THE REPORT

Saudi Arabia 2020

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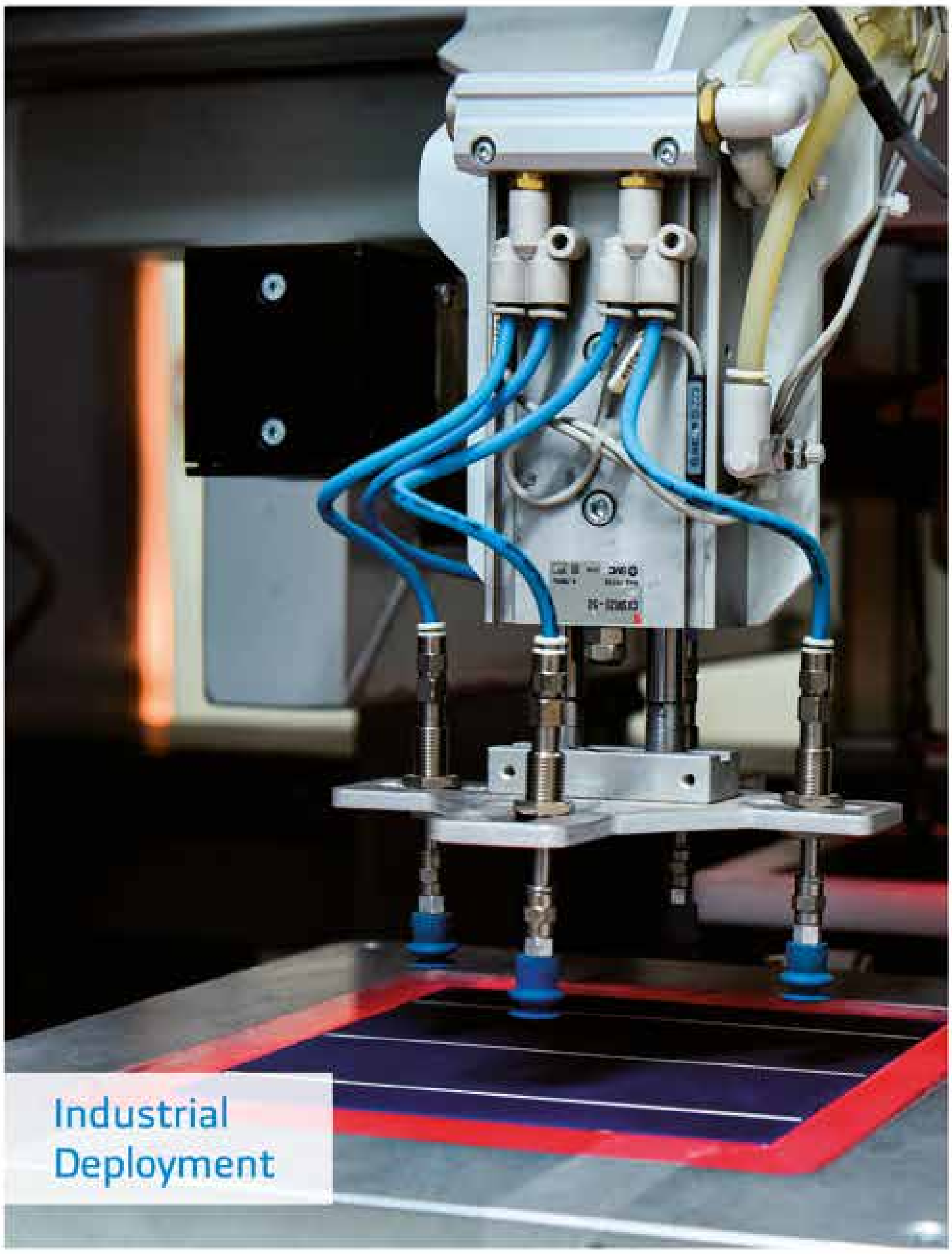
ENHANCING INNOVATION ACROSS THE NATION AND BEYOND



Industrial Deployment

The King Abdulaziz City for Science and Technology (KACST) is a government institution that supports Scientific Research, Technology Development and Industrial Deployment in the Kingdom of Saudi Arabia and beyond.

مدينة الملك عبدالعزيز
للعلوم والتقنية KACST

Staying on course

Page 41

Real GDP grew by 0.3% in 2019, down from 2.2% in 2018. While this is a muted performance by historical standards, some areas of the economy showed great promise: non-oil GDP expanded by 3.3% during the year, and non-oil private sector growth hit 3.8%, a five-year high. Although the first quarter of 2020 brought the global spread of Covid-19, the Kingdom held true to its long-term development goals while taking mitigating short-term action.

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Future in mind

Page 128

The energy sector remains the backbone of the economy, with oil accounting for 77.3% of export revenue and 27.4% of GDP in 2019. Oil was initially expected to account for approximately 63% of government revenue in the 2020 budget, but the statement came before the steep decline in oil prices that began in mid-February 2020 and the worldwide outbreak of Covid-19, which is significantly slowing global growth and, therefore, energy demand.

Alternative engine

Page 159

The industrial sector is widely regarded as a promising area for business growth, thus the state is embarking on an agenda based on Industry 4.0, a more efficient and educated workforce, and investment and skills transfer from the private sector. The vision is backed by a programme with a mandate to invest $453.2bn over the next decade to support industry, energy, mining and logistics.

Well connected

Page 193

ICT is at the forefront on Vision 2030's plan for the digital transformation of society, government and the economy. The sector had a market size of $28.5bn in 2019 and the 13th-highest internet speeds in the world, which, coupled with increasing investment in technology, is driving growth of the digital economy. Cybersecurity, meanwhile, is emphasised to protect gains made to date.

Smooth moves

Page 211

While the transport sector plays a vital role in enabling other industries, it makes a significant economic contribution on its own. The transport, storage and communications sector contributed 6.1% to GDP in 2019 and expanded by 5.6% over 2018, making it the fourth-fastest-growing sector. Recent gains range from boosting international connectivity to improving urban mobility.

Aiming high

Page 249

Focus in the education sector has shifted to boosting efficiency and quality, while also integrating technology to meet Vision 2030 goals and better equip graduates for the workforce – specifically private sector positions. The Kingdom opened 719 new schools in 2018 and 500 more in 2019, and the sector received the largest share of funding in the 2020 budget, at nearly 19%.

We are more than just Saudi Arabia's Largest financial institution

7.4 million
customers by 2019 year-end

434
branches Kingdom wide

3,608
ATM's Kingdom wide

30
SAR billion
paid up capital

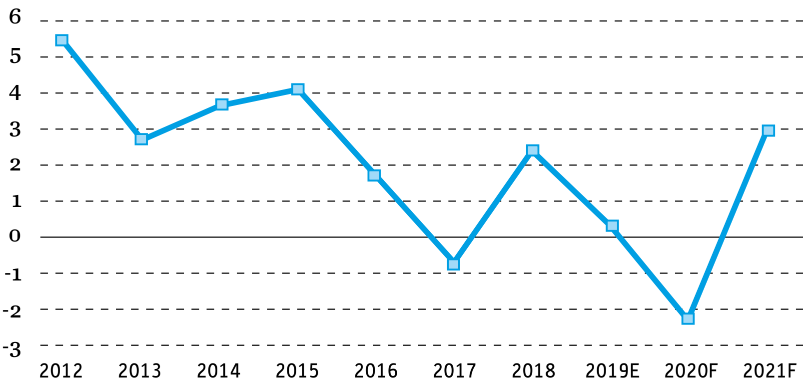
507
SAR billion
bank assets

11.4
SAR billion
Net income 2019 year end

Saudi Arabia in brief

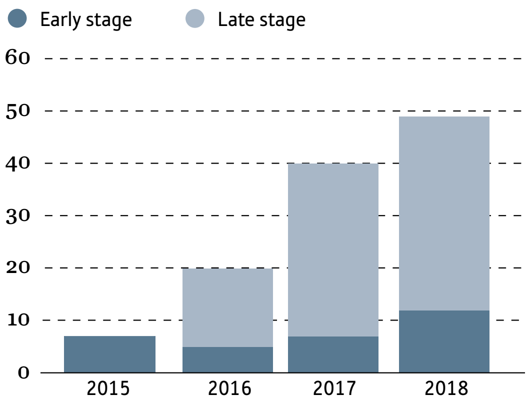
Four years after Saudi Arabia launched its Vision 2030 development strategy, the non-oil economy is benefitting from sustained reform as projects across a range of sectors come to fruition. Meanwhile, the country will become the first Arab nation to host the G20 Leaders' Summit in November 2020, with the gathering set to address the unprecedented global economic challenges brought on by the Covid-19 pandemic in the first half of the year. The Kingdom entered 2020 on the back of modest 0.3% growth in 2019 and despite early challenges, the economic and social measures that have been introduced in recent years bode well for the country's health in the medium to long term.

Real GDP growth, 2012-21F (%)



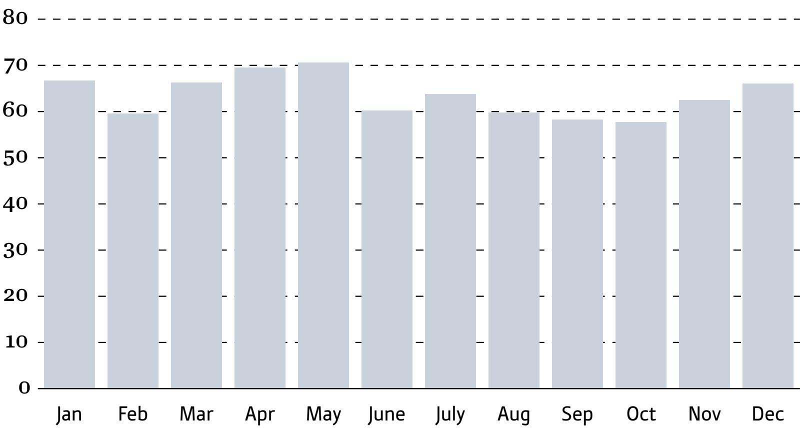
Source: IMF

Venture capital investment in Saudi Arabia, 2015-18 ($ m)



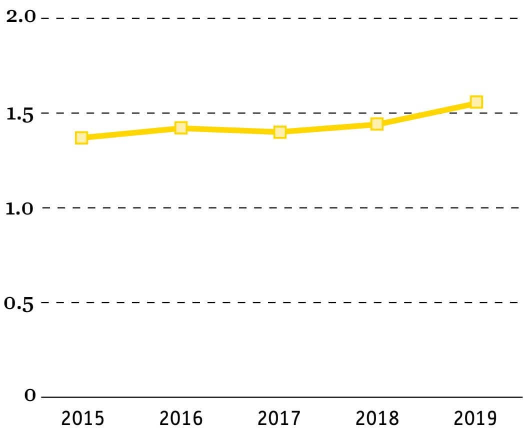
Source: MAGNiTT, STV

Monthly oil exports, 2019 (SR bn)



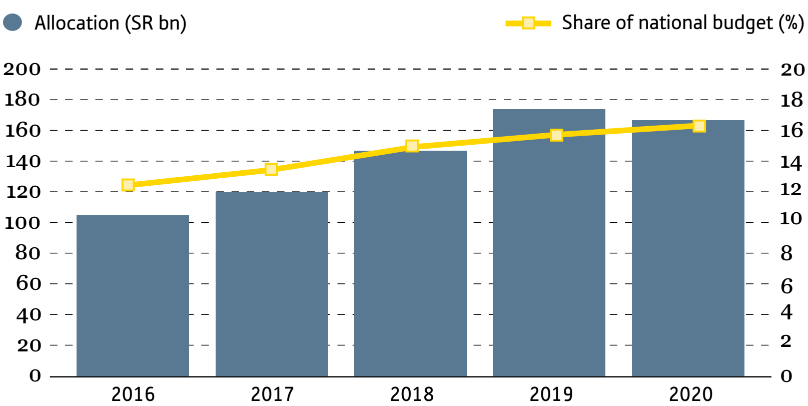
Source: GaStat

Total bank credit, 2015-19 (SR trn)



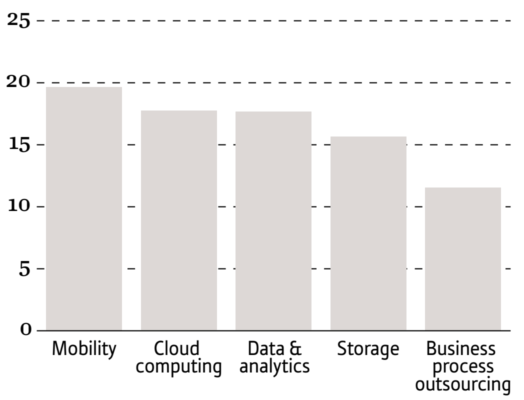
Source: SAMA

Government funding for health care, 2016-20



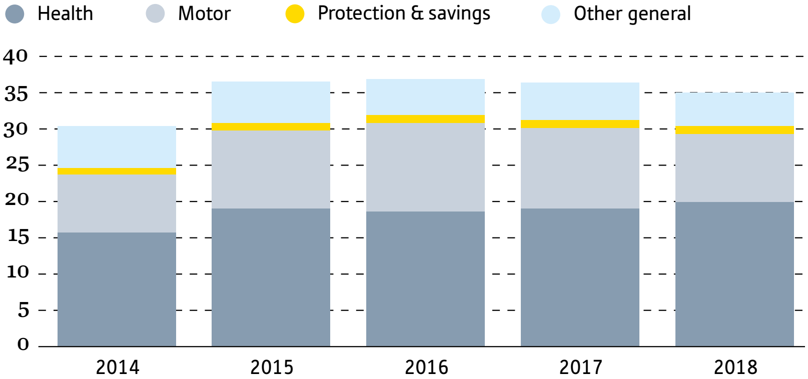
Source: MoF

Forecast CAGR of selected IT segments, 2019-24F (%)



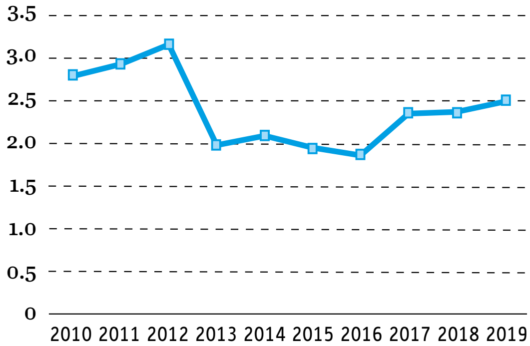
Source: GlobalData, Technology Intellience Center

Gross written premium by line of business, 2014-18 (SR bn)



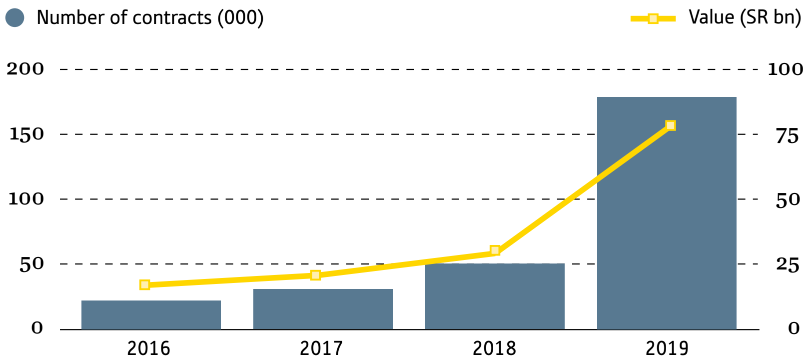
Source: SAMA

Hajj pilgrims, 2010-19 (m)



