmaceuticals
& Biotech



Food-
processing

Driving Resilience: The Local Content & Government Procurement Authority (LCGPA)

هيئة المحتوى المحلي
والمشتريات الحكومية
Local Content & Government
Procurement Authority



LCGPA drives private sector-supported local content development by formulating and monitoring policies and regulations, developing local opportunities, promoting transparency, leveraging national purchasing power, and improving government procurement processes.

In reaching these objectives, the authority has developed several Local Content Preference Mechanisms to boost local content thresholds.

LCGPA Local Content Preference Mechanisms

Source: LCGPA



Price preference

A mechanism to grant national products a price preference by adding 10% to foreign products in government tenders.



Mandatory list

A list of national products that contractors are required to adhere to when purchasing products or services.



Local content score in commercial evaluation

Allocates a weight of 40% for local content and for companies listed in the financial market during the evaluation phase of the offers, in addition to a price weight equivalent to 60%.



Minimum local content threshold

A baseline that should be achieved by the contractor before the end of the contract.



Contracting under the Localization of Industry & Knowledge Transfer (LIKT) scheme

Agreements by which owners of leading technologies around the world are encouraged to transfer technology and knowledge to the Kingdom in exchange for a government purchase guarantee.

INTERVIEW

Abdulrahman bin Abdullah Al-Semari

CEO, Local Content & Government Procurement Authority (LCGPA)

هيئة المحتوى المحلي
والمشتريات الحكومية
Local Content & Government
Procurement Authority



To what extent have LCGPA's Local Content Mechanisms succeeded in increasing local content?

The Kingdom's Vision 2030 has highlighted the need to maximize non-oil GDP and boost local industrial capacity. Working to achieve these objectives, Saudi Arabia has taken several reforming steps, including the establishment of the Local Content and Government Procurement Authority (LCGPA).

To fulfill the objective of local content development within the national economy, LCGPA has developed several Local Content Mechanisms, which have been embedded within the Government Tenders and Procurement Law. Through Local Content Mechanisms, such as the national product mandatory list and minimum local content threshold, in 2022, LCGPA has succeeded in raising the coverage of local content mechanisms to 86% of the total value of government tenders, with a value of SAR 249 billion (\$66 billion). Since the establishment of LCGPA, SAR 300 billion (\$79.8 billion) of government spending has been directed towards local content components such as goods, services, and labor, resulting in the empowerment of local entities and factories.

How has LCGPA developed local content in partnership with the private sector?

Developing local content at the national level requires collaborative partnerships between the public and private sectors, and LCGPA has developed an ecosystem that enables them. Through our Local Content Partnerships Initiative, we aim to harness the different capacities of the public and private sectors

through strategic alliances that capture the momentum and knowhow of major national companies. With the creation of our Local Content Leadership Council (LCLC), which acts as a focal point for the interests of private sector, non-government players have been further integrated with the nation's localization drive. As a result, the LCLC's 9 members achieved a localization rate of 44% of their total expenditure on local goods and services for the year 2019. By 2020, the share of local content had expanded by a further 2% to reach to 46%. All these efforts and policies have directed government spending towards local content components and contributed to the development of the private sector, especially the industrial arena, where investments in new factories reached SAR 21.9 billion (\$5.83 billion) until October 2022.

What impact has the Localization of Industry & Knowledge Transfer (LIKT) method had on the transformation of government procurement?

Within the new Government Tenders and Procurement Law lies our LIKT method, built as a framework to identify, study, and tender localization opportunities for investment. The initiative aims to maximize local content by supporting the expansion of new industries, job opportunities, and supply chains while enabling the transfer of vital manufacturing knowledge. At the governmental level, the LIKT method helps to meet government demand in the shortest time, at a lower cost, and at a higher quality. The initiative has ensured the nationalization of spending by providing sustainable national products. To date, we have signed 14 agreements and we are currently studying 58 opportunities to localize industry and continue the transfer of knowledge within the Kingdom.

Tawteen: Incentivizing Local Content

The Tawteen program, launched by SIDF in 2019, works to facilitate, promote, and finance supply chain localization opportunities, as well as support efforts to increase the percentage of local content spending.³²

Through preferential financing solutions, Tawteen aims to



Stimulate domestic and foreign investments to increase local content



Link small suppliers with major national companies' procurement



Highlight localization opportunities



Provide advisory services



Measure and maximize SIDF local content contribution



Issue loans with preferential terms

Central to the success of Tawteen's strategy are its partnerships with strategic public and private sector organizations in the Kingdom.

PARTNER	SECTOR / INITIATIVE	DESCRIPTION
 	 <p>Energy / The In-Kingdom Total Value Add Program (IKTVA)</p>	<p>IKTVA is Saudi Aramco's procurement policy that aims to drive domestic value creation and create a level playing field for the more than 1,000 oil and gas suppliers it engages with across its local and international network.</p> <p>The objective of IKTVA is for 70% of Saudi Arabia's required content and support services to be sourced domestically.</p>
	 <p>Industrial / Nusaned</p>	<p>SABIC provides opportunities to drive investment and create local demand through procurement spending, product conversions to develop the downstream industry, and the commercialization of SABIC patents, technologies, and applications.</p> <p>SABIC support packages to help to commercialize opportunities, including the provision of raw materials as well as technical and advisory support.</p>

 PARTNER

☆ SECTOR / INITIATIVE

 DESCRIPTION



Mining /
Local Content
Development
Initiative

Ma'aden's local content program aims to maximize the contribution of the mining industry to the Saudi Arabian economy through investments in labor, goods, services, assets, and technology.

The initiative works with investors who are interested in building the Kingdom's industrial capability to identify investment opportunities across four dimensions of its business - supply chain, downstream, workforce and projects.