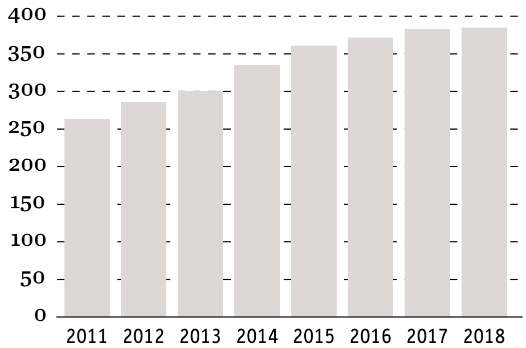
Source: GaStat

Residential mortgages, 2016-19



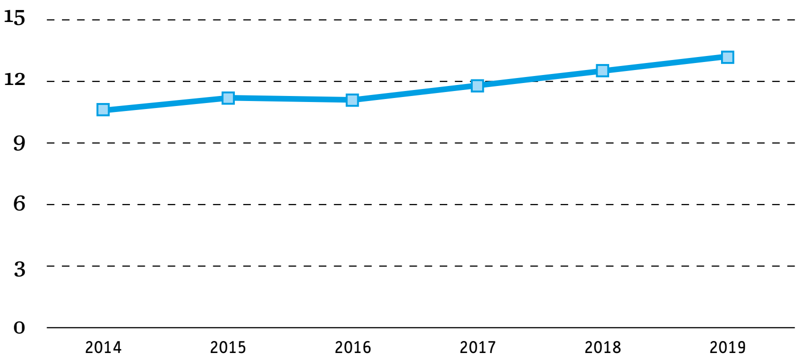
Source: SAMA

Electricity generation, 2011-18 (TWh)



Source: BP

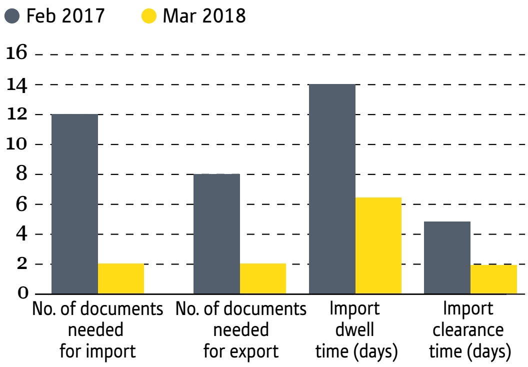
Non-hydrocarbons mining & quarrying GDP*, 2014-19 (SR bn)



Source: GaStat

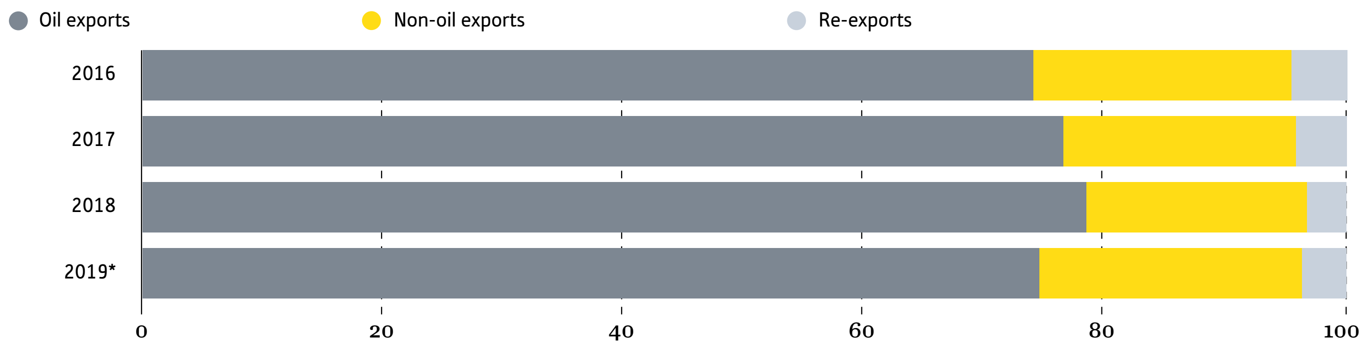
*current prices

Digitalisation improvements at ports, Feb 2017 vs Mar 2018



Source: NIDLP Delivery Plan

Breakdown of total exports, 2016-19 (%)



Source: GaStat

*through Q3

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Country Profile

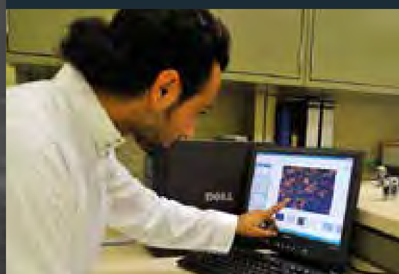
Greater focus on diversifying the economy

Economic development guided by Vision 2030

Young population drives growth and innovation

G20 summit in Riyadh to boost leadership profile




Foreign direct investment in the Kingdom amounted to $3.2bn in 2018

Bright future

The Kingdom attracts international attention as its Vision 2030 economic development plan continues to unfold

Home to an estimated 17.2% of the world's proven oil reserves and the largest economy in MENA, Saudi Arabia is a key player not only in the region, but also on a global scale. Since its establishment in September 1932, the Kingdom has poured its considerable financial resources into a series of large-scale economic development, diversification and modernisation initiatives. In recent years Saudi Arabia has attracted international attention for the momentum of its socio-economic transformation taking place under the auspices of the Vision 2030 development plan. "Saudi Arabia is home to a young population and the country is moving forward at an incredible rate," John Brash, founder and CEO of Brash Brands, told OBG. "There is a real appetite for change, and you see the transformation not just socially, but also in terms of benchmarking best international practice across business and the adoption of technology," he added.

GEOGRAPHY: Saudi Arabia is the largest country in the Middle East, accounting for approximateley 80% of the Arabian Peninsula, and the 13th-largest nation in the world. The Kingdom is covered by a series of interconnected deserts and scrubland, the largest of which is the 650,000-sq-km Rub Al Khali (Empty Quarter) in the south, which is the biggest continuous sand desert in the world. The country contains numerous *wadis*, or dry riverbeds, but no natural lakes, rivers or streams. According to the World Bank, less than 1% of the country's total land area is considered well suited for agricultural activities. Saudi Arabia shares land borders with Jordan, Iraq and Kuwait in the north, Qatar and the UAE in the east, and Oman and Yemen in the south. It is also connected to Bahrain – off the east coast – by the King Fahd Causeway, a 25-km road bridge. The Kingdom's west coast runs along the Red Sea.

CLIMATE: Saudi Arabia is hot and extremely arid year-round, like much of the rest of the Gulf, and does not have clearly defined seasons. May to September are typically regarded as the summer months, during which temperatures can be as high as 45-55°C. The heat is felt the most in the interior, an area also characterised by low humidity rates. Temperatures cool in the winter months of November to February, to average 19-25°C. Winter temperatures can drop below freezing in central and northern Saudi Arabia, especially at night, with occasional snowstorms in the north. During the seasonal transition period from February to May, violent sandstorms sometimes occur. Average annual precipitation is around 8 cm, almost all of which falls between December and March, when tropical winds can cause monsoons in the south and south-west.

POPULATION: The population was largely nomadic until the early 1960s, when rapid economic development fuelled by new oil revenue prompted a process of urbanisation, and by 2010 more than 95% of the country's citizens were settled. Based on estimates from the General Authority for Statistics (GaStat), the total population stood at about 34.2m in mid-2019, an increase from 33.4m the previous year. This followed growth of 333% between 1975 and 2009, when the figure reached 25m, representing one of the fastest growth rates in the world. The World Bank forecasts the population to reach some 35.3m by 2021 and 39.3m by 2030. Per GaStat data, the Kingdom's population density stood at about 17 people per sq km in 2018, though the figure is substantially higher in cities and urban areas. As of the middle of that year, Riyadh Province, which is home to the capital and largest city, held 8.4m people, while Makkah Province, home to the second-largest city of Jeddah and the holy city of Makkah, held 8.8m people. The Eastern Province and its capital of Damman held over 5m people.

DEMOGRAPHICS: In 2018 GaStat estimated that Saudi nationals accounted for 62.2% of the

Saudi Arabia is the largest country in the Middle East, accounting for approximately 80% of the Arabian Peninsula. It is covered by a series of interconnected deserts and scrubland, the largest of which is the 650,000-sq-km Rub Al Khali.

The Kingdom's population is forecast to reach

39.3m

by 2030

The population is young, with an estimated 39% of Saudi nationals under the age of 25 as of mid-2019

population, with non-nationals making up the remaining 37.8%. The large foreign population comprises people from all over the world, including nationals from the Philippines, India, Pakistan, Afghanistan and Indonesia, among other Asian countries. The Kingdom is home to a substantial Western population as well, including residents from the UK, the US, the EU and Canada. The majority of the expatriate population lives in Riyadh and other major urban centres.

The population is young, with an estimated 39% of nationals under the age of 25 as of mid-2019. The fifth census in the Kingdom's history is taking place in 2020, and all phases except the final phase of physical counting had been completed by early March. However, physical counting was suspended shortly thereafter to protect field agents and the public amid the global outbreak of Covid-19.

LANGUAGE: The official language of the Kingdom is Arabic, of which there are two predominant dialects: Najdi and Hejazi. The large expatriate population means that a number of other languages are also spoken, including Urdu, Malay and Tagalog. English is widely spoken by Western expatriates and in places of business. Most road signs in the country are written in both Arabic and English.

RELIGION: As the birthplace of the Prophet Muhammad and the home of Makkah and Medina, Saudi Arabia is an Islamic country, with the king holding the title of Custodian of the Two Holy Mosques. The majority of Saudis are Sunni Muslim, while a minority – mostly living in the Eastern Province – are Shia. The Wahhabi ideology, a strict branch of Sunni Islam espoused by the 18th-century imam Muhammad ibn Abd Al Wahhab, has also played an important role in society since the first Saudi state was created.

Under the Basic Law of Saudi Arabia, which was issued by King Fahd bin Abdulaziz Al Saud in 1992, the Quran serves as the basis for all the Kingdom's laws, rules and regulations.

Religion is central to social, political and economic life in Saudi Arabia, and under the Basic Law of Saudi Arabia, which was issued by King Fahd bin Abdulaziz Al Saud in 1992, the Quran serves as the basis for all the Kingdom's laws, rules and regulations. Therefore, Islam informs and defines all areas of life, including the legal system, public behaviour, marriage relations, culture and the calendar. All Saudis are required to abide by sharia law, which mandates daily public prayer, the separation of unrelated men and women, and the paying of *zakat*, or religious charity. Through the Hajj and Umrah pilgrimages, which are considered to be religious obligations and cornerstones of Islamic life, Saudi Arabia attracts around 19m pilgrims annually from around the world.

HISTORY: Despite the fact that the vast majority of the Arabian Peninsula is covered by inhospitable desert, nomadic tribes have called the area home for thousands of years. The earliest recorded archaeological evidence discovered on the peninsula dates back to the third millennium BCE, when the Dilmun civilisation occupied an area that includes the modern-day states of Bahrain, Qatar and Oman, as well as parts of Iran and Saudi Arabia's Eastern Province. In the first millennium BCE, the ancient Thamud tribe moved from southern Arabia to what is now the Medina region, where they occupied a series of towns until the middle of the first millennium CE.

The history of the Arabian Peninsula from 600 CE onward was largely characterised by the rise of Islam, which began with the birth of the Prophet Muhammad in Makkah around 570 CE. By the time of Prophet Muhammad's death in 632 CE, the majority of the Gulf had been united under Islam. By 800 CE, as a result of rapid expansion by the early Muslim caliphs and other leaders, Islam had become the predominant religion over a wide geographical area, spanning from what is now Spain and Portugal in the west, to Central Asia in the east.

EARLY STATES: With political power concentrated in Damascus and Cairo during the medieval period, a handful of nomadic and semi-nomadic groups came to control the Arabian Peninsula. Among the most powerful of these groups were the Hashemites, or Banu Hashim, a clan within the larger Quraish tribe that is descended directly from Prophet Muhammad, who came to control much of the eastern Hejaz region of Arabia during the second millennium CE.

The Al Saud family, which today rules Saudi Arabia, has held intermittent control of the Nejd and other parts of central and eastern Arabia since the mid-1700s. In 1744 Muhammad ibn Saud, then-head of the Al Saud family, established an alliance with the imam Al Wahhab to unify the Arabian Peninsula under the banner of Islam. The first Saudi state, which was based in Diriyah, controlled a large area until 1818, when the Ottomans recaptured it in the course of the Ottoman-Saudi war.

During the second Saudi state, which was formed in the wake of the war and based out of Riyadh, the Al Saud family ruled over a substantial area in central Arabia from the early 1820s until 1891, when it succumbed to tribal infighting. In the wake of this defeat, the then-head of the family, Abdul Rahman

The official language of the Kingdom is Arabic, of which there are two predominant dialects: Najdi and Hejazi

In 2018 the Kingdom's GDP was

$786.5bn

bin Faisal Al Saud, fled to Kuwait with members of his family, including his son Abdulaziz Al Saud. The latter is the founder of the third Saudi state, which is synonymous with modern-day Saudi Arabia.

NEW BEGINNING: In 1902, when he was about 26 years old, Abdulaziz Al Saud returned to Riyadh and conquered the city with a small group of men. Over the next few years the young ruler worked to consolidate his control over most of the Nejd region, where the Al Saud family remained popular among the local inhabitants. By 1912 Abdulaziz had gained control of most of central and eastern Arabia, and over the following two decades continued to expand his reach across the peninsula, negotiating with local rulers and colonial powers when possible, and resorting to force when necessary. In September 1932 Abdulaziz announced the formation of the Kingdom of Saudi Arabia, naming himself king.

Six years after the modern state was formed, US company Standard Oil discovered oil in commercial quantities in the Eastern Province city of Dammam. The find, which eventually revealed the second-largest reserves of crude oil in the world, changed the young country forever. By the mid-1950s oil exports accounted for the majority of the state's income, and Saudi Arabia embarked on a series of large-scale, government-led economic development projects funded by this new revenue stream.

ECONOMY: According to the IMF's October 2019 "World Economic Outlook", Saudi Arabia is categorised as an emerging market economy, a grouping that includes countries such as China, Turkey, Russia and India. The World Bank, for its part, classifies the Kingdom as a high-income, non-OECD country. According to the latest data from the World Bank, Saudi Arabia ranked as the 18th-largest economy in 2018, with GDP of $786.5bn. The Kingdom also participates in G20 meetings and is slated to host the G20 Leaders' Summit in Riyadh in November 2020.

In April 2016 the government launched Vision 2030, a bold economic diversification plan with the central aim of transitioning the economy away from its dependence on oil.

Hydrocarbons income has traditionally accounted for the vast majority of state revenue; however, in 2016 the government launched Vision 2030, a bold economic diversification plan with the central aim of transitioning the economy away from oil. The plan calls for a multitude of developments, including greater localisation of sectors such as defence and value-added industrial production; an expansion of religious and other forms of tourism; and the privatisation of public services across transport, utilities, education and health. Announced in June 2016, the National Transformation Programme (NTP) 2020 provided a number of targets and plans for the medium-term objectives of Vision 2030, with both the international and local business community positive about the ample opportunity for increased levels of private investment.

In December 2016 the government approved the Fiscal Balance Programme (FBP), a five-year financial plan to eliminate Saudi Arabia's deficit by 2020, which was later set back to 2023. The FBP focuses on various areas, including social welfare reform, scrutiny of government expenditure in the wake of low oil prices, introduction of new fiscal measures such as expatriate levies and value-added tax, and private sector growth. In 2017 Saudi Arabia also redesigned the governance structure of Vision 2030, announcing that its implementation would be detailed by 12 Vision Realisation Programmes (VRPs), two of them being the FBP and a revised version of the NTP, referred to as NTP 2.0.

On October 25, 2017 a third VRP was released, the Public Investment Fund (PIF) Programme, which outlines a number of initiatives to be undertaken by Saudi Arabia's sovereign wealth fund to 2020. In line with the objectives of Vision 2030, the capital raised for the PIF through the initial public offering (IPO) of state-owned oil giant Saudi Aramco is to be channelled into new economic ventures, supporting the growth of the private and non-oil sectors. The IPO, which was made in November 2019, raised $25.6bn. The PIF is also set to benefit from staggered payments from the fund's sale of its 70% stake in SABIC to Saudi Aramco, valued at SR259bn ($69bn).

In early 2019 the National Industrial Development and Logistics Programme (NIDLP) was inaugurated, bringing the number of VRPs to 13. The NIDLP aims to guide growth in the industry, mining, energy and logistics sectors (see Industry chapter).

INVESTMENT: The government has worked hard to open up the Kingdom to foreign direct investment (FDI) in recent years. Saudi Arabia is ranked 62nd out of 190 nations in the World Bank's 2020 ease of doing business index, up from 92nd the previous year, marking it as the most-improved country. Its reputation for political stability has historically made it a popular destination for FDI in the MENA region. However, the Kingdom saw its FDI level drop from $8bn in 2014 and $7.5bn in 2016 before the prolonged oil price slump, to $1.4bn in 2017. FDI inflows then rebounded to around $3.2bn in 2018.


Saudi Arabia's total proven oil reserves at the end of 2018 were estimated at around 297.7bn barrels

The top governmental body in the Kingdom is the Council of Ministers, or the Cabinet, which is led by the ruler and consists of 30 royally appointed ministers serving four-year terms.

ENERGY RESOURCES: Saudi Arabia is one of the most important oil producers in the world, boasting 17.2% of total crude reserves at the end of 2018, according to BP's "Statistical Review of World Energy 2019" report. Additionally, it is home to 3% of global natural gas reserves. Total proven oil reserves at end-2018 were estimated by BP at around 297.7bn barrels. Saudi Arabia has an oil production capacity of 12.5m barrels per day (bpd), though it produced roughly 12.3m bpd in 2018, according to BP. The energy industry is dominated by state-owned Saudi Aramco, which controls nearly all of the oil and gas reserves and is estimated to be the world's largest oil company. Saudi Arabia is one of the five founding members of the Organisation of the Petroleum Exporting Countries (OPEC) and was traditionally considered the global swing producer. When oil prices began to drop after June 2014 the Kingdom initially maintained high production levels to protect its share of the international market; however, in January 2017 Saudi Arabia headed an historic agreement between OPEC and non-OPEC members to curb global oil production in an effort to stabilise prices.

ADMINISTRATION: Riyadh is located in the Nejd region, a rocky plateau that covers a large swathe of land in central Saudi Arabia. Jeddah, meanwhile, is located on the Red Sea coast and is bordered by the Sarawat Mountains to the east. At the administrative level, the Kingdom is organised into 13 provinces, including the Eastern Province – which is home to the bulk of Saudi Arabia's oil reserves – Riyadh Province, Makkah Province and Medina Province. Each province has its own provincial capital. The provinces are further divided into between three and 20 governorates, with a total of 118 throughout the country. Each of the governorates are divided into sub-governorates for greater local oversight.

The Kingdom is organised into 13 provinces, including the Eastern Province – which is home to the bulk of Saudi Arabia's oil reserves – Riyadh Province, Makkah Province and Medina Province.

GOVERNMENT: Saudi Arabia is a monarchy and the royal family is the Al Saud, the direct descendants of King Abdulaziz, the country's founder. The current monarch, King Salman bin Abdulaziz Al Saud, assumed the throne following the passing of his half-brother, King Abdullah bin Abdulaziz Al Saud, in January 2015. Since then King Salman has abolished a number of government councils, subsequently replacing them with two major councils, the Council for Political and Security Affairs, and the Council for Economic and Development Affairs, both of which are currently chaired by Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud.

In 2015 King Salman named Prince Mohammed bin Naif Al Saud as the crown prince, but he was relieved of the title in June 2017 and replaced by the then-deputy crown prince, Mohammed bin Salman, the son of King Salman bin Abdulaziz Al Saud. The current crown prince is widely seen as a moderniser, seeking to meet the needs and aspirations of the population in a rapidly changing, globalised world.

COUNCILS: The top governmental body in the Kingdom is the Council of Ministers, or the Cabinet, which is led by the ruler and consists of 30 royally appointed ministers serving four-year terms. The government's relationship with, and its responsibilities towards, its citizens is codified by the Basic Law, which was passed by King Fahd in 1992.

The Majlis Ash-Shura, or Consultative Council, has an advisory role in the government and is made up of 150 members, all of whom are appointed by the king. However, the organisation has limited powers and cannot pass or enforce laws. The body broadly serves as a forum for policy debates, and it can interpret existing laws and propose new legislation to be passed by the ruler. In addition, the council advises the king on a variety of issues, including the annual budget and long-term economic development plans. The Consultative Council also has the power to call ministers in for questioning. Around 70% of the members of the current council hold PhDs, many of which were granted from US and UK universities. Women make up one-fifth of its total membership.

While the governmental body is primarily an advisory group, it has gained a substantial number of new powers over the past decade. For example, its mandate now includes participating in the Kingdom's complex budgeting process, which was considered to be a significant increase in responsibility.

SUCCESSION: In 2006 a law formalising the succession process in the Kingdom was announced. Following the death of the reigning monarch, a committee composed of male heirs of King Abdulaziz is convened to officially name the crown prince as the new king. This law helped facilitate a smooth transition in 2015, with the accession of then-Crown Prince Salman to the throne.

Power has traditionally been held by King Abdulaziz's sons, with accession passing from brother to brother. The appointment of Prince Mohammed bin Salman as crown prince overturned decades of royal custom, as succession from father to son had only taken place once before in Saudi Arabia's history.

Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud

Supporting diversification

Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud, on the 2020 budget and priorities to achieve Saudi Vision 2030

The government's economic renewal of the Kingdom is progressing steadily in accordance with Saudi Vision 2030. The budget for 2020 reflects and reinforces our commitment to implement reforms, plans and programmes to achieve our vision, setting specific goals in a number of areas to help create a vibrant and ambitious society, as well as a prosperous economy.

The government is working to improve the quality of life in the Kingdom by developing and diversifying the economy, improving job opportunities, and enhancing public services in terms of financial and economic stability, the main pillar of sustainable economic growth. The economic and structural reforms implemented since 2017 have had positive effects on our economic performance, and we recently recorded a notable increase of real GDP growth rates in the non-oil sector.

We aim to create an attractive investment environment that contributes to steering the national economy towards our goals of diversification, growth and prosperity. We are encouraging the private sector to play a more prominent role in the economy. It is of the utmost importance to engage with private business, as it is an essential partner for the development of the Kingdom. In this regard, the continuing programme of reforms designed by the government to develop businesses and create an attractive environment for investors has enhanced the country's ranking in the World Economic Forum's "Global Competitiveness Report 2019" and the World Bank's ease of doing business index.

Maintaining financial and economic stability is an essential pillar of sustainable growth, and results confirm that we are progressing towards the Vision 2030 objectives. We are continuously reviewing and updating our policies and programmes to ensure their effectiveness, taking into account global economic conditions and the interest of our country and its citizens. The 2020 budget has been prepared in light of a global economic atmosphere characterised by challenges, risks and protectionist policies, which in response require more flexibility in the management of public finances and an ability to strengthen the economy in order to better face those challenges and risks. Financial control policies and the development of public financial management have contributed to the continued decrease of the budget deficit, which is expected to decline to around 4.7% of GDP in 2019, compared to 5.9% in 2018 and 9.3% in 2017. This confirms the success of ongoing efforts to ensure financial sustainability and progress in implementing projects to strengthen the private sector.

The 2020 budget continues to support programmes that contribute to achieving Vision 2030. This includes the financing of major projects and supporting micro-, small and medium-sized enterprises, as well as entrepreneurs. These are some of the most important engines of growth that will push diversification, and open up new fields for investment and employment.

The budget also includes reviews of some of the programmes and schedules to ensure the continued development and modernisation of government infrastructure and services. The government focuses on improving the efficiency and quality of spending to make the best use of state resources and achieve the highest possible social and economic benefits.

The Public Investment Fund and the National Development Fund, which are the local and external investment mechanisms and the growth arm of the economy, are also contributing to diversification of income sources. These are among the most important goals of Vision 2030. The recent initial public offering of Saudi Aramco is a significant step forward, and the government will continue to encourage the participation of the private sector. Opportunities for private business will continue to arise, enhancing its role in job creation, and in the diversification of our economy.

This viewpoint was adapted from Crown Prince Mohammed bin Salman's statement of the 2020 state budget. In March 2020 approximately 5% of the 2020 budget was allocated to stem the negative effects of Covid-19.

Prince Badr bin Abdullah bin Mohammed bin Farhan Al Saud, Minister of Culture

Creative renewal

Prince Badr bin Abdullah bin Mohammed bin Farhan Al Saud, Minister of Culture, on utilising the full potential of arts and culture to benefit the Kingdom's economy

How can the deepening of cultural ties between countries enhance regional cooperation?

PRINCE BADR: We are pursuing one of the most significant cultural renewal programmes in history. Arts, culture and heritage have lacked a dedicated portfolio for the past generation. Now, under the leadership of a new Ministry of Culture and with a dedicated cultural vision, we are putting that right. The Kingdom is a major G20 nation with a pivotal place in the world economy. We take our regional and global responsibilities seriously, and as we revitalise our arts, culture and heritage, we are seeking to build bridges of shared understanding.

Cultural dialogue and exchange are profoundly important to us. Therefore, we are developing platforms for artists to learn and engage with their international peers, and for the global audience to experience unique Saudi creativity. For instance, in 2019 we supported a group of Saudi artists as they travelled to Argentina to participate in BIENALSUR, the Southern Hemisphere's Biennale. Additionally, as part of our partnership with Russian cultural institutions, two Saudi artists exhibited at the State Hermitage Museum in an international exhibition on artificial intelligence in modern art.

Our aspiration is for Saudi Arabia to become a global cultural leader by creating strong and lasting relationships with countries that will embrace and appreciate its unique identity, rich heritage and cultural ambitions. We are also delighted to play an active part within UNESCO, where Saudi Arabia was recently elected to the executive board for the first time.

How can foreign investment contribute to the long-term goals of Saudi Arabia's cultural sector?

PRINCE BADR: Our goal is for culture to contribute more than $23bn to our economy by 2030 and to create over 100,000 jobs. The commitment to inward investment and economic diversification set out in the country's Vision 2030 will help us to achieve this growth by opening up the sector to inflows of capital and ideas.

We are welcoming unprecedented numbers of visitors, many of whom are travelling to Saudi Arabia for the first time. We expect the contribution of tourism to our economy to increase greatly as global brands seek to expand their presence in the Kingdom.

Culture and tourism are intrinsically linked, so naturally we also expect to see investment flow into the cultural ecosystem, particularly as we develop global partnerships. The development of the cultural sector is about creating meaningful and rewarding work, encouraging entrepreneurism, and creating a public and private sector that work together to allow creators to market their cultural products.

In what ways can Saudi Arabia's economy benefit from its cultural and historical sites such as Al Ula?

PRINCE BADR: Vision 2030 clearly sets out how cultural and historical sites will help us diversify our economy and develop sectors such as tourism, and Al Ula is a great example of this. The Royal Commission for Al Ula (RCU) has a long-term plan to develop the area in a responsible, sustainable and sensitive way. It preserves the area's natural and historic heritage, while establishing Al Ula as a vibrant location to live, work and visit.

Several infrastructure projects are currently under way. These include the expansion of the recently constructed international airport to accommodate almost 500,000 passengers every year, positioning it as a key regional hub for passengers and freight. RCU is also working closely with international partners to expand hospitality infrastructure. Conservation work is also under way to position Al Ula as a cultural and ecological destination. For example, the excavation of the ancient city of Dadan and ranger training programmes are helping to preserve our unique wildlife and heritage. Lastly, and most importantly, local communities are placed at the heart of our vision for Al Ula. Training and job-creation initiatives will ensure that local people contribute to and benefit from the region's growth.

The G20 summit is expected to add 0.2% to non-oil, private sector GDP

The place to meet

A pipeline of major international events shines a spotlight on the Kingdom's regional leadership and diversifying economy

In November 2020 Riyadh is set to host the 15th annual G20 Leaders' Summit, bringing together the leaders of some of the world's largest economies. Although the summit will span a period of just two days, more than 150 separate meetings, exhibitions and events are being organised around it, and are expected to be a major boon for the local economy.

According to Riyadh-based investment and asset management company Jadwa Investment, the G20 summit is expected to add 0.2% to the country's non-oil, private sector GDP. Aside from creating a number of economic benefits across the value chain for tour operators, hotels and event managers, the summit is also set to give Saudi Arabia's government an opportunity to shine on the global stage, cementing the Kingdom's position as an economic and geopolitical leader in the region.

GROWING PROFILE: In December 2019 Saudi Arabia assumed the G20 presidency, taking over from Japan. The presidency will provide the Kingdom with a unique opportunity to demonstrate leadership, particularly at a critical time in which the global economic and political order faces a rising number of unprecedented challenges.

In late March 2020 King Salman bin Abdulaziz Al Saud convened an emergency meeting among G20 leaders to discuss a response to the economic, health and social impacts of the global Covid-19 outbreak. Despite the extraordinary circumstances surrounding the meeting, the G20 leaders quickly agreed to a common course of action to mitigate the pandemic's impact on the global economy.

The March 2020 meeting was a successful trial run for Saudi Arabia's leadership ahead of the November summit, which will mark the culmination of Saudi Arabia's one-year presidency. While attention will largely be focused on high-level policy discussions between world leaders, the substantial progress achieved and changes made under the Kingdom's ambitious economic development plans will also be a point of consideration. The G20 summit will provide the Kingdom with the opportunity to showcase some of the modernisation goals already achieved under Saudi Vision 2030, the country's roadmap for the next decade. The broad range of activities surrounding the summit are also expected to provide a welcome boost to the local economy, particularly for the hospitality sector and the meetings, incentives, conferences and exhibitions (MICE) segment. A number of associated events planned for 2020, such as the B20 business summit, the Y20 youth summit and the U20 urban summit, will likely benefit the local economy on a somewhat smaller scale.