Energy /
Build & Employ National
Abilities (BENA) program

The BENA program, launched in early 2019, is comprised of three initiatives that aim to encourage local manufacturing, the first of which works to establish policies and procedures to support and incentivize local manufacturers and contractors.

The second initiative aims to promote policies and procedures that give an advantage to small and medium businesses, while the third initiative identifies investment opportunities in manufacturing and services.



ICT /
Rawafed

The Rawafed program is the umbrella program that leads and coordinates all local content development activities across the STC Group.

The program is designed to support ambitions to grow the ICT sector by 50%, achieve 50% localization by 2023, and increase the ICT sector's contribution to GDP by SAR 50 billion (\$13.3 billion) over a 5-year period.

INTERVIEW

Lloyd Gencay

Chief Procurement & Supply Chain Officer, Ceer



What are your expectations for the development of an electric vehicles (EV) automotive ecosystem in Saudi Arabia?

The growth of a Saudi automotive industry is generating opportunities across a wide range of sectors, from the light and heavy industries that provide the minerals for EV batteries or the plastics and metals for bodywork and trim, to the tech-focused sectors that supply components for onboard systems. Today's vehicles are built on complex systems, including autonomous driving capabilities and internet-connected entertainment platforms that offer games and other multimedia content - there is huge potential for input providers in these areas.

Ceer is helping to ignite a new industry, and to do this we will be working with dozens of suppliers and partners in the automotive manufacturing space, adding further momentum to the flow of innovative companies setting up operations in Saudi Arabia. The Kingdom is emerging as an automotive manufacturing hub, and the network of partnerships that underpins it is transferring know-how and technology expertise to a new generation of Saudis.

How is the concept of localization evolving in the world today, and where does Saudi Arabia stand within this change?

Localization has come back to the fore of the global conversation, partly due to the pandemic and the need to ensure business continuity. The Kingdom is taking a long-term approach to localization by developing on-shore, end-to-end supply chains that will help our industry to become more sustainable, reduce time-to-

market for our electric vehicles, and create maximum value in transforming the country's automotive manufacturing sector into one that is recognized for its pioneering work as well as its contribution to economic diversification and job creation.

The Kingdom has an advantageous position thanks to its natural resources and its geography, and Saudi Vision 2030 seeks to make the most of them by creating long-term opportunities for growth through new industries such as ours. This effort is complemented by the Public Investment Fund's strategy of focusing on unlocking the capabilities of promising domestic sectors that can help drive the diversification of the economy. SMEs have a big role to play in this process, both in manufacturing and product development. I'd like to see SMEs here innovating for our electric vehicles and creating additional value for end users.

What considerations informed Ceer's decision to choose KAEC for its manufacturing and assembly plant?

With KAEC, we have found a place that meets all our manufacturing needs. The area at KAEC's Industrial Valley offers us a great location with world-class logistics such as King Abdullah Port, effective access for our global and Saudi-based suppliers, and an ideal site to base and develop our future workforce. KAEC is set to become our manufacturing hub as we work towards creating the first electric vehicle brand for Saudi Arabia and the wider region. In pursuing this goal, we will be contributing in a meaningful way to Saudi Vision 2030.

BUILDING BLOCKS: RESOURCES AS CATALYSTS FOR SUPPLY CHAIN DEVELOPMENT

Empowering People: Creating a Human Capital Development Ecosystem

The Kingdom's greatest resource is its people. Technology transfer initiatives and massive investment in education and research are creating a human capital ecosystem ready to meet the challenges of a digital and knowledge-driven economy. The World Digital Competitiveness Rankings 2022 highlighted Saudi progress in this area.³³



3rd

in total public expenditure on education



8

positions improved in digital ranking, year-on-year



7th

in digital/technological skills



8th

in international experience

The development of a skilled, capable Saudi workforce across the nation's value chain is contributing to economic growth and enabling supply chain localization. Several programs and initiatives have been established to catalyze the Kingdom's human capital.

General Authority for Small and Medium Enterprises (Monsha'at)



- > **Nawafth mobile phone application** is a free-to-use app that links users to specialists that provide guidance and consultancy services directly to SMEs
- > **Saudi Business Incubators & Accelerators Program** motivates industrial entrepreneurs to transform their ideas into viable projects and businesses
- > **Industrial Tomoh** connects industrial SMEs with leading experts and services across the public and private sector

Local Content & Government Procurement Authority (LCGPA)



- > Formulates policies and regulations to ensure increased uptake of local content
- > Develops local content preference mechanisms

Ministry of Human Resources and Social Development



- > Formulates general policy for social and labor affairs
- > Plans and implements projects that advance local community interests
- > Provides Labour Education program to upskill domestic workforce

Saudi Industrial Development Fund (SIDF)



- > **The SIDF Academy** offers a suite of programs that aims to upskill Saudi talent and develop domestic human capital across all industrial sectors
- > **Nokhab program** provides specialized and cooperative training in partnership with prestigious universities and training institutions

Human Resources Development Fund (Hadaf)



- > Supports efforts to qualify the national workforce and employ them in the private and non-profit sectors

Saudi Logistics Academy



- > Qualifies professionals in logistics, with noted specialisms in supply chain management, e-commerce and last mile, warehouse management, and marketing, sales, and customer service

General Authority for Military Industries (GAMI)



- > The Military Industries Human Capital Strategy (MIHC), aims to build an ecosystem for incentivizing cultivation of human capital
- > Public and private partnership focused on education and training, awareness and guidelines, as well as policy

Key Inputs: Saudi Arabia's Natural Resources

Saudi Arabia has extensive, varied, and well-developed commodity industries across chemicals, logistics, industry, and mining. Along each of these value chains, significant opportunity exists for further localization of raw materials, components, processing, and manufacturing.