VISITORS: More than 10,000 international delegates and media representatives are expected to visit Riyadh for the G20 summit, making it the largest conference or summit ever hosted in the Kingdom. Organising a high-profile event of this magnitude can present a number of unique challenges in terms of venue size, hotel space and security.

Riyadh has successfully hosted large international events in the past, including the 2017 Riyadh summit, which counted leaders from 55 countries – including US President Donald Trump – among its delegates. In preparation for hosting the G20 summit, however, Saudi Arabia is expanding its hospitality and conferencing facilities to meet the anticipated rise in demand. Jadwa Investment forecasts hotel occupancy and prices in Riyadh to spike significantly during the summit. As of early 2020 some 60 new hotels were being built in Riyadh alone, and the government expects that eight of these will be completed by November to host G20 leaders and serve as conference venues. This would increase the number of available hotel rooms in the capital from some 17,000 to 18,000; however, providing accommodation for all delegates may still prove challenging. Osaka, which hosted the 2019

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Saudi Arabia has been working to increase its selection of exhibition and meeting spaces in major cities

Approximately
$1.6bn
was invested in host facilities between 2016 and 2020

G20 Leaders' Summit, made plans to accommodate approximately 30,000 attendees.

CONVENTION DESTINATION: G20 summit preparations come amid Saudi Arabia's growing status as a global meetings and conventions destination. In recent years the government has prioritised the growth of its MICE segment, investing approximately $1.6bn in host facilities between 2016 and 2020. It has also created and hosted a number of international conferences, such as the Future Investment Initiative (FII) – an annual investment forum established in 2017 and hosted in Riyadh – which brings together world leaders, investors and innovators to discuss opportunities to enable growth in innovation and disruptive technologies.

Thus far the initiative has been a success, attracting more than 6000 attendees from over 110 countries across 25 different economic sectors in its third iteration in October 2019. The 2019 speakers and attendees included a number of high-profile leaders, such as Jair Bolsonaro, President of Brazil; Narendra Modi, Prime minister of India; and Steven Mnuchin, the US secretary of Treasury. A swath of investment deals were signed by the Saudi Arabian government during the forum, including more than two dozen deals worth $20bn in total, mostly in manufacturing. The 2020 edition of FII is due to be held from October 28 to 29, just over three weeks before the planned G20 summit.

EVENTS INDUSTRY: The Kingdom hosts more than 10,000 MICE events each year, around half of which are held in Riyadh. Apart from religious tourism, MICE is the largest tourism segment in Saudi Arabia. Although religious tourism still dominates in terms of foreign arrival numbers, the MICE segment has grown quickly in recent years.

The Kingdom hosts more than 10,000 meetings, incentives, conferences and exhibitions (MICE) events each year, around half of which are held in Riyadh. Apart from religious tourism, MICE is the largest tourism segment in Saudi Arabia.

In line with this, Saudi Arabia has been working to steadily increase its selection of exhibition and meeting spaces in major cities. "We have a limited number of venues and meetings spaces available in the country," Assaf Al Amri, marketing director at the government-run Saudi Exhibitions and Convention Bureau (SECB), told OBG. "In Riyadh our MICE venues comprise roughly 56,700 sq metres, whereas in Dubai there is around 150,000 sq metres. We are working on identifying and developing new sites in order to increase stock," he said.

In addition to the G20 summit and FII forum, in 2020 Saudi Arabia will host a score of other, high-profile international events. The capital has already hosted the 2020 Institute for International Finance (IIF) G20 Conference in February, which brought together over 200 senior government officials, policymakers and private sector representatives. The Kingdom will also host the inaugural Global Artificial Intelligence Summit, which is set to take place in Riyadh in September 2020.

SEGMENT ACTORS: The Kingdom's MICE events are largely conducted by local professional conference organisers (PCOs) such as Riyadh Exhibitions Company (REC). Working with both local and foreign entities, REC plans, markets and executes over 10 international exhibitions each year for a variety of sectors, including petrochemicals, health care, utilities, agriculture and transport.

The mandate of SECB, meanwhile, is evolving, and its ongoing work to ease regulations will be crucial to the future success of Saudi Arabia's MICE segment. Starting in 2019 SECB's responsibilities have gradually been taken over by a new government body known as the General Authority for Exhibitions and Conventions (GAEC). "Previously, GAEC largely focused on licensing for MICE events, whereas SCEGA – with a much wider mandate – deals with licensing of business events, and the development and facilitation of the segment, including legislative and regulatory reforms," Al Amri told OBG.

By supporting the MICE segment, SCEGA aims to create an attractive environment for investors and PCOs within the country and abroad. "We are currently working on regulatory reforms to limit the number of subject areas that require vetting as part of the MICE licensing process," Al Amri said. "As it stands, the approval process on content is lengthy, because numerous government bodies must screen all relevant and specialised materials."

In 2020 Saudi Arabia's political leadership and economic progress is set to be visible on the global stage to an extent it has not experienced in the past. The ability of the Kingdom's hospitality sector and MICE facilities to cope with major global events like the G20 summit will also be under scrutiny.

Having positioned itself in recent years as a regional and global business events destination through its rapidly expanding MICE segment, Saudi Arabia has established a firm foundation on which to build. Although the summit only spans a period of several days, the positive publicity generated for the Kingdom is expected to bring substantial long-term economic and investment benefits to the country.

Prince Faisal bin Salman bin Abdulaziz Al Saud, Governor, Madinah Province

Global example

Prince Faisal bin Salman bin Abdulaziz Al Saud, Governor, Madinah Province, on putting the personal development and well-being of citizens at the heart of diversification

What are some of the challenges Medina faces regarding the need to balance infrastructure development with the region's historic heritage?

PRINCE FAISAL: Medina is not just the historic sites, but a region of the Kingdom with its own development challenges and opportunities. The development of historic places presents a particular challenge for urbanisation. This is due to the embedded tension between the expansion and growth needed to satisfy the needs of the inhabitants who live there and maintaining the historic character of the region. Medina is thus a global city and not just a local one.

Maintaining a balance between the infrastructure requirements of a global city that hosts millions of pilgrims and visitors year-round, and the local needs of the population is not an easy task. Thus, the guiding principles for us have been to facilitate access for the millions of visitors to the Prophet's Mosque with ease; to preserve the city's historic character; and to attend to the modern needs of local residents with regard to health care, educational institutions and projects that enhance the development of the local economy. These guiding principles have helped us to keep Medina in line with the vision for the whole Kingdom. The challenge, however, has been to keep the city friendly for people in terms of scale, access and ease. After all, cities are about people, and in holy cities this human and spiritual dimension is even more accentuated. Medina's global importance to all Muslims puts the city at the top of development priorities. This can be seen clearly the moment one lands in Prince Mohammad bin Abdulaziz Airport, which ranks as the second-best airport in the Middle East. It is also obvious as a visitor sets foot on the Haramain High-Speed Rail, which connects the two holy cities of Makkah and Medina. Moreover, it is impossible for any pilgrim or visitor to miss the various expansions of the Prophet's Mosque. In Medina we are proud of the achievements to make the visit of Hajj pilgrims an unparalleled spiritual experience. This human connection is what gives Medina its global reach.

How is the region boosting its profile both locally and nationally in the context of the country's wider social development plans?

PRINCE FAISAL: The wider Medina region is of paramount importance. The industrial coastal city of Yanbu, which will soon be a leading global centre for petrochemicals, currently boasts the third-largest refinery in the world. The balance between industrial centres, such as Yanbu, and the preservation and development projects around the city of Medina is a challenge. Yet the balance has been maintained through programmes that focus on low-income areas. These areas have been developed without relocating inhabitants or disrupting their daily lives. The facades of homes reflect the unique character of these areas without disturbing the sensibilities or the aesthetics of the historic city. The walkways that connect all religious sites and make them accessible to pedestrian visitors and locals alike is also a project we are proud of. Along these pedestrian routes we have encouraged local crafts through the Namaa Almunawara foundation, which promotes local creative work under the slogan "Made in Medina" and contributes to the local economy. Medina has always been a centre for Islamic learning. In order to maintain this character of the city, we have embarked on an ambitious programme that focuses on schools and libraries. The King Abdulaziz Complex for Endowed Libraries is one example of how we have focused on the preservation and restoration of rare publications and manuscripts under one roof. This project is aimed at highlighting the role of Medina as a global centre of learning. We are also building a new museum called Alsalam Museum along the lines of other prestigious world museums. In it, visitors will be able to see rare artefacts and manuscript displayed for the first time.

GCC governments are using blockchain technology to reduce costs

Evolving strategies

GCC countries adapt to the challenges and opportunities presented by rapidly advancing technologies

The Fourth Industrial Revolution (4IR) will pave the way for technology that has the power to greatly transform economies and societies worldwide. These technologies, which include artificial intelligence (AI), blockchain, big data tools, the internet of things (IoT) and robotics, can improve overall quality of life and increase the efficiency of governments and businesses. However, the technologies can also be disruptive, requiring recalibrations of the workforce and changes to existing regulations.

One mounting concern is the loss of jobs to automation. According to US consulting firm Mercer's "2019 Global Talent Trends" study, around 50% of CEOs in the Middle East believe that more than 20% of current jobs will cease to exist by end-2024. Therefore, factoring 4IR technologies into their economic development plans is vital for governments in the region. GCC countries have been quick to adapt to these changes as they transition from resource-based to knowledge-based economies.

POTENTIAL IMPACT: According to PwC, AI will add over $277.1bn to the GDP of GCC countries in 2030. In absolute terms, Saudi Arabia will accrue the largest gains from AI, adding approximately $135.2bn to its economy in 2030. In relative terms the UAE will see the biggest impact, with AI contributing 13.6% – or $96bn – to GDP in 2030.

While the upsides are likely to be significant, automation will see many jobs in the labour market come under pressure. Based on a study of five GCC economies – Kuwait, Oman, Saudi Arabia, Bahrain and the UAE – global management consultancy firm McKinsey estimates that 42.6% of work in the GCC will be automated by 2030, somewhat ahead of the estimated global average of 32%.

Workers with a high-school-level education or below are most at risk of losing their jobs to 4IR technologies, and some 57% of those workers are expected to have their jobs replaced by automation by 2030, compared to just 22% of those who hold bachelor or graduate degrees. Employees in the services, administration, construction and manufacturing sectors are most at risk.

Although automation and other 4IR technologies come with significant economic potential for GCC countries, authorities are aware that the shift will require careful management as they work to transform their economies, equip workers with new skills and create new technology-augmented jobs.

DIGITAL STRATEGIES: Recognising the wide range of challenges and opportunities presented by 4IR technologies, GCC governments have been working to incorporate digital transformation into their social and economic development planning.

Digital transformation of the economy underpins all the region's various economic development blueprints. For example, under the $160bn New Kuwait 2035 plan, Kuwait's government envisions a nationwide digital transformation to wean the economy off oil dependency, while developing digital infrastructure underpins Saudi Arabia's Vision 2030 goals. Similarly, Oman is hoping that its own long-term economic development strategy – Oman Vision 2040 – will transform the economy and be a boon for the country's growing IT sector.

While setting the stage for digital transformation in the private sector, GCC governments are also leading by example through public sector transformation. Building user-friendly e-government platforms has been a key part of this. For example, Abu Dhabi's TAMM portal provides hundreds of online services to both businesses and citizens. Furthermore, blockchain technology is also helping governments in the region increase their service delivery efficiency and reduce overall costs. Under its national strategy for blockchain, Bahrain has begun using the technology at its General Directorate of Traffic to facilitate the streamlining of vehicle registration processes.

Artificial intelligence will add over

$277.1bn

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Recognising the challenges and opportunities presented by Fourth Industrial Revolution technologies, GCC governments have incorporated digital transformation into their social and economic development planning.

The world's first graduate level, research-based artificial intelligence university will open in Abu Dhabi in 2020

LAYING THE GROUNDWORK: Harnessing the potential of 4IR technologies requires significant investment in both physical and digital infrastructure. 5G is a key enabler of 4IR technologies across a number of economic sectors, from health to manufacturing and transport. With speeds up to 1000 times faster than 4G and the ability to support 1m devices per sq km (compared to just 4000 per sq km in 4G networks), 5G enables businesses to harness big data in real time and feed this into AI processes, as well as connect devices across the IoT.

With 5G networks, manufacturers can use IoT solutions to track assets and predict maintenance in their smart factories; autonomous public transport vehicles can navigate streets and highways more efficiently; and governments can use 5G-enabled smart grids to monitor and predict rapid increases in electricity demand. Telecoms operators across the GCC were among the first in the world to launch 5G commercially, investing billions in upgrading infrastructure such as network towers. Furthermore, the UAE was the first in the region to launch 5G services and now ranks third out of 32 countries globally in terms of connectivity – after the US and China – according to the Connectivity Index by London-based mobile retailer, Carphone Warehouse.

IOT: Although some of the technologies 5G can enable may sound futuristic, a number of promising case studies are already being implemented in GCC countries. For example, Bahrain is planning to launch the nation's first satellite in 2020, which will be used to implement IoT-related projects such as monitoring gas emissions from factories. In addition, Oman's newly established Ministry of Technology and Communications is working with six of the country's hospitals to use big data and IoT technology to diagnose breast cancer more quickly.

Construction is continuing on the new $500bn NEOM smart city, located in the north-west of the country, which will feature automated drones, driverless cars and various other robotics.

Smart cities, which integrate 5G-enabled IoT technologies into urban planning to optimise efficiency, are a growing trend worldwide. According to Bloomberg, the global market size for these developments is set to reach $252.6bn by end-2025.

A number of smart cities are either being planned or are under construction in the GCC. In Kuwait contractors are developing the region's first both eco-friendly smart city. Underpinned by IoT technology, the $4bn South Saad Al Abdullah City will span some 64 sq km and will be home to approximately 400,000 people by the time it is completed in 2029. Sensors, smart lighting and other devices will monitor and increase efficiency, while solar panels and other green technology will provide clean energy.

AI: The world's first graduate level, research-based AI university is slated to open in Abu Dhabi in 2020. The Mohamed bin Zayed University of AI (MBZUAI) aims to become a centre for collaborative research – bringing academic, business and policymaking experts together to develop practical and innovative AI solutions for sustainable development. The MBZUAI forms part of broader federal government efforts and policy-making to establish the UAE as a world leader in AI innovation, underpinned by the UAE AI Strategy 2031. Under the strategy – launched in April 2019 and the first of its kind globally – the government aims to increase the efficiency of government services and harness AI technology across key economic sectors such as transport and health.

According to government estimates, AI could reduce the UAE's annual government costs by approximately 50% and is already being integrated into state-owned businesses. Saudi Arabia is also pushing ahead on the AI front and recently revealed the world's first citizen robot.

Saudi Arabia is also continuing construction on the new $500bn NEOM smart city, located in the north-west of the country, which will feature automated drones, driverless cars and various other robotics. The GCC's readiness to adopt 4IR developments is putting the region in a strong position to successfully keep abreast of global economic changes and achieve long-term sustainable economic growth. "Our goal is for people to associate the UAE with AI," Omar Sultan Al Olama, the UAE's minister of state for AI, told OBG. "We want to export our AI solutions to the world."

The UAE and wider GCC is already demonstrating its capacity to lead innovation with the way it is handling the ongoing Covid-19 crisis. New technology is proving crucial in helping to combat the virus. For example, 3D printing is being used to produce medical equipment, while scientists monitor the spread of the virus using big data tools.

Abu Dhabi-based AI and cloud computing company Group 42 has also been attempting to tackle the outbreak head-on. In December 2019 Group 42, in partnership with the UAE's Department of Health, launched an AI-powered population genome programme, which is now being used to provide rapid genotyping, helping researchers gather the necessary data to develop a vaccine against the virus.

الشركة السعودية لشراكات المياه
Saudi Water Partnership Company

SWPC is fully owned by the Ministry of Finance. Its Board of Directors is chaired by H.E. the Minister of Environment, Water and Agriculture, and includes representatives of each of the Ministry of Finance, the National Center for Privatization, the Ministry of Environment, Water and Agriculture, as well as a representative from the private sector.

SWPC's value proposition to private sector investors comprises six elements:

- Guarantee sale of water through off-take agreements
- Provide a clear set of rights and obligations
- Offer logistics and infrastructure support in securing land, fuel, electricity, feedstock, interconnection and other support infrastructure
- Ensure a transparent and competitive bidding process
- Facilitate dialogues with related regulatory authorities to secure government approvals, licenses and permits required to undertake its procurement activities
- Provide sovereign guarantees through the Ministry of Finance, where appropriate




On Production

IWP
- STPC - IWP
- SWEC - IWPP
- SEPCO - IWP
- SqWEC - IWPP

Under Construction

IWP
- Rabigh 3
- Shuqaiq 3

Under Procurement

ISTP
- Jeddah Airport 2
- Dammam
- Taif

IWP
- Yanbu 4
- Jubail-3 (A)
- Jubail-3 (B)

Future Projects

ISTP
- Buraidah 2
- Madinah 3
- Riyadh East
- Tabuk 2
- Alhaer
- South Najran
- Abu Arish 3
- Khamis Mushait
- North Jeddah
- Madinah SSTP - Tender 1 (3 projects)
- Madinah SSTP - Tender 2 (3 projects)
- Makkah SSTP - Tender 1 (3 projects)
- Makkah SSTP- Tender 2 (4 projects)
- Jazan SSTP - Tender 1 (3 projects)
- Jazan SSTP - Tender 2 (4 projects)
- Jazan SSTP - Tender 3 (5 projects)

IWP
- Rayis 2
- Jubail 4
- Rabigh 5
- Shuqaiq 4
- Jazan 1
- Tabuk 1
- Rabigh 4
- Ras Mohaisan
- Ras Al-Khair 3
- Ras Al-Khair 2
- Jubail 6

IWTP
- Riyadh - Qassim
- Ras Muhaisen - Baha - Makkah
- Yanbu - Rayis - Rabigh

ISWR
- Makkah 1
- Makkah 2
- Makkah 3

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In 2017 Saudi Arabia's per capita health care spending was $1093

Smart solutions

Rapidly evolving technology presents opportunities to improve patient care and overcome challenges

In March 2020 the Saudi Food and Drug Authority was quick to expedite the import, approval and distribution of personal protective equipment, testing kits and N95 masks in response to the spread of the Covid-19 virus.

Across the Gulf public health authorities and private institutions are investing in smart technologies to improve patient care. Data collection, sharing and analysis, DNA-driven research on precision medicine, and distance consultation and diagnostics are already being implemented in some areas of the GCC. The region's hydrocarbons wealth is also being used to support the latest research and the commercial development of solutions for both medical professionals and patients.

Meanwhile, the Covid-19 pandemic will be a major factor in budgetary considerations in the short term, as GCC countries identify solutions to successfully respond to the crisis and address gaps in supply.

SPENDING: According to the most recent available data from the World Bank, in 2017 per capita health care spending in GCC countries ranged from $588 in Oman to $1529 in Kuwait, where generous government allowances have been used to fund treatment abroad for many citizens. Bahrain, the UAE and Saudi Arabia spent $1127, $1357 and $1093, respectively.

COVID-19 RESPONSE: In March 2020 the Saudi Food and Drug Authority was quick to expedite the import, approval and distribution of personal protective equipment, testing kits and N95 masks in response to the spread of the Covid-19 virus. By the end of that month the UAE's Ministry of Health and Prevention (MoHP) reported that it had carried out more than 220,000 laboratory tests for Covid-19, or around 22,900 tests per 1m people – the second-highest testing density in the world.

In Abu Dhabi's Masdar City, a laboratory capable of conducting tens of thousands of tests daily was built from scratch within a period of two weeks. Furthermore, in Bahrain and Dubai health care regulators introduced new rules permitting medical practitioners to practise remote, digital consultations. In Oman, meanwhile, the government created 22 isolation centres in Muskat are capable of accommodating 3000 people. By early April 2020, 583 patients in these centres had become healthy enough to return to their homes.

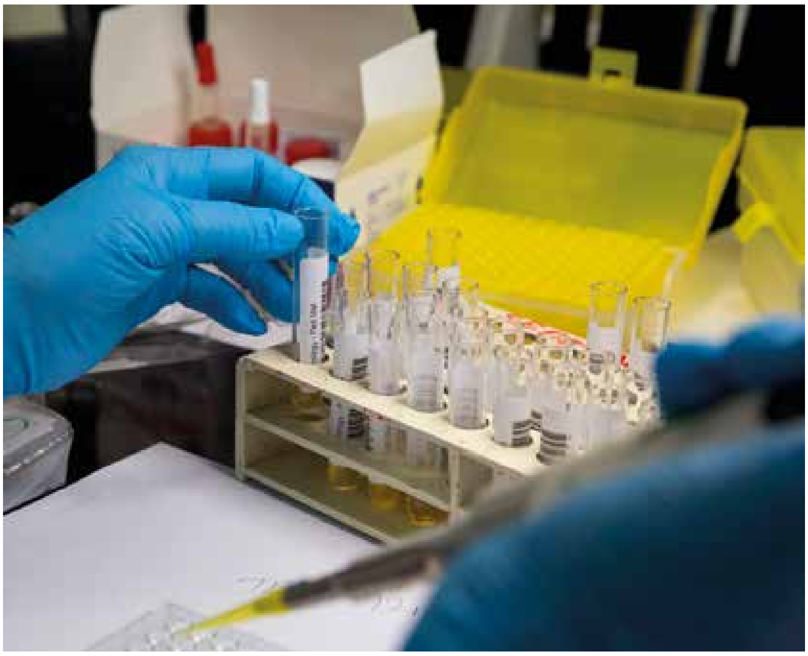
In Kuwait 746 citizens had been released from institutional quarantine by April 13, 2020, and were subject to a further 14 days of mandatory isolation at home. At that time Kuwait reported 66 new cases, including 26 people in intensive care with nine in critical condition. Of the 66 new cases, four were believed to have contracted the virus while travelling and 51 had been in contact with a previously infected person. By mid-April there were two fatalities and 1300 recorded cases of the virus.

TELEMEDICINE: The 2020 Covid-19 health crisis may have put telemedicine in the spotlight, but the region has long recognised the potential for remote consultation and diagnostics. In 2014 Abu Dhabi's private investment vehicle, Mubadala Investment Company, signed an agreement with Switzerland's Medgate to create Abu Dhabi Telemedicine Centre (ADTC). ADTC provides call centre services to two of Mubadala's other health care investments, Healthpoint Hospital and Capital Health Screening Centre, and in early 2020 extended this offering to include the Imperial College London Diabetes Centre in Abu Dhabi. In addition, in early 2020 Mubadala's Cleveland Clinic Abu Dhabi successfully established an online health portal that allows patients to attend virtual visits with physicians, track their prescriptions and receive information on test results.

In Bahrain licensed medical company Skype Telemedicine Solutions provides remote radiography, demonstrating how hospitals and health authorities can navigate around regional shortages of some health skills in order to improve patient services.

In neighbouring Saudi Arabia, the country's large size makes telemedicine an attractive option. "There are various channels to cater to rural and more remote areas outside the main health centres,"

The 2020 Covid-19 health crisis may have put telemedicine in the spotlight, but the region has long recognised the potential for remote consultation and diagnostics.



Specialist centres have been founded to study the prevalence of specific medical conditions in the GCC

Tarek Al Kasabi, chairman of Saudi Arabia's Dallah Healthcare, told OBG. "Telemedicine has improved dramatically in recent years thanks to wider availability of a number of new technologies."

ARTIFICIAL INTELLIGENCE: In the UAE, the telemedicine concept looks set to be taken a step further. In January 2020 at the Arab Health 2020 exhibition in Dubai, MoHP and telecoms provider du signed a memorandum of understanding (MoU) to develop the region's first virtual hospital. The institution is set to include telemedical services, online prescriptions, remote health care monitoring and electronic claims processing.

"This is part of the ministry's strategy to harness artificial intelligence (AI) technologies to meet the needs of patients; support decision-making processes; monitor patients' conditions remotely; provide preventive health care; and reduce health care costs," Mohammad Salim Al Olama, undersecretary of the MoHP, told local media in early 2020.

In February 2020 the Dubai Health Authority (DHA) opened its Smart Salem fitness screening service for expatriate workers. The service uses AI to improve and streamline its procedures, allowing the Smart Salem centre to conduct medical checks – prerequisites for work visas – in just 30 minutes, and giving it the capacity to handle up to 150 appointments daily. Each appointment includes a blood test, and chest X-rays with AI-powered analysis that can detect tuberculosis in seconds.

DATA DEVELOPMENTS: Alongside advances in diagnostic applications and screening, the digitisation of medical records and the development of secure, efficient channels to disseminate patient notes are being introduced in many parts of the GCC. For example, the Abu Dhabi Health Information Exchange, known as Malaffi, was developed as a public-private partnership between the emirate's Department of Health (DoH) and ICT services provider Injazat, a subsidiary of Mubadala. The Malaffi system was adopted by its first four health care providers in July 2019, and in October 2019 Danat Al Emarat Hospital for Women and Children, HealthPlus speciality centres and Kanad Hospital also connected to the system. The aim is to roll the Malaffi system out to all public and private providers in Abu Dhabi, creating a centralised and secure database of patient records in the emirate. Such a database would give health care providers a clear, real-time track record of patients' medical histories. As the number of connected providers grows, this data will become increasingly valuable.

The UAE recently introduced Federal Law No. 2 of 2019 to regulate the use of IT and communications in the health care sector.

"Currently we have 53m unique clinical records in Malaffi, and that number is increasing. Applying advanced AI analytics to this data will provide insight to help Abu Dhabi's DoH make better decisions," Atif Al Braiki, CEO of Malaffi, told OBG. "Digitisation of the market, in the end, is inevitable."

PRIVACY CONCERNS: However, rapid advancements in data technology can present challenges to regulators and national government agencies concerned with protecting patient privacy. For example, the UAE recently introduced Federal Law No. 2 of 2019 to regulate the use of IT and communications throughout the health care sector. According to PwC, the new law was the country's first piece of federal legislation to directly address data protection principles, but free zones such as Dubai Healthcare City, the Dubai International Financial Centre and the Abu Dhabi Global Market had already introduced data protection regimes.

CHRONIC DISEASE RESEARCH: A number of specialist centres have been founded in the GCC to study the prevalence of specific medical conditions in the Gulf's population. In February 2020 the DHA and researchers from New York University Abu Dhabi launched the UAE Healthy Future Study, which aims to recruit approximately 20,000 volunteers to participate in a research project focusing on some of the chronic diseases that are most common the UAE and the rest of the Arab world.

The Centre of Excellence in Genomic Medicine Research at King Abdulaziz University in Jeddah has a specific focus on genomics. Its researchers are studying areas such as infertility, congenital malformations, consanguinity and the potential to develop personalised medicine (PM). Health care providers throughout the GCC could use genetic profiling in tandem with PM to tailor treatment solutions for patients, using AI and data analysis of their genome profiles, and medical history to improve the efficacy of treatment.

MEDTECH: GCC countries are also helping to attract investments in medical solutions by continuing to support scientific start-ups. In March 2020 local media reported that precision medical company P4ML, which was offering PM solutions with a focus on the prevention of stillbirths, was one of the international companies invited to participate in the Dubai Future Accelerators Programme. The


Secure, efficient channels to disseminate patient notes are being introduced in many parts of the GCC

programme aims to bring new technological developments to the UAE in a number of fields every year, and the DHA has expressed interest in the work of companies participating in its latest round.

The DHA has worked in partnership with the programme since 2016, when it challenged innovators to use genomics, analytics, telepresence and personalised medicine to create solutions for Dubai's population that would enhance diagnostic speed and effectiveness by a factor of 10. MoUs have since been signed with three companies – Dubai-based research and consulting firm Medativ, cyber industrial engineering company Honeywell, and research lab and design studio Vinaya – to proceed with the development of 3D printed medical applications, home health care solutions, and wearable technology to monitor health and wellness.

The DHA's challenge in 2017 was for companies to find ways to use digital technology to improve patient outcomes and encourage self-management of chronic conditions. Another four companies participated in the second round of the programme: HealthShield proposed a mobile device to identify and monitor cardiovascular disease; Phototherа Labs suggested solutions using photoluminescence and OLED lights to treat jaundice in newborn babies and sleep disturbance in diabetic adult patients; ArcSecond put forward technology using motion capture in wireless wearable technology to provide real-time data on motor function in patients; and ASG Medical Systems developed booths to be used for remote diagnostics and consultations.

In 2018 Saudi physicians represented
32%
of the Kingdom's doctors

TRAINING: Although new technologies may provide innovative treatments, some health care providers in the region caution that in the short term the most important investment will be in training more citizens to become health care professionals. In January 2020 the DoH in Abu Dhabi published its most recent Capacity Master Plan, which forecasts future demand for medical facilities and professionals in the emirate. The plan identified a significant increase in demand for a range of medical skills and specialisations in the decade to 2030. From 2020 to 2030 demand for many full-time equivalent posts is expected to grow. These include: radiographer positions, from 124 to 1856; physical therapists, from 341 to 1568; ambulance paramedics, from 431 to 979; occupational therapists, from 351 to 837; and social workers, from 428 to 817.

GULF HEALTH PROFESSIONALS: The GCC faces staff shortages in certain medical specialties due to a lack of regionally trained professionals. There is notable room for growth in the areas of physiotherapy and occupational therapy, which are lacking in professional education opportunities. An increase in the availability of continuing professional development courses for medical staff across the GCC would likely help the region begin to address these shortages over the medium term.

Nevertheless, according to Oman's Ministry of Health, significant strides have been made in attracting national citizens to medical careers. From 1990 to 2019 Omanisation rates rose from 9% to 41% for physicians, and from 12% to 62% for nurses. In 2018 the DHA reported that 20% of doctors and 10% of nurses in the emirate were nationals, with 287 Emirati physicians and 44 Emirati nurses working in its hospitals and primary health clinics.

Data from Saudi Arabia's General Authority for Statistics shows that in 2018 there were 27,990 Saudi physicians, representing 32% of the country's 88,020 doctors. Around 17,820 doctors in the Kingdom were male and 10,170 were female. Meanwhile, some 38% of the country's 184,490 nurses were Saudi, with 43,670 female nurses and 27,030 male nurses. Attracting and retaining a greater number of Saudi citizens to these roles and allied medical professions is a key area of focus for the country's hospitals and health care authorities.