Key Commodity Focus Areas:

MINERAL AND METALS PRODUCTS

The Kingdom is working to expand primary materials industries (upstream and midstream), and to develop sustainable and globally competitive value-added, semi-finished and finished metal industries (downstream), particularly in:

- > Gold
- > Aluminum
- > Steel and copper/ zinc industrial base
- > Titanium and specialty metals
- > Tantalum
- > Niobium
- > Rare earth elements
- > Quartz/silica industries

CHEMICALS

Saudi Arabia's low-cost inputs and increasing levels of investment are supporting a diversification trend from basic to more sophisticated chemical products. The Kingdom is targeting the development of new value chains in advanced plastics applications:

- > Oil & gas field chemicals
- > Mining chemicals
- > Rubber products
- > Construction chemicals
- > Medical and pharma related products
- > Personal care products
- > Human and animal nutrition additives



 **RENEWABLES**

Saudi Arabia is using its hydrocarbon wealth to fund its ambitious renewables targets. Realizing the Kingdom’s renewables goals means financing green innovation, incentivizing the local manufacture of renewable energy components, and localizing supply systems.



SIDF is currently supporting 19 renewable projects



Saudi Arabia aims to produce 50% of its electricity with renewables by 2030³⁴



Saudi Green Initiative will generate SAR 700 bn (\$186.7 bn) of investment in the growth of the green economy³⁵

 **CASE STUDY: Saudi Arabian Mining Company (Ma’aden)³⁶**



As the national champion for Saudi Arabia’s mining industry, the Saudi Arabian Mining Company’s (Ma’aden’s) vision for local content aims to direct spending on labor, goods, services, assets, and technology towards Saudi sources.

Ma’aden also retains a keen focus on supplier development, adopting a standardized but flexible process to accelerate the development of new Saudi Arabian-based suppliers in its supply base.

The mining company has formed strong and mutually beneficial relationships with local suppliers for products ranging from aluminum scrap, anti-scalant and anti-foamer, conveyor belt rollers, coal tar pitch, sodium cyanide, and the supply of calcined petroleum coke.

SAR 11.2 bn

(\$3 bn) local content contribution as of 2021

56,861

total supply chain employees

SAR 13.5 bn

(\$3.6 bn) total supply chain spend

5,906

direct employees

74%

of employees Saudi nationals

Q CASE STUDY: Saudi Arabian Military Industries (SAMI)



Launched in May 2017 as a wholly-owned subsidiary of the Public Investment Fund (PIF), the Saudi Arabian Military Industries' (SAMI's) mandate is to develop cutting-edge technologies, manufacture world-class products, and provide high-quality services to scale up the Kingdom's defense industries sector.

In pursuing this goal, the organization works to increase local content manufacturing and procurement in both the public and private sector defense industries.



Be ranked among 25 top defense companies in the world by 2030³⁷

Ensure 50% localization of Saudi Arabia's total government defense spending by 2030³⁸

SAMI inks multiple joint venture deals in pursuit of defense sector localization³⁹

In July 2022, SAMI announced the signing of an agreement with leading global security and aerospace company **Lockheed Martin** to develop a **Composites Manufacturing Center of Excellence** in Riyadh to boost Saudi Arabia's aerospace manufacturing capabilities.

- > Enabling tech and knowledge transfer
- > Developing local content capabilities
- > Creating job opportunities in new fields

Also in July 2022, SAMI Aerospace, a SAMI business division, signed a contract with Airbus Helicopters Arabia, the Kingdom's subsidiary of Airbus helicopters, to support SAMI in building its technical capabilities to provide rotorcraft technical support to the Saudi Armed forces.

- > Localizing airframe maintenance skills
- > Enhancing domestic repair capabilities



ROUNDTABLE

Saudi Local Content Partners

In discussion (companies in alphabetical order):

- › **Mohammed A. Al-Shammary**, Vice-President, Procurement and Supply Chain Management, Aramco
- › **Eng. Abdulwahab Al-Janfawi**, Vice-President, Local Content, Ma’aden
- › **Khalid Salim Al-Ghamdi**, Deputy CEO, Saudi Electric Company (SEC)

Why is the localization of the supply chain important to your respective industries?



Al-Shammary
ARAMCO / Energy



Aramco has always been an action-driven company and, as per our vision, we are dedicated to leading the industry through innovative programs. We see localization as not only creating future prosperity for Saudi Arabia, but also driving the emergence of competent and competitive domestic suppliers, many of whom are SMEs and full of talented local leaders and world-class skillsets.



Al-Janfawi
MA’ADEN / Mining



As a key player in Saudi Arabia’s mining industry, we are well-positioned to act as an industry champion for our sector. We have a central ambition to see local content increased across our entire supply chain. At Ma’aden, we are focused on maximizing the contribution of mining to the wider economy, and this plays a major role in our drive to expand the local presence in goods, services, labor, and assets. Localization will be done right if we collectively focus our efforts on developing wider industrial ecosystems and building partnerships to fill in gaps across the supply chain.



Al-Ghamdi
SEC / Utilities



SEC has devoted significant resources to advancing local content development. Our comprehensive localization strategy aims to localize supply chains while employing the local workforce and developing local supply. By aligning our efforts with our Build & Employ National Abilities (BENA) program, we’re contributing to the development of stronger local suppliers. This, alongside the efforts of all larger actors in the industrial ecosystem, will undoubtedly lead to resilient returns and strong stimulation in the local economy. BENA aligns with Vision 2030’s goals of maximizing local value-added industries through different initiatives. It also creates investment opportunities in areas such as skills and training development, technology transfer, operational efficiencies, and developing output capacity within SMEs. Finally, BENA also acts as a coordinator with different authorities to integrate and align the efforts of the wider industrial ecosystem.



ROUNDTABLE

How is your organization participating in the localization of the supply chain?



Al-Shammary
ARAMCO / Energy



In 2015, we launched Aramco’s In Kingdom Total Value Add (iktva) program, through which we drive additional domestic value creation to support local industry in Saudi Arabia. Iktva’s proven success model has become the cornerstone for the Local Content and Government Procurement Authority (LCGPA) localization model, which is accelerating the maturity of the Kingdom’s industrial ecosystem across all sectors. As Aramco, we have set different localization targets for ourselves. When iktva started, 30% of our procurement spend went to local suppliers. Now, it is 60% and it will be 70% local supply by 2025. To achieve our goals, we aim to spend \$400 billion over the next 10 years on localization. iktva works on a scoring basis. We evaluate, screen, and assess suppliers against our iktva standards, and only firms with scores of 50+ can contend for contracts. This score is based on four things: the use of local goods and services, total compensation staying in Saudi Arabia, impact on small and medium enterprises (SMEs), and commitment to strengthening localization in the Kingdom.



Al-Janfawi
MA’ADEN / Mining



Ma’aden’s focus is on maximizing the participation of local businesses in our supply networks, particularly SMEs. This includes creating opportunities for participation from rural communities that need economic stimulation and helping SMEs create jobs in these areas. Our Tharwah program, for example, works to position Ma’aden as a leading buyer of local commodities and supports downstream opportunities where businesses can be created as a direct result of the resources and products that Ma’aden produces. We have a target for local content in all of our major projects. Through the involvement of local suppliers in procurement, we’re supporting regional communities and contributing to the Saudization of the workforce in the mining industry. Our localization mission aligns closely with our commitment to working with our service providers to provide attractive, sustainable jobs for Saudi nationals and boost the domestic skill base and capability in the mining industry.



Al-Ghamdi
SEC / Utilities



Acting within governmental regulations, we have implemented several initiatives to support local products and attract investments in the energy production sector. The most important initiatives are the application of the mandatory list of local products and the Saudization of our procurement processes and product lists. Here, BENA’s points system to evaluate the level of localized supply in the procurement process is particularly important. This system also means that suppliers must remain true, for the duration of the project, to the localization commitments made when the contract was signed. So too, BENA boosts the volume of local demand through binding purchase agreements and the provision of financial facilities to local suppliers through SIDF. SIDF’s financial facilities also enable technology transfers to local suppliers, which is a big bonus for us as procurers.



What have been some of the successes of these respective initiatives?



Al-Shammary
ARAMCO / Energy



Our ambition is to see the continued emergence of many state-of-the-art local manufacturing facilities across the Kingdom. Among our contractors, we have a strong network of high-quality suppliers. With over 1,000 suppliers already part of the ecosystem, we've seen over \$6.5 billion in investments made by local and international investors. The iktva program has, since its founding, attracted more than 450 investments in various supplier operations. From Jazan Economic City to the King Salman International Complex for Maritime Industries and Services, iktva has created an ecosystem of integrated value chains to help businesses hit the ground running in Saudi Arabia.



Al-Janfawi
MA'ADEN / Mining



In 2021, USD 3.9 billion was spent on procurement across Ma'aden's different Business Units, with 72% in kingdom spend. Ma'aden had a local content score of 40% within its Supply chain in 2021, and in order to increase it we have identified more than 80 opportunities where Ma'aden's procurement spending can boost local content. These opportunities focus on areas across raw materials, equipment and services.



Al-Ghamdi
SEC / Utilities



The BENA program has been creating different industrial opportunities to satisfy market needs for products, raw materials and services. The program has contributed to the number of approved local factories that supply products to the industrial ecosystem. Within SEC's system, as of 2022, we are connected to 700 approved factories through SAR 62 billion in procurement. BENA has contributed to creating a favorable environment for more local investments. Particularly, we are seeing an increased local supply of complex electrical equipment industries such as ultra-high-voltage (UHV) gas switches), UHV cables, power transformers, high-voltage cable accessories, and smart ring-linking units for medium-voltage.



What role do you see human capital development and the growth of SMEs playing in the localization drive?



Al-Shammary
ARAMCO / Energy



People are the beating heart of economic growth and Saudi Arabia needs knowledgeable, passionate individuals who possess the right skillsets. So, we work with our largest and most significant on-site contractors and service providers to understand the roles, skills, and developmental efforts being made in our indirect workforce. At the same time, we also pay attention to the levels of Saudization applied by our contractors. Through iktva and all national training institutes, we aim to prepare at least 360,000 trainees for the labor market by 2030. We are 100 per cent aligned with investing, first and foremost, in the people of Saudi Arabia.



Al-Janfawi
MA'ADEN / Mining



Ma'aden is advocating for investors to participate in the localization of people in addition to goods and services. We recently signed MOU's and supply agreements for calcinated petroleum coke, where investors will create localized facilities and have contribute towards boosting Saudi skills within these highly specialized areas. We believe these projects will create jobs for Saudis and this expansion of local skillsets will deepen and broaden the ecosystem. By creating new experts and leaders, we should, in the future, see sustained growth in these emerging industries.



Al-Ghamdi
SEC / Utilities



SEC is being positioned as a market leader and ambassador for localized content in the power sector. As we aspire to establish a flexible and sustainable supply chain in the Kingdom, we aim to continuously invest in developing people that can properly manage this network. Here, we are targeting partnerships and investment programs that will raise the capabilities of local workers. In our efforts to create an efficient, competitive localized power network, our BENA team remains committed to leading through innovative solutions and ideas.



FUNDING LOCALIZATION AND SUPPLY CHAINS

A mix of government purchasing power and private sector capital is a necessary requirement for sustainable, localized supply chain development in the Kingdom. SIDF's funding capacity has deepened over recent years, allowing it to play a central role in financing the private sector players that are adding vital momentum to the supply chain agenda.