As of 2019 there were 139 schools in the GCC providing professional training in medicine, nursing, pharmacy, dentistry, midwifery and other medical professions. In addition, many students from GCC countries study abroad for medicine and health-related degrees. In 2018 there were 20,930 Saudi citizens studying medicine and health outside of the Kingdom, and around 2390 Saudis graduated from medical courses at international universities in that year. In order to successfully meet the forecast demand for medical professionals across the Gulf, the challenge will be to persuade a greater number of young people from the region to follow in the footsteps of the most recent medical graduates.

Supporting already qualified staff is the trend of technological innovation in the health care sector. Technology can automate tasks in the back office to save time and costs, while for front office tasks, technology will provide tools to assist professionals but not replace them because personal attention is regarded as key to effective care administration.

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Economy

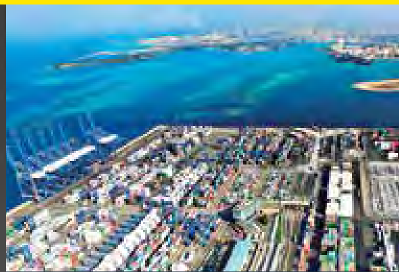
Continued focus on long-term development goals

Government launches emergency stimulus package

Efforts to boost sovereign wealth fund's asset base

Legislative framework to support privatisation

Riyadh prepares to host G20 Leaders' Summit


Better Statistics
for a Better Economy

0.33%
Annual Growth Rates of Gross Domestic Product 2019

Estimated population of Saudi Arabia 2019
34,218,169

5.5%
Unemployment rate, Q3 2019

Literacy rate (Reading ability rate) 2017
95.33%

4.67%
Illiteracy rate 2017

11,984 SAR
Average monthly household income 2018

589,908
(Million Riyals)
Merchandise trade balance 2018

121.72 point
Industrial Production Index , January 2020

77.51%

Share of oil in total merchandise exports, DEC 2019

45.80%

Ratio of non-oil exports to imports 2018

- 1.2%

Change to 2019 From 2018 (Inflation)

Vision 2030 aims to reduce the reliance on oil production and export

Staying on course

The government holds steady to long-term goals while mitigating the effects of recent global economic challenges

Four years after the launch of Saudi Arabia's comprehensive development strategy, Vision 2030, the Kingdom's non-oil economy is starting to see the benefits of sustained reform. The government's decision to weaken the link between hydrocarbons and economic growth has seen a robust pipeline of projects across a range of sectors come to fruition. However, after a period of healthy non-oil GDP expansion, projections for 2020 have been cast into doubt by the onset of the global Covid-19 pandemic. Defending Saudi Arabia's economy against the effects of the virus and enacting lockdown measures to slow its spread have therefore emerged as top priorities in the short term.

SOLID GROWTH: The low oil price environment that began in mid-2014 and the government's determination to reduce public spending have resulted in a challenging economic backdrop over recent years. However, the Kingdom entered 2020 on the back of modest growth. Real GDP grew by 0.3% in 2019, down from 2.2% the previous year. While in September 2019 the IMF and the Saudi Arabian Monetary Authority (SAMA), the Kingdom's central bank, had forecast GDP to expand by 1.9% that year, large cuts in oil output caused the energy sector to contract by 3.6%, dampening overall economic activity.

While this is a muted performance by historical standards, some areas of the economy showed more promise over the year. Non-oil GDP expanded by 3.3% in 2019, while non-oil private sector growth hit 3.8% – a five-year high. This performance resulted in an initial positive outlook for 2020, although volatile macro-economic conditions in the first three months of 2020 have led predictions to vary widely. The Ministry of Finance (MoF) originally forecast 2.7% GDP growth for the year, before moderating expectations to 2.3% in December 2019 due to falling oil prices and the ongoing trade dispute between China and the US. In March 2020 Riyadh-based Jadwa Investment predicted a 6.3% expansion for 2020, although this forecast was based primarily on sizeable rises in oil output that will no longer materialise. In April 2020 members of the Organisation of the Petroleum Exporting Countries and partner nations came to an agreement to reduce production by 9.7m barrels per day beginning in May in an effort to prop up oil prices that had fallen drastically since the onset of the Covid-19 pandemic, which took hold of Asia at the end of 2019.

Indeed, the virus has radically altered economic conditions, and countries around the world have been compelled to adjust their projections as they take mitigating action. Due to these measures the IMF expects the global economy to contract by around 3% in 2020. Giving the government an early indication of the challenges ahead, in March 2020 IHS Markit's Purchasing Managers' Index for Saudi Arabia dipped to 42.4 – below the threshold of 50 that separates growth from contraction – for the first time since the survey began in August 2009. The IMF's latest "World Economic Outlook" report, published in April 2020, predicts a contraction of 2.3% for the Saudi economy in 2020, with non-oil GDP expected to shrink by around 4%.

STIMULUS PACKAGE: The government was quick to respond to the altered circumstances, and in late March 2020 the MoF and the Ministry of Economy and Planning announced a $35.2bn emergency stimulus package to be divided into three initiatives. The first will see $18.7bn in funding to exempt or postpone government dues owed by citizens and residents. This includes Customs duties; value-added, income and excise taxes; and work and residence permit fees. The second initiative dedicates $3.2bn to propping up small business owners in priority sectors such as health care, as well as support for low-income families with the help of the Saudi Social Development Bank and the National Development Fund. The third initiative will provide special attention to small and medium-sized enterprises (SMEs), which are doubly challenged by recent lockdown measures and a traditional lack of

In March 2020 the Ministry of Finance along with the Ministry of Economy and Planning announced a $35.2bn emergency stimulus package to reduce the economic impact of the Covid-19 pandemic.

Non-oil GDP expanded by

3.3%

in 2019

The government is boosting support for museums, artists and musicians

Reforms aim to establish Saudi Arabia as one of the top

15

economies in the world by 2030

financing. Around two-thirds of the SMEs and 90% of its micro-enterprises operate within the hospitality, retail and non-oil manufacturing sectors, which have been hit especially hard. "Commercial banks have always been cautious when it comes to lending to SMEs," Homam Hashem, general manager of the SMEs Loan Guarantee Programme (Kafala), told OBG. "Therefore, government incentives and loan guarantee schemes are crucial to spur growth and protect the segment."

Of the SR50bn ($13.3bn) allocated under the third initiative, SR30bn ($8bn) will finance a deferred payment programme, by which banks are compensated for postponing loan payments owed by SMEs for up to six months; SR13bn ($3.5bn) is earmarked for concessional financing for micro-, small and medium-sized enterprises for one year to boost employment and maintain operations; and SR6bn ($1.6bn) is to support a loan guarantee programme, which will reduce lending costs for beneficiaries throughout 2020. Some of the available money will also be used to cover charges normally levied by payment service providers, including SR800m ($213.3m) to cover fees for all privately run stores with point-of-sale machines.

BROADER SUPPORT: Meanwhile, more targeted assistance will be given to those companies adversely affected by the measures taken in Makkah and Medina. In late February 2020 entry into the holy cities was severely restricted, and by April the authorities were considering whether to cancel the annual Hajj pilgrimage, which is due to begin in July.

In early April the government also announced that it would assist struggling companies with salary obligations. Under the scheme, which came into effect via a royal order, employers can request monthly compensation of up to 60% of employee salaries. The measure is one of the most significant steps taken by the government to support the private sector, with an estimated 1.2m Saudis eligible for benefits.

STRATEGY: While in the short term the government's focus is on supporting the nation's businesses through a global economic shock, its long-term goals continue as outlined in Vision 2030. First revealed in 2016, the overarching aim of the strategy is to reduce the Kingdom's reliance on oil production and export, which accounted for 43.5% of GDP in 2018, according to SAMA.

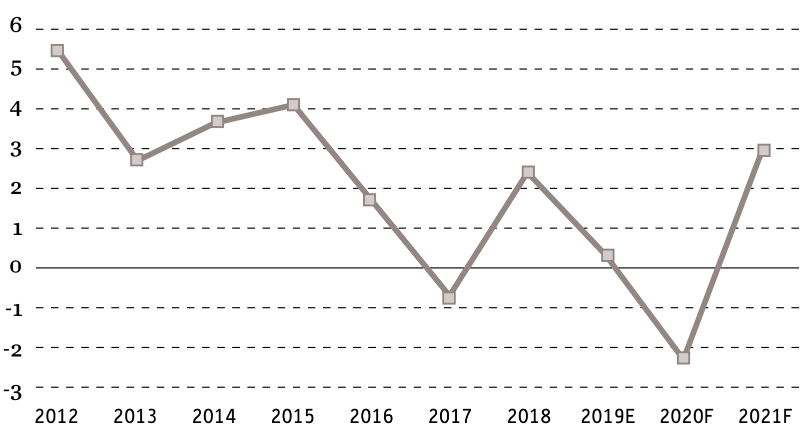
Key initiatives include a privatisation programme that has already seen a partial sale of national oil giant Saudi Aramco; the outsourcing of a number of government services (see analysis); the creation of the world's largest sovereign wealth fund; an expansion of private sector employment opportunities; and the increased participation of women in the job market. This reform process aims to establish Saudi Arabia as one of the 15-largest economies in the world, supported by a broader range of exports than today's hydrocarbon-heavy portfolio, a more productive SME segment, and completely overhauled finance, tourism and industrial sectors. The Saudi population, meanwhile, will benefit from a revamped education system, a wider range of employment opportunities, and additional entertainment and cultural activities.

Long-term plans are divided into 13 Vision Realisation Programmes (VRPs) to provide detailed road maps for each sector. VRPs cover the entire socio-economic spectrum, from lifestyle initiatives to industrial, housing, fiscal and financial reforms.

CULTURAL SHIFT: The implementation of Vision 2030 is changing society in fundamental ways – most notably in the cultural sphere. The General Entertainment Authority and the General Cultural Authority were established in 2016 to oversee the development of a thriving entertainment sector. This has included sponsoring museums, artists, and traditional and contemporary music performances, as well as licensing cinemas for the first time in over 30 years.

Expanding access to entertainment will likely provide an array of investment opportunities. For example, US cinema operator AMC Theatres announced in 2018 that it would build up to 100 cinemas in the Kingdom by 2030. Jeddah was also chosen to launch the Red Sea Film Festival in March 2020 to showcase local and

Real GDP growth, 2012-21F (%)



Source: IMF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(Saturday till Thursday From 8 am till 9 pm)
customercare@aljazirahford.com
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Saudi Arabia was the most improved country on the World Bank's 2020 ease of doing business index, moving up 30 positions from 2019 to place 62nd out of 190 countries.

regional talent, although the event was postponed to protect public health. "Traditionally, there has been a lack of local content development in the region," Rabih El Amine, CEO of media group Alef International, told OBG. "The private sector is now in a position to benefit from this untapped potential by focusing on producing and distributing Arabic content."

Large projects such as the Qiddiya entertainment city outside Riyadh, NEOM in the country's north-west, the Red Sea Project luxury tourism development, the Amaala mega-project and Media City in Riyadh are forming the base of a nascent leisure tourism and entertainment industry. "Saudi Arabia is becoming a regional centre for media industries," El Amine told OBG. "The recently announced Media City in Riyadh will be a game changer for global industry players seeking to leverage the GCC's economic growth."

FROM PUBLIC TO PRIVATE: Attracting private capital from outside the Kingdom is another key element of Vision 2030. Saudi Arabia has met considerable success in boosting passive inflows by opening up its stock market to foreign investors (see Capital Markets chapter), but foreign direct investment (FDI) has proven harder to come by. According to the UN Conference on Trade and Development, net FDI into the Kingdom fell from $7.5bn in 2016 to $1.4bn in 2017. However, FDI inflows rose to $3.2bn in 2018 as a result of the government opening four additional sectors to investment. Total FDI stock, for its part, has remained relatively static, standing at $231.5bn, $227.6bn and $230.8bn in 2016, 2017 and 2018, respectively.

One way for the government to boost private sector investment activity is to partially divest its assets or link foreign investors with state-owned companies through public-private partnerships (PPPs). The partial flotation of Saudi Aramco in late 2019 demonstrated the Kingdom's determination to open up some of its most profitable functions to private capital. The offering valued the company at $1.7trn.

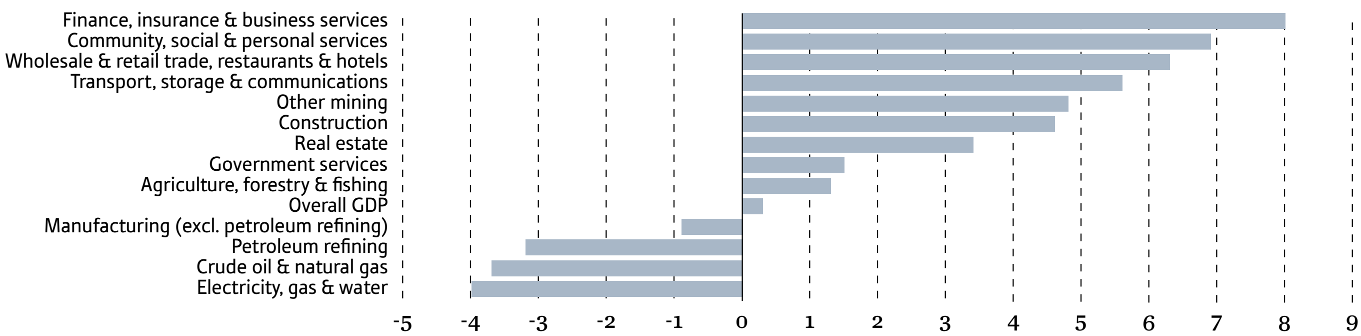
In 2017 the National Centre for Privatisation (NCP) was established to govern and supervise the privatisation process by developing policies, strategies, bylaws, plans and tools needed to fulfil privatisation objectives. These include a new Privatisation Projects Manual that acts as a roadmap for the Kingdom's PPP projects, as a well as a new PPP law that was being amended in the first half of 2020 in preparation for final approval. There are nine sectors targeted by the NCP: environment, water and agriculture; transport; energy, industry and mineral resources; labour and social development; housing; education; health care; municipalities, telecommunication and IT; and the Hajj and Umrah industries. In 2019 the Kingdom closed seven PPP transactions for the provision of medical services and the construction of container terminals and wastewater plants (see analysis).

BUSINESS ENVIRONMENT: Key reforms were also aimed at improving the business environment to encourage greater private sector investment. Saudi Arabia was named the most improved country on the World Bank's 2020 ease of doing business index. The Kingdom placed 62nd out of 190 countries with an overall score of 71.6 points out of 100 – representing an advancement of 30 places on 2019. Saudi Arabia improved on all indicators to rank third globally in terms of protection for minority investors, 18th for getting electricity, 19th for registering property and 28th for dealing with construction permits.

According to the World Bank, Saudi Arabia achieved these results by boosting efficiency and reducing costs. Starting a business in Saudi Arabia now costs just 5.4% of income per capita, which is considerably lower than the MENA regional average of 16.7%. Local businesses are also able to obtain all authorisations to build a warehouse in 100 days at a cost of 1.9% of the warehouse value – half the regional average of 4.4%. Similarly, the time it takes businesses to obtain electricity connections was halved in 2019. Resolving insolvency was also an area of improvement, and the Kingdom introduced a new bankruptcy law to strengthen the position of investors. Three legal cases were settled under the legislation in 2019, and around 12 more were being handled by the courts.