SIDF as a Primary Funder for Industry and Logistics

SIDF has become the main funder for the National Industrial Development and Logistics Program (NIDLP) after its mandate was broadened from industrial projects to include projects in energy, mining, and logistical services.

SIDF offers enterprises and investors a suite of funding options with favorable terms, supporting the growth of priority sectors and the creation of a competitive enterprise landscape across the Kingdom.

The fund has provided significant financial support to the growth of the Kingdom



4,904

approved loans by the end of 2022



SAR 3 bn

(\$800 mn) maximum funding per project



SAR 10 bn

(\$2.6 bn) cap per obligor



SAR 180.6 bn

(\$48.2 bn) in net loans approved



Financing options are provided on highly favorable terms



Up to 20-year
 repayment period



Up to 4-year
 grace period



4-5-month
 average loan approval
 turnaround time



Up to 75%
 of project cost funded



Fully digitized
 loan application process

Services offered by SIDF

FACILITY

- Project Financing Loans**
- > Medium to long-term
 - > Project Finance
 - > New projects & existing ones looking to expand

- Working Capital Financing**
- > Short-term
 - > Financing operational expenses

- Supply Chain Financing**
- > Short-term
 - > Financing early invoice payments

- Multipurpose Financing**
- > Medium-term
 - > Financing capital expenditure for operations
 - > Includes ERP systems and supply chain logistics

- Acquisition Financing**
- > Medium-term (up to 7 years)
 - > Financing acquisitions of complementary entities (upstream, downstream, and competitors)
 - > Financing the acquisition of a specific technology, a method of manufacturing, or intellectual property
 - > Financing loans for existing projects

- Letters of Credit**
- > Default payment mechanism to clients with preferred terms and conditions
 - > Collaboration with leading commercial banks

- Advisory Services**
- > Supporting clients through technical advisory services to boost their performance and achieve sustainable growth
 - > Three services provided to clients:
 1. Cost Optimization
 2. Go-To-Market Strategy
 3. Plant performance optimization

FACILITY

Supporting Operational Needs Program

- > Offering Guarantees to lender banks on behalf of their customers, reducing lending risk and increasing access to capital
- > Applications are made through participating commercial banks
- > Expanded Working Capital partnerships with commercial banks
- > Finances part of the operating expenses of accounts receivable, inventory, and accounts payable
- > Applications made to participating commercial bank and available to all existing projects within the sectors covered by SIDF

Industrial Tomoh

- > An e-platform in partnership with Monsha'at through which SMEs can receive support for their growth and development goals
- > SMEs that operate within SIDF's four target sectors qualify for the Tomoh program

SIDF-Commercial Bank Partnerships

SIDF partners with a number of commercial banks in order to expand access to finance and reduce the risk of lending to certain segments, such as SMEs



INTERVIEW

Naif Samir Al-Khairallah

VP of Risk Management, SIDF



How can businesses manage risk and adapt to the current economic environment?

There is no doubt that the Saudi economy has been seeing unprecedented growth in the last decade and, thanks to the ambitious policies of the government, we expect this momentum to pick up in future. However, such fast pace of growth has some associated risks. The foremost risk for investors in the in the next 3-5 years is to keep pace with the fast-changing technological advances in the field of AI, IoT and digitalization. They need to adapt to a more agile business model with enhanced focus and investments in modernization of their processes and adoption of online financial services or fintech. Another risk is leaders undertaking over-ambitious expansion of their businesses on high levels of leverage. With the Covid-19 pandemic still not behind us, businesses need to build up more contingency reserves to deal with any unforeseen events. Indeed, among the most important risks that businesses need to understand is reliance on a small group of suppliers. The pandemic has taught us the importance of maintaining a diverse supply chain with global reach.

What sectors are the most promising for local suppliers?

We cannot ignore the importance of investment in the logistics sector. The Saudi economy needs huge investments in developing a state of the art, modern, reliable, fast and highly automated logistics ecosystem. The Covid-19 pandemic has accelerated the pace of technological advancement, and we have seen rapid growth of new technologies focused in the logistics sector. Artificial Intelligence and Machine Learning is deployed in the long-haul business for self-driving

vehicles. Expanding IoT in logistics has resulted in the growth of real time supply chain by creating various connections between goods, packaging, transportation hubs, and vehicles. Establishment of robotic and climate-controlled warehousing is also an excellent investment opportunity with our vast region covered by hot and dry desert landscape. In addition to this, investment in advanced medical equipment, machinery and tools, military equipment and auto parts are also very lucrative investment areas for local investors.

What is SIDF's risk philosophy relating to investment in SMEs and emerging industries?

SIDF has always taken lending risks which other financial institutions may avoid, especially with startup SMEs and greenfield projects in advanced technologies. Our risk philosophy is simple: we will finance and provide professional guidance to anyone with a solid business plan, who is passionate about the success of their endeavor, understand the underlying risks and willing to put in place adequate risk mitigants with SIDF's support. In this sense, SIDF Risk Management was established with a clear objective: to put in place a risk framework which would support the growth of its lending portfolio by taking informed decisions to finance projects which may carry higher risk than the market might have appetite for, but at the same time are strategically important and beneficial for the economic development of the country. SIDF's localization programs such as AFAQ, Tawteen, Mutajadedda and Tanafusiya are developed with careful review of the underlying risks and are tailored to enhance SIDF's contribution towards localization and at the same time safeguarding the investors from careless risk taking.

Liquidity and Supply Chain Financing

Unprecedented global events and geopolitical tensions have compelled logistics groups to review decades-old finance strategies in an effort to ensure supply chain resilience.



Supply chain finance provides companies with working capital that covers the shortfall between operational costs and the income generated from sales



Suppliers are moving away from 'just-in-time' buying patterns to 'just-in-case' approaches, ensuring that they have sufficient inventory levels



Regulators, investors, and analysts are concerned that companies are using supply chain finance to misrepresent balance sheets and conceal liquidity risks

There may be an opportunity for lenders to take a more holistic approach to business finance and lend funds more securely through the increased use of digitalization and technology in supply chain financing practices, which will allow enhanced supply chain visibility.



Digital tools can allow data related to payables, receivables, and the day-to-day accounting of a business to flow seamlessly, enabling lenders to offer harmonized financial solutions that can be extended over time



A supply chain finance technology platform can support a broad range of solutions and give buyers and suppliers visibility through the chain



Recent Investment and Partnership Highlights

Saudi Arabia’s compelling mix of funding mechanisms, supportive legislation, favorable regulation, and generous incentives is fermenting partnerships with global private sector stakeholders. High profile partnerships, in particular, are garnering global attention and adding momentum to the supply chain agenda.

FedEx Shipping Operations & Infrastructure ⁴⁰



- > In October 2021, FedEx announced its transition to a **direct-serve presence** in the Kingdom of Saudi Arabia to meet the country’s growing international shipping demands
- > **SAR 1.5 bn** (\$400 mn) investment into the Saudi economy over the next 10 years through talent management, local operations, and infrastructure
- > **220 countries and territories** will be connected to the Kingdom through the deal

Lucid Electric Vehicle Manufacturing ⁴¹



- > In April 2022, US-based electric vehicle manufacturer Lucid announced that it would establish its **first international manufacturing plant** at the King Abdullah Economic City
- > **SAR 12.7bn** (\$3.4bn) expected value-add to Lucid over 15 years
- > **150,000** vehicles per year expected at peak production

Amazon ⁴²



- > Amazon announced at LEAP23 in February 2023 that it will establish a **training academy** for in cloud computing, AI, retail and logistics
- > **30,000+** Saudis will be eligible for future skills training programs



INTERVIEW

Eng. Ahmed Muhammad Al-Baqawi

VP of Studies, SIDF



What has been the historic development of supply chain localization in Saudi Arabia?

In the pharmaceutical sector, for example, we have seen local manufacturers gaining the confidence of their partners to set up factories locally, serving domestic and regional markets. In the past, the pharmaceutical industry focused mainly on distribution, but in recent years we've seen fantastic progress in the localization of advanced manufacturing, from generic to branded medication. Several top multinational pharmaceutical companies are getting their products locally manufactured under contract manufacturing. The localization resulting from innovative financing models, strong local talent, and enviable infrastructure has helped in moving the sector from a distribution-only model to manufacturer and distribution model with many cutting-edge medications such as insulin produced locally. The local pharmaceutical contribution in demand increased from 20 per cent (SAR 6 billion) during 2017 to 36 per cent (SAR 12 billion) during 2021. It took almost 15 years to increase local content from 10% to 20% while it took five years to achieve an additional 15%. This was possible due to progressive measures like 100% FDI and Vision 2030 that seeks to achieve drug security as a strategic goal.

What are the current localization hotspots in the industrial sector?

We are seeing intense activity in several new and fast-evolving areas. Some of them, like the automotive sector, are expanding at a particularly quick rate. The recent investment by Lucid will see the electric car manufacturing segment expand from start-up status into a complete manufacturing ecosystem centered on the western region of Saudi Arabia. In the light of the recent supply chain disruptions and increased logistic

costs, localization is a key success factor for the automotive industry. Beyond the attraction of global automotive suppliers to the Kingdom and the development of local suppliers, meeting the Automotive OEMs expectations, this industry will drive the development of other sectors such as aerospace, military, mining, renewables, and infrastructure—where synergies are likely to happen. In the future I also see the food sector moving in the same direction, mirroring what we've seen in pharmaceuticals. There is a long history of investors that understand the industry and a good logistics infrastructure in place that can enable international investors to use Saudi Arabia as a launching platform.

In what ways can a strong supply of domestic inputs enhance a domestic supply chain?

The abundance of mineral resources, for example, is opening a vast array of investment opportunities, each strengthening the Kingdom's localization efforts. Indeed, in the short to medium term, we expect to see a boom in the mining industry, especially with regard to exploration, excavation, mid-stream smelting, and final product development - which will further bolster the automotive, renewable energy, and military industries. These developments will be driven by the New Mining Legislation, proactive initiatives by the Saudi Geological Society such as the 'Accelerated exploration program for promising mineral deposits', and financial enablement by SIDF.

In the next five years or so I believe we will see a lot of international investors utilizing Saudi Arabia's mineral wealth for mid-stream and downstream product development. This will fuel new manufacturing streams to serve either Saudi Arabia or, supported by the Kingdom's input and distribution cost advantages, markets around the region.

SIDF'S ENABLING ROLE IN LOCALIZATION AND SUPPLY CHAINS

SIDF's support for localization and supply chains includes a broad array of support programs that leverage the Fund's almost 50 years of experience as a market enabler.

AFAQ Program

AFAQ provides holistic support to the Kingdom's SMEs. AFAQ's key financing product, **Scale Up**, offers financial facilities that enable enterprises to raise their production capacity to accelerate growth and expansion.



8
year
minimum
tenor loan



24
maximum
grace period



30%
upfront
disbursement
of loan amount



50%
of the loan
amount

Tawteen Program

The Tawteen program is designed to stimulate domestic and foreign investments that support local content in the energy sector. It partners with leading companies in Saudi Arabia to provide advisory services and offer preferential funding terms.



7
year minimum
tenor loan



24
months grace
period



Fast track of
projects with
purchase
agreements

*See Section 4 for more information on Tawteen.

Mutajadeda Program

The Mutajadeda Program targets the renewable energy sector, assisting developers and manufacturers of specialized products in solar and wind energy. Several tailored funding facilities address core activities.