PUBLIC FUNDS: The government also has considerable public resources at its disposal. The most important of them is the Public Investment Fund (PIF), the Kingdom's sovereign wealth fund, which was established in 1971 to support the development of strategically important projects. The fund controls assets worth around $320bn, according to the Sovereign Wealth Fund Institute, of which one-quarter are held overseas. The PIF is playing a leading role in the implementation

Annual growth rate by main economic activity, 2019 (%)



Source: GaStat

The country's Public Investment Fund controls assets worth $320bn, of which one-quarter are held overseas

of Vision 2030, and the government plans to provide it with extra investment muscle by boosting its asset base with the proceeds of its privatisation programme. According to the government's strategy, the PIF will be transformed into one of the world's largest investment vehicles, managing $2trn in assets by 2030. The PIF can also raise funds by selling its stakes in Saudi-listed companies or by borrowing from banks to invest in diversification efforts. The PIF has already shown its willingness to raise debt: in September 2018 the fund revealed it had secured $11bn in its first international loan after the floatation of Saudi Aramco was delayed.

Looking abroad, in October 2019 the PIF revealed that it would invest $10bn in Brazilian infrastructure. While the specifics have yet to be announced, potential investment targets include a proposed 960-km railway to connect the agricultural area of Mato Grosso to the northern state of Pará, as well as various projects in the energy, sanitation and tourism sectors. Authorities hope that this will lead to other investment projects in the Latin American market.

FISCAL MATTERS: The government's ability to tap the PIF to support capital spending means that it is able to reserve public funds. This capability is likely to prove particularly useful over the coming year, as the government adjusts its fiscal position in response to the global economic slowdown. In recent years the government's principal financial concern has been reducing the fiscal deficit. It met with considerable success in 2019, reducing the shortfall from 5.9% of GDP in 2018 to 4.7% of GDP. The quickly evolving economic circumstances of 2020, however, make an increase in the fiscal deficit likely, although estimates vary. The government anticipates a budget deficit of SR187bn ($49.9bn) for the year, or 6.4% of expected GDP, despite a SR50bn ($13.3bn) cut in public spending. A Bloomberg survey of economists, meanwhile, put the median fiscal deficit at 7.1% of GDP in 2020. The eventual result will depend largely on the movement of oil prices during the year. According to JPMorgan Chase & Co, Saudi Arabia could potentially run a budget deficit of 23% of GDP if Brent crude prices average $20 per barrel throughout 2020, while its current account shortfall would reach 15.6% of economic output, or $122bn. In February 2020 Samba Financial Group predicted that oil prices would recover from the initial plunge caused by the pandemic and heightened supply – which resulted in prices of $25-30 per barrel in mid-March – to average $62 per barrel over the course of the year. This would contribute to a 5% increase in capital spending and 9% growth in the public sector wage bill, driving an overall 4% gain in government spending.

BRIDGING THE GAP: The Kingdom's long-term financial strategy remains focused on narrowing the fiscal deficit, and the government has reaffirmed its commitment to achieving a balanced budget by 2023. In 2019 total financing requirements for the 2020-24 period were estimated at SR763bn ($203.4bn). This compares to the SR1.24trn ($330.6bn) required for 2015-19. Foreign exchange reserves in excess of SR615bn ($163.9bn) and total reserves of over SR1.8trn ($479.9bn) as of February 2020 will provide a useful cushion as the Kingdom seeks to meet its spending commitments. The government's ability to bridge the fiscal gap without depleting its reserves is considerably stronger than it was as recently as 2016.

Since that time the National Debt Management Centre has overseen a rapid expansion of the Kingdom's sovereign debt programme. The nation's first international bond sale in 2016 raised $17.5bn in a heavily oversubscribed offering. Another milestone was passed in 2017, with the issuance of Saudi Arabia's first dollar-denominated *sukuk* (Islamic bond), which was sold in two, $4.5bn tranches with tenors of five and 10 years. In 2019 the Kingdom offered $13.4bn in euro- and dollar-denominated bonds. This is more than any other emerging market aside from Turkey, according to a report by Bloomberg.

While credit ratings agency Fitch downgraded Saudi Arabia's sovereign credit from "A+" to "A" in September 2019, citing rising geopolitical tension in the region following an attack on its oil facilities and a deterioration of the Kingdom's fiscal position, appetite for Saudi debt has remained strong. The first eurobond issuance of 2020 came in January, with a $5bn offering that was heavily oversubscribed. The MoF indicated at the time that $32bn of local currency and international debt would be sold over the year, although these plans are subject to change due to the rapidly changing environment in the first half of 2020. The government's debt portfolio includes conventional and sharia-compliant instruments, denominated in dollars, riyals and euros. The string of issuances has also established a 30-year yield curve from which the corporate sector can more accurately price its offerings.

INFLATION & MONETARY POLICY: The Kingdom's inflation rate has remained relatively static over recent years, despite the introduction of value-added tax (VAT) in January 2018. Consumer prices rose gradually in the second half of 2019, and in December they

The government's total foreign exchange reserves were more than
$479.9bn
as of February 2020

nudged into positive territory for the first time in a year. Inflation data for 2019, however, shows a negative trend of around -1.2%. This is largely explained by the distorting effects of implementing VAT and a shrinking expatriate rental market. Taking these factors into account, most concur that inflation followed a modest upward trend for most Saudi nationals in 2019, with education costs, furniture, restaurant meals and recreation showing the steepest growth. Forecasts for 2020 fall between 1.3% and 1.4%, with downward pressure coming from lower prices in the transport, restaurant and hotel segments.

The currency peg between the Saudi riyal and the US dollar means that Saudi Arabian monetary policy is coordinated closely with that of the US Federal Reserve. One of SAMA's main priorities is avoiding currency flight by ensuring that no sufficient discount emerges between the US dollar and the riyal. When capital outflows become a possibility, SAMA may pre-empt the Federal Reserve by altering its repurchase (repo) and reverse repo rates, but in general its rate actions follow those of its US counterpart. SAMA also uses the deposits it places with local banks as a tool to control the level of liquidity in the banking system, with the aim of maintaining parity between the local interbank rate and the US dollar equivalent.

In light of rapidly deteriorating risk assessments caused by the Covid-19 pandemic, in early March 2020 the Fed announced an emergency rate cut of 50 basis points (bps). SAMA followed suit by effecting a cut of 50 bps to key interest rates. As of April 2020 the repo rate stood at 1.75% and the reverse repo rate at 1.25%.

OUTLOOK: Public spending has traditionally been a key driver of economic growth. Any decrease in revenue caused by lower oil prices is therefore a significant challenge and presents a downside risk for the economy. Actions taken by the government to mitigate the effects of both the oil price scenario and Covid-19 are substantial. These will support non-oil growth and ensure a social safety net for citizens in the short term, while in the longer term the Kingdom's increasingly diverse economy is expected to benefit from the implementation of Vision 2030 objectives. The ability of the government to nurture domestic investment and increase inflows of foreign capital will be an important test of its strategy over the medium term, and success here will allow it to carry out plans to reduce public spending. The spending cuts announced in early 2020 are subject to change over the year, as the government responds to developments in the global and domestic economies. The government has also planned spending cuts in 2021 and 2022 on the assumption that an increasing amount of economic growth will be accounted for by the private sector. The population growth rate of 2% will place upward pressure on public spending commitments and – as Samba has pointed out – countries undergoing privatisation phases have generally seen state spending rise in the short term.

In early March 2020 the Saudi Arabian Monetary Authority announced a rate cut of 50 basis points to key interest rates. As of April the repurchase rate stood at 1.75% and the reverse repurchase rate at 1.25%.

Fahd Al Rasheed, President, Royal Commission for Riyadh City

The next generation

Fahd Al Rasheed, President, Royal Commission for Riyadh City (RCRC), on creating a city of the future

In which ways are Riyadh's mega-projects set to increase the city's commercial activities?

AL RASHEED: The Saudi capital is undertaking a major transformation to become one of the most competitive and liveable cities in the world by the next decade. The mega-projects under development will support this, as well as secure Riyadh's position as a popular destination for business, leisure and domestic tourism. One key objective is to develop real and lasting opportunities for local businesses, whether by expanding local supply solutions or providing investment opportunities to attract domestic and foreign investment to new start-ups and growing companies.

To what degree is the smart city concept positively disrupting capital cities around the world?

AL RASHEED: At the January 2020 World Economic Forum meeting, one of the main areas of discussion was the Fourth Industrial Revolution and how it taps a broad spectrum of new technologies. For Riyadh, it is important to harness the new wave of innovative technologies. With automation comes significant advantages in industrial production, but the jobs we create in the 21st century need to be adapted to the changing global economy. As such, as part of our city plan going forward we are developing human capital to ensure the future jobs of our citizens will be secure.

How are public-private partnerships (PPPs) and foreign investment spurring economic development?

AL RASHEED: PPPs will significantly contribute to Riyadh's economic development by creating value for all stakeholders, including the city's citizens. The RCRC is developing partnerships with the private sector to generate legacy revenue streams for the city and maintain return on investment for the public in the future. Examples of such PPPs include projects for greater well-being: the King Salman Park, Sports Boulevard, Green Riyadh and Riyadh Art. These are collectively financed by $23bn from the government and $15bn from the private sector. Other investment opportunities include the Dirriyah Gate, the rejuvenation of historical areas, Qiddiya Entertainment Park and the King Abdullah International Gardens.

The scale and complexity of PPPs requires careful management, and we will consider incentives and structures that mitigate risks, maintain value for private developers and investors, and create a sustainable outcome for Riyadh and its citizens.

What types of infrastructure upgrades are required to establish a fully integrated city?

AL RASHEED: A fully integrated city needs the latest data networks; communications links with other cities and regions; and the development of centres of excellence across a broad range of sectors such as education, finance, scientific research and emerging technologies. It is also necessary to go a step further and consider factors such as legal and regulatory frameworks, private business resilience and citizens' participation. Only by evaluating and prioritising both hard and soft infrastructure can a city be truly integrated.

In what ways are city officials working to encourage citizens to use sustainable transport?

AL RASHEED: Riyadh is making a massive investment in public transport and mobility. Saudi Arabia's first extensive urban public transit network will become operational by the end of 2020. At a cost of $27bn, the 176-km metro network – with six lines and 85 stations – will be the longest driverless network worldwide. It will be complemented by a comprehensive bus system of 80 routes serving 3000 stops along 1900 km.

Our most significant challenge will be to change the mindset of the population, which has become accustomed to getting around in automobiles. Following the launch of the transit network, we will engage with citizens to promote the advantages of public transport.

The sale of public assets is a key pillar of the Vision 2030 strategy

Privatisation push

Dedicated framework supports a more cooperative approach between the government and investors

While Saudi Arabia's deep reserves have helped it mitigate the negative effects of the recent low-oil-price environment, the link between fiscal performance and global energy prices has long been acknowledged as a challenge to stability. Ramping up private sector investment, both local and foreign, is therefore a key pillar of the Kingdom's Vision 2030 development strategy. Under this roadmap, Saudi Arabia aims to establish an environment where domestic and global investors can effectively direct capital towards large-scale development projects. The government also intends to reduce its role in driving economic growth with fiscal spending and sell off some of its key assets in 16 sectors, including in health care, education, aviation, the postal service, agriculture and the oil industry.

In the short term, a number of targets have been established for 2020. These include raising up to SR40bn ($10.7bn) through the sale of government assets, while generating a savings of $1.2bn by reducing public operating expenses. The government's separate plan to raise another $100bn by selling off a stake in national oil giant Saudi Aramco, meanwhile, has been the subject of global interest for the past two years. Its recent conclusion was a symbolically significant moment for the Kingdom's broader efforts to increase privatisation.

RECORD FLOAT: The partial floatation of Saudi Aramco, although a success, highlighted some of the challenges of transferring public sector assets into private hands. In 2018 the Saudi Stock Exchange (Tadawul) was ready to receive what was at the time the world's largest initial public offering (IPO), but the timing of the deal was thrown into question by an unfavourable economic backdrop. Global trade concerns, regulatory changes and regional politics combined to dampen IPO sentiment across the MENA region: that year around $2.9trn was raised through IPOs in the region, marking a 24.5% decline on the previous year. As such, the government waited until the end of 2019 to stage the flotation.

More than 20 international financial institutions orchestrated the deal, including US companies Goldman Sachs, JPMorgan Chase & Co, Morgan Stanley and Citigroup. The final form of the offering saw the sale of less than 2% of Saudi Aramco on the domestic market rather than the previously mooted 5% on global platforms. Nevertheless, the IPO valued the company at $1.7trn and claimed the record for the world's largest share offering. In February 2020 Saudi Aramco was reported to be making early preparations for an international listing; however, the challenging economic backdrop brought on by the Covid-19 pandemic and falling commodity prices make a float on one of the world's leading exchanges unlikely in the short term.

PUBLIC & PRIVATE: The Saudi Aramco deal, while garnering much attention in 2019, marked only part of the Kingdom's broader privatisation strategy. Over the long term, the reality of private sector involvement on the domestic economy will likely have considerable transformative effects. This effort is being spearheaded by the National Centre for Privatisation and Public-Private Partnerships (NCP), which was established in 2017 with a mandate to coordinate greater private sector involvement, as outlined in the Vision 2030 development plan.

While floating pubic assets on the Tadawul remains an option for the government, the NCP's initial focus has been on a more cooperative approach between government and investors. Public-private partnerships (PPPs) have become increasingly common globally, as states have sought to reduce capital costs and shift development risk and managerial responsibility onto companies. In other markets they have been applied successfully to a wide array of infrastructure projects, including roads, telecommunications systems, schools and hospitals. In the

The government planned to raise

$10.7bn

in 2020 through the sale of public assets

In 2019 more than 20 financial institutions orchestrated the sell-off of a 2% stake in the state-owned oil company, marking the world's largest share offering at the time.

The year 2019 saw seven infrastructure projects initiated under a public-private partnership framework

GCC, however, the role of PPPs has largely been confined to the power and water sectors, despite the attempts of regional governments to deploy the concept in other sectors.

Saudi Arabia has succeeded more than most countries in the GCC in its efforts. The first use of the model in 2011 allowed for the financing, development and operation of the Prince Mohammed bin Abdulaziz International Airport expansion in Medina. The project was widely considered to be a success, and it paved the way for a rapid uptake of the PPP model in the Kingdom. By 2017 Saudi Arabia had emerged as one of the most active PPP arenas in the Gulf, with a total of 18 projects under way or completed using the model, for a total value if $42.9bn, according to a report by real estate company JLL and global law firm DLA Piper.

NEW FRAMEWORK: All of these projects were carried out in the absence of a comprehensive legal or regulatory framework for PPPs, and generally utilised simple build-operate-transfer, or BOT, arrangements. Seeking to accelerate the PPP pipeline, the NCP is overseeing the creation of a dedicated PPP framework, beginning with a Privatisation Projects Manual. According to the NCP, the manual will be subject to continuous review, with updates added as needed to ensure that the PPP programme is consistent with international best practices.

The NCP also issued a draft Private Sector Participation Law in July 2018 regulating both PPP projects and sale-of-asset transactions. The proposed legislation, which was being amended in the first half of 2020 in preparation for final approval, offers a number of advantages to PPP participants, including exemption from Saudiisation targets, which aim to increase the employment of Saudi nationals in the private sector. Property regulations are being relaxed, and foreigners may soon be allowed to own real estate in the country, according to the proposals. Permit bidders for PPP contracts will also be granted the right to appeal contract awards – an effort to increase systemic transparency and attract a wider range of investors.