FUNDING FACILITY

☆ FAVORABLE FUNDING TERMS

Renewable Energy Components Manufacturers

- > Longer tenor (**up to 15 years**)*
- > **Up to 36** months grace period
- > Financing **up to 75%** of projectcost
- > Alignment with the Renewable Energy Projects Development Office (REPDO)

Renewable Independent Power Producers (IPPs)

- > Longer repayment period (**up to 20 years**)*
- > **Up to 36** months grace period

Distributed Solar Electrical Generation

- > Longer tenor (**up to 15 years**)*
- > **Up to 36** months grace period
- > Financing **up to 75%** of projectcost
- > Available for project owners and developers in the commercial and industrial sectors

Tanafusiya Program

The Tanafusiya Program aims for a qualitative transformation of the national industrial base by building local capabilities for individuals and companies.



7

year minimum tenor loan



24

months grace period



8

week turnaround time



Provision of specialized advisory services

ABOUT SIDF

SIDF is the primary financial enabler of Saudi Arabia’s transformation into an industrial powerhouse and global logistics hub, playing a vital role as a funder, advisor, and advocate to the energy, mining, industry, and logistics sectors



Vision

Industrial development fund enabling Saudi Arabia’s transformation to become an industrial powerhouse and a global logistics hub.



Mission

Enhance ecosystem competitiveness and investment attractiveness by providing financial and non-financial offerings.



We are a funder

Supporting promising businesses in the industry, energy, mining, and logistics sectors, ensuring that the private sector ecosystem can develop and grow



We are an advisor

Using our experience and expertise to provide our clients with the advice and support they need to become market leaders



We are an advocate

A proactive advocate for the industrial ecosystem and widely recognized source of knowledge and insight that deepens capabilities and encourages talent

SIDF's mandate outlines its support for four sectors within the Kingdom

Industrial sector



- > Finance incentives for industrial projects
- > Design specific industrial financial products
- > Support all stages of an industrial project

Renewable energy sector



- > Finance sustainable renewable energy project construction
- > Finance local independent renewable power producers
- > Finance renewable energy generation projects for industrial, commercial, and agricultural sectors.
- > Work to enhance the quality of renewable energy products

Logistics sector



- > Assist in the transformation of Saudi into a global logistics hub
- > Channel significant investment and strategic support
- > Finance projects in third-party logistics, port infrastructure, cargo shipping, air freight, and rail

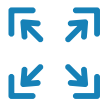
Mining sector



- > Provide financing for mining projects across all commodities
- > Offer a financing rate of up to 75%
- > Finance the final stage of the exploration process
- > Support mining services companies

SECTOR OUTLOOK

A range of factors combine to form a challenging outlook for the global supply chain sector over the medium term.



Limited capacity



Elevated shipping costs



Geopolitical conflict



Rising consumer demand for durable goods

Importers and logistics providers are facing shortages of ocean containers and unit load devices (the pallets and containers used in air shipments), as well as rising fuel prices. This scenario is exacerbated by rising consumer spending, which during the Covid-19 pandemic shifted away from services, such as entertainment and travel, to goods such as electronics, clothing, and groceries.

The same factors add momentum to the Kingdom's supply chain localization agenda. A combination of government strategy, comprehensive reform and massive investment will continue to unlock the localization and supply chain potential of the Kingdom's energy, mining, industry, and logistics sectors.

Key supply chain trends that will be driven by national strategies aimed at diversification into tech-driven sectors include:



Strengthened knowledge sharing links



Increased focus on nurturing local potential



Deployment of the government's purchasing power to secure local supply chains

In boosting local content and strengthening the Kingdom's supply chain, the government will continue to be led by several key objectives:

- > Improve trade processes
- > Establish new private sector agreements
- > Improve global trade performance
- > Negotiate new trade agreements
- > Increase Saudi Arabia's global presence
- > Bring the world to the Kingdom
- > Improve local, regional, and international connectivity

SIDF has re-aligned its operating model to target national priorities and position itself as a key player in Saudi Arabia's economic transformation and the enrichment of local industries. As funder, advisor and advocate for some of the Kingdom's most dynamic sectors, SIDF will continue to play a key role in the Kingdom's remarkable growth story.

Bibliography

- 2 UNCTAD: "Global trade hits record high of \$28.5 trillion in 2021, but likely to be subdued in 2022" (February 2022)
<https://unctad.org/news/global-trade-hits-record-high-285-trillion-2021-likely-be-subdued-2022>
- 3 UNCTAD: Review of Maritime Transport 2022
<https://unctad.org/publication/review-maritime-transport-2022>
- 1 NIDLP Delivery Plan 2021-2025
https://www.vision2030.gov.sa/media/qysdyqxl/nidlp_eng.pdf
- 5 Invest Saudi, Transport and Logistics Overview
www.investsaudi.sa/en/sectors-opportunities/transport-logistics
- 6 Invest Saudi, Transport and Logistics Overview
www.investsaudi.sa/en/sectors-opportunities/transport-logistics
- 7 Invest Saudi, Transport and Logistics Overview
www.investsaudi.sa/en/sectors-opportunities/transport-logistics
- 8 Invest Saudi, Transport and Logistics Overview
www.investsaudi.sa/en/sectors-opportunities/transport-logistics
- 4 Invest Saudi, Transport and Logistics Overview
www.investsaudi.sa/en/sectors-opportunities/transport-logistics
- 9 SIDF, Annual Report 2021
www.sidf.gov.sa/en/IReports/Pages/Reports.aspx
- 10 Invest Saudi, Transport and Logistics Overview
www.investsaudi.sa/en/sectors-opportunities/transport-logistics
- 11 Vision 2030, VRPs, NIDLP
www.investsaudi.sa/en/sectors-opportunities/transport-logistics
- 12 McKinsey, "Navigating the current disruption in containerized logistics" (March 2022)
www.mckinsey.com/industries/travel-logistics-and-infrastructure/our-insights/navigating-the-current-disruption-in-containerized-logistics
- 13 McKinsey, "Supply Chains: To build resilience, manage proactively" (May 2022)
www.mckinsey.com/capabilities/operations/our-insights/supply-chains-to-build-resilience-manage-proactively
- 14 UNCTAD "Global trade set to hit record \$32 trillion in 2022, but outlook increasingly gloomy for 2023" (December 2022)
<https://unctad.org/news/global-trade-set-hit-record-32-trillion-2022-outlook-increasingly-gloomy-2023>
- 15 WTO, "Trade Growth to slow sharply in 2023 as global economy faces strong headwinds" (October 2022)
www.wto.org/english/news_e/pres22_e/pr909_e.htm#:~:text=World%20merchandise%20trade%20volume%20is,revised%20down%20from%203.2%25
- 16 DHL Trade Growth Atlas 2022
<https://www.dhl.com/content/dam/dhl/global/delivered/documents/pdf/dhl-trade-growth-atlas-2022-complete-report.pdf>
- 17 [GaSTAT, International Trade October 2022](https://www.stats.gov.sa/sites/default/files/ITR%20OCT2022E.pdf)
<https://www.stats.gov.sa/sites/default/files/ITR%20OCT2022E.pdf>
- 18 [GaSTAT, International Trade October 2022](https://www.stats.gov.sa/sites/default/files/ITR%20OCT2022E.pdf)
<https://www.stats.gov.sa/sites/default/files/ITR%20OCT2022E.pdf>
- 19 GaSTAT, International Trade October 2022
<https://www.stats.gov.sa/sites/default/files/ITR%20OCT2022E.pdf>
- 20 GaSTAT, International Trade Q1 2021
www.stats.gov.sa/sites/default/files/FT%20Q1%202021%20En_0.pdf
- 21 GaSTAT, International Trade October 2022
<https://www.stats.gov.sa/sites/default/files/ITR%20OCT2022E.pdf>

- 22 Vision 2030, "Thriving Economy"
www.vision2030.gov.sa/v2030/overview/thriving-economy
- 23 Saudi Vision 2030
www.vision2030.gov.sa/media/rc0b5oy1/saudi_vision203.pdf
- 24 Saudi Vision 2030
www.vision2030.gov.sa/media/rc0b5oy1/saudi_vision203.pdf
- 25 Vision 2030, VRPs, NIDLP
www.vision2030.gov.sa/v2030/vrps/nidlp
- 26 NIDLP Delivery Plan 2021-2025
https://www.vision2030.gov.sa/media/qysdyqxl/nidlp_eng.pdf
- 27 Vision 2030, VRPs, NIDLP
www.vision2030.gov.sa/v2030/vrps/nidlp
- 28 KAEC, MISA, Investment Opportunities
- 29 Al Eqtisadiyah, "Saudi Made, 190 companies present their products with a national identity" (September 2022)
www.aleqt.com/2022/09/10/article_2389441.html
- 30 Vision 2030, Projects, Saudi Made
www.vision2030.gov.sa/v2030/v2030-projects/saudi-made/
- 31 Industrial Center, Industries
www.ic.gov.sa/en/industries
- 32 SIDF, Tawteen
www.sidf.gov.sa/en/ServicesforInvestors/Programs/Pages/Tawteen.aspx
- 33 IMD, World Digital Competitiveness Rankings 2022, Saudi Arabia Country Profile
www.imd.org/globalassets/wcc/docs/wco/pdfs/countries-landing-page/sa.pdf
- 34 Vision 2030, Energy and Sustainability
www.vision2030.gov.sa/thekingdom/explore/energy/
- 35 Vision 2030, Saudi Green Initiative
www.vision2030.gov.sa/v2030/v2030-projects/saudi-green-initiative/
- 36 Ma'aden Annual Report 2021
www.maaden.com.sa/en/investor/report
- 37 Saudi Arabian Military Industries (SAMI)
www.sami.com.sa
- 38 Saudi Arabian Military Industries (SAMI)
www.sami.com.sa
- 39 Saudi Arabian Military Industries (SAMI)
www.sami.com.sa/single-news-1.html
- 40 FedEx, "FedEx Express to Invest more than SAE 1.5bn in Saudi Arabia" (October 2021)
<https://newsroom.fedex.com/newsroom/meisa-english/fedex-express-to-invest-more-than-sar-1-5-billion-in-saudi-arabia>
- 41 Lucid, "Electric vehicle manufacturer Lucid Group gearing up for first international plant in Saudi Arabia after signing agreements with multiple agencies" (February 2022)
www.lucidmotors.com/media-room/lucid-group-gearing-up-first-international-plant-saudi-arabia
- 42 SPA, "LEAP 23 announces \$580 Million Investment, Data Center and 2 Tech Skills Academies" (February 2022)
<https://www.spa.gov.sa/viewfullstory.php?lang=en&newsid=2424605>

Disclaimer

This Report, including data, information, methodologies, and opinions reflected herein contained or is for general information purposes only. The material in this Report is obtained from SIDF per dating of the report. SIDF has taken reasonable care to ensure that, and to the best of our knowledge, material information contained herein is in accordance with the facts and contains no omission likely to affect its understanding. SIDF makes every effort but cannot and does not represent or warranty of any kind, whether express or implied, as to, the accuracy, reliability, or suitability of the information, products, services, or related graphics in this Report for any purpose. SIDF assumes no liability or responsibility of any kind for any errors or omissions in the content of this Report and further disclaims any liability of any nature for any loss howsoever caused in connection with using this Report. The materials and information in this Report are subject to change at any time without prior notice.