The draft Private Sector Participation Law offers a number of advantages to private sector investors, including exemption from Saudiisation targets, relaxed property laws for foreigners and the right to appeal contract awards.

BUILDING MOMENTUM: Until the law is finalised, projects will continue without a dedicated PPP framework. The proposed legislation does not address the challenge of accurately assessing the return on an investment in the absence of demand data. Nevertheless, as the NCP drives the government's privatisation agenda, PPP opportunities are being generated at a regular pace and being met with high levels of interest. In 2019 the government succeeded in closing seven PPP transactions, including the provision of kidney dialysis centres in multiple regions; phase three of the Shuqaiq Independent Water Project; a wastewater treatment plant in near Dammam; the Jeddah Airport 2 Sewage Treatment Plant project; the Taif Independent Sewage Treatment Plant; Saudia Medical Services Centre in Jeddah; and the construction of container terminals at Jeddah Islamic Port.

Momentum continued into early 2020, starting with the award of a 25-year concession in King Khalid International Airport in Riyadh. According to the terms of the deal, SATS Saudi Arabia Company, a subsidiary of the Singaporean ground-handling and in-flight service provider, will build a new cargo terminal over two phases, with the first phase expected to be completed in 2022. The following month, a consortium comprised of French electric utility company Engie and Mowah Company, one of the largest private water desalination firms in the Kingdom, was awarded a contract for the development, design, financing, construction, commissioning, operation and maintenance of the Yanbu-4 independent water project. The new facility will utilise reverse osmosis seawater desalination technology to produce up to 450,000 cu metres of potable water per day.

LOOKING AHEAD: The significant pipeline of PPP opportunities includes a number of projects that have been approved for activation, and a longer list of those that have been green-lighted for a later stage. In March 2020 the Ministry of Health invited expressions of interest for the Al Ansar Hospital in Medina, the first transaction to be launched under the establishing and operating hospitals PPP initiative in the Vision 2030's privatisation programme. The new hospital has a planned clinical capacity of 244 beds, with annual visits expected to exceed 400,000. Other projects slated for the expression-of-interest stage in early 2020 included five independent water or sewage treatment plants, a housing project at King Faisal Specialist Hospital and Research Centre, outsourced radiology and medical imaging services, educational buildings in Jeddah and Makkah, and veterinary vaccine centres. The proposed PPP law should help to facilitate the progress of these development by providing a clearer legislative platform. Its eventual success, however, will ultimately depend on its final implementation.

Anas Alfaris, President, King Abdulaziz City for Science and Technology

Shaping lives

Anas Alfaris, President, King Abdulaziz City for Science and Technology (KACST), on the impact of new technologies, smart cities and genomics

To what extent will technology-focused small and medium-sized enterprises (SMEs) support the growth of local content in the Kingdom?

ALFARIS: SMEs make up more than 90% of the Kingdom's businesses but contribute only around 20% of GDP. SMEs provide more than 8m jobs, 1.6m of which are held by Saudi citizens. In order to achieve the growth targets outlined in Vision 2030 and maintain global competitiveness, the government has created an ecosystem to enable companies to perform effectively on both a regional and international level. Several incentive programmes have been implemented to support the development of SMEs in targeted industrial clusters through the design and manufacture of specific products. By 2030 SMEs are expected to contribute up to 35% of GDP, increase the proportion of non-oil exports and create new job opportunities for Saudi citizens.

In recent years the Kingdom has strengthened its industrial base by localising technology and transferring it to the industrial sector. The Badir Technology Incubators and Accelerators Programme at KACST continues to support start-ups and promote technology entrepreneurship. Furthermore, through a partnership with the Saudi Technology Development and Investment Company, KACST aims to create value from technology through investments, partnerships and commercialisation to accelerate diversification.

How is technology driving the future of smart cities?

ALFARIS: At the current rate of population growth, major cities will be expected to undergo smart changes to match the type of services expected by residents. According to the UN, by 2050 more than 70% of the world's population will live in urban centres.

Smart cities put data and digital technology to work to support city leaders in making better decisions. By leveraging wireless technologies, city operators can connect and improve infrastructure, efficiency and the quality of life for residents and visitors. Rapid technological progress over the last few decades has significantly changed the way people live, work and commute. Smartphones now provide instant information about traffic, safety alerts, health services and news. Leveraging modern technologies, such as modelling and simulation, artificial intelligence, internet of things, remote sensing and image processing, KACST has facilitated a number of projects to enhance the existing hard and soft infrastructure of Saudi cities. These projects yielded technological advancements such as 3D city urban and infrastructure modelling, and digital city twins that monitor activities through remote sensing systems and satellites. An integrated smart city platform is being developed to support multiple sectors including renewable energy, food supply, mobility, communications and environmental awareness.

What role will the Saudi Human Genome Programme (SHGP) and DNA testing play in improving the long-term preventive care of genetic disorders?

ALFARIS: Saudi Arabia has one of the highest consanguinity rates among Middle Eastern countries at roughly 60% of all marriages. Genetic diseases affect approximately 8% of the population at birth and up to 20% of the population at a later stage in life. To address this, KACST launched the SHGP, the largest genetic disease discovery project undertaken in the region. With an aim of tracking over 100,000 human genomes and identifying strategies to diagnose, prevent and treat genetic disorders through precision therapies, the SHGP seeks to reduce genetic disease and lay the foundation for the development of personalised medicine. The programme will offer premarital carrier screening, genetic mutation screening and broader examination for more complex and rare disorders. Genomics technology and information-based centres have already succeeded in identifying the mutations causing many previously unexplained diseases. The SHGP aims to establish Saudi Arabia as a major contributor to this genomics.

Saad bin Othman Al Kasabi, Governor, Saudi Standards, Metrology and Quality Organisation

Evolved approach

Saad bin Othman Al Kasabi, Governor, Saudi Standards, Metrology and Quality Organisation (SASO), on improving standards and regulations in emerging sectors

How does an extended implementation of standardisation help improve efficiency and safety?

AL KASABI: In light of the goals of Vision 2030, raising the share of non-oil exports to non-oil GDP from 16% to 50% is one of the Kingdom's most important objectives. It is also one of the greatest challenges, as it requires raising the level of awareness and appreciation of applying standards to improve the comparative advantage of national products in regional and new markets. Indeed, standardisation as a whole is a fast-paced process that must be applied to new and growing sectors.

Standardisation continues to play a key role in supporting the national economy and strengthening global competitiveness. Since it is crucial to improving the quality and safety of products in the market, standardisation is one of the most important pillars for quality infrastructure. It supports a number of industries such as health, education, entertainment and ICT. It also enhances services like volunteering, social responsibility, occupational safety and health.

Which sectors do you foresee as most in need of further regulations and standards?

AL KASABI: In the context of Industry 4.0, we are witnessing increasing use of emerging and new technologies such as artificial intelligence, machine learning and the internet of things. Therefore, as new products and technologies enter the market at pace, standards and technical regulations must serve such industries. Without a doubt, the role of specifications in improving visual communication, keeping pace with technological developments and guaranteeing the safety of infrastructure is key. Furthermore, as Saudi Arabia is home to the two holy mosques and the leading nation in the Islamic world, there are a number of promising related sectors that we are aiming to develop. For example, SASO is working with the Saudi Food and Drug Authority and other relevant national and international parties to develop the national ecosystem for halal products. In addition, the Council of Ministers recently approved a national halal framework, and several initiatives that will support its implementation are under way.

In what ways can data-driven technology and digital platforms further improve transparency and efficiency within government bodies?

AL KASABI: Surely Saber, Ta'akkad and SASO's other digital platforms are helping to increase the engagement and involvement of different stakeholders from the public and private sectors as well as the consumer community. With both of the aforementioned platforms, SASO aims to improve the level of liability and tractability of products delivered to the Saudi market. From a private sector perspective, it is always critical to be aware of technical regulations enforced on the various markets they target. Hence, we seek to utilise digital platforms to improve the level of transparency of our services. Moreover, we believe that such services and technologies will prevent non-conforming products and ensure fair competition in the local market.

What steps are being taken to increase investors' satisfaction level in regard to public services and the regulatory environment?

AL KASABI: Between 2015 and 2020 there were several points of focus, such as increasing transparency in processes and outputs; communicating standards and technical regulations that are issued; utilising public hearings for our work before approval; adopting international standards; involving different parties in technical committees; and giving enough time before implementing regulations. We will continue our efforts to develop processes and utilise new technologies to achieve such strategic objectives, especially when it comes to improving our partnerships with the private sector. It is important to consolidate efforts to effectively implement quality practices in all public and private sectors and across civil society institutions.

Riyadh plans to host over 10,000 delegates at the G20 summit in 2020

Regional leader

The Kingdom is set to play a key role in strengthening global cooperation and coordination

The biannual meetings of the G20, of which Saudi Arabia is a member, have become major events in the global economic calendar. What started in 1999 as an informal gathering of central bankers and finance ministers has become the principal forum by which the world's leading economies have sought to prevent worldwide economic crises. Its work following the 2007-08 global financial crisis, which included the establishment of a new Financial Stability Board to drive regulatory reform across G20 jurisdictions, raised the profile of the organisation to the level of consideration it enjoys today. Between them, the G20 countries represent around 66% of the global population and 85% of its economy.

The G20 meetings also function as a crisis prevention and mitigation arena. This was the case at the G20 gathering in Seoul, South Korea in 2010, when finance ministers attempted to defuse the currency war between the US and China, and in St Petersburg, Russia in 2013 as the organisation struggled to find a common response to the conflict in Syria. More recently, the 2019 meeting in Osaka, Japan provided an opportunity for G20 nations to address concerns regarding global protectionism in the shadow of a trade war between China and the US.

Saudi Arabia's importance within the global economy has meant that it has been a participant in the G20 meetings from the outset, and in December 2019 the country assumed the G20 presidency, the high point of which will be the Leaders' Summit in Riyadh in November 2020. The Kingdom will therefore play the leading role in deliberations as the global economy navigates the twin challenges of the Covid-19 outbreak and steep decline in oil prices.

REGIONAL AGENDA: As with all G20 summits, the 2020 event will cover a wide range of economic and social issues. The Kingdom has grouped these into three main focus areas. Under the theme of empowering people, leaders will explore boosting the financial inclusion of women and young people, breaking down employment barriers and establishing a patient-centric health care system. The second theme involves safeguarding the planet, with a focus on exploring cleaner and more sustainable energy systems, reforestation, improving global water management and reducing food loss. The third focus area aims to tackle global tax challenges arising from digitalisation, cybersecurity, financial technology, the development of smart cities and the use of technology in infrastructure.

Given that the November event is to be the first G20 summit to be held in the Arab World, it is unsurprising that a number of the region's principal challenges are prominent within the agenda. These include the difficulties faced by regional governments with youth unemployment, and the issues of inward investment and sustainable energy.

> "Saudi Arabia assumed the G20 presidency in December 2019, the high point of which will be hosting the Leaders' Summit in Riyadh in November 2020"

PRACTICAL CHANGES: Precisely what effect the Covid-19 pandemic will have on the November agenda remains to be seen. In the short term, a number of practical changes are likely, with the preparation phase for the November summit facing the most obvious disruption, as a result of travel restrictions introduced across the globe. This period usually involves numerous physical meetings between government officials and representatives of civil society, organised along three tracks. The so-called Sherpa Track prepares the ground for the summit's discussion on socio-economic issues in health care, education, anti-corruption, tourism and the digital economy; the Finance Track brings

The G20 Leaders' Summit in Riyadh will cover a range of social and economic issues, with focus given to empowering people financially, safeguarding the planet and tackling global tax challenges.

In March 2020 a joint G20 action plan was created to address the risk of debt vulnerabilities for low-income countries, mitigate the effects of the global slowdown, and coordinate regulatory and supervisory measures taken in response to the Covid-19 pandemic.

together central bank governors and ministers for preliminary discussions regarding core areas such as monetary and fiscal policy, international taxation and financial inclusion; and the Engagement Groups Track provides an opportunity for civil society groups to feed their ideas into the G20 process. The latter track will be led by Saudi think tanks, women and youth organisations, labour bodies, and scientific bodies, all of which will work with their G20 counterparts to develop policy recommendations to be submitted at the main summit. In this way, the Kingdom's influence over the global social and economic agenda will be exerted not only by the government but also various components of civic life.

ACTION PLAN: Ensuring that the effects of the Covid-19 pandemic do not diminish the Kingdom's ability to leverage the international platform is a key challenge for the government, and one that is already being tackled through the deployment of teleconferencing technology.

The G20's first virtual meeting took place on March 26, 2020, with King Salman bin Abdulaziz Al Saud making the opening remarks. Addressing the global response to the Covid-19 crisis, King Salman called on G20 members to "strengthen cooperation and coordination in all aspects of the adopted economic policies." This included the safeguarding of trade relationships, by "resuming, as soon as possible, the normal flow of goods and services, especially vital medical supplies."

Central bank governors and G20 finance ministers met online a few days later, at the end of March 2020, to follow up on King Salman's talking points by establishing a roadmap for future actions. Among the commitments made during the virtual meeting, involved parties agreed to establish a joint G20 action plan, address the risk of debt vulnerabilities for low-income countries, work with international organisations to mitigate the effects of the global economic slowdown, and cooperate with the Financial Stability Board in its capacity to coordinate regulatory and supervisory measures taken by countries in response to the Covid-19 pandemic.

COST IMPLICATIONS: While the preparatory stage for the 2020 G20 summit can be taken online, the November summit remains a concern for government planners. Based on previous events, Jadwa Investment, a Riyadh-headquartered investment firm, estimated that more than 10,000 international delegates are due to visit Riyadh for the event. Adding the non-delegates that are expected to fly into the city in the run-up to the summit, the Kingdom is expected to host 22,000-25,000 visitors in 2020, with the bulk of them arriving in the seven days prior to the summit's opening on November 21.

This is good news for the capital's hotels, restaurants and shops. Riyadh is also expected to benefit from new, permanent infrastructure built especially for the event, including new office space, landscaping and road upgrades. The scale of increased consumer spending, temporary jobs and government investment is sufficient enough to influence the Kingdom's annual GDP – although to what extent remains uncertain. Jadwa Investment foresees an additional 0.2% being added to non-oil private sector GDP as a result of hosting the G20 summit. Multinational banking firm Samba Financial Group sees similar potential, but pointed out that if the government follows through on the public sector salary freeze revealed in its 2020 budget plans, reduced household spending could undermine the gains resulting from the G20 events.

The government' responses to the Covid-19 pandemic, including the duration of travel restrictions and its approach to public gatherings in 2020, add further uncertainty to the picture. By staging an event of such scale, attended by the global political and business community, and widely covered by world's press, Saudi Arabia has a valuable opportunity to reaffirm its position within the international community, as well as showcase its potential as a destination for large-scale events and tourism.

Global Perspective

Tax liabilities

Impacts of the trend towards lower corporate tax rates on developed and developing economies

Recent decades have seen a downward convergence in corporate tax regimes as advanced, emerging and developing economies moved to grab a bigger slice of the global investment pie. Headline corporate tax rates have fallen by 20 percentage points since the early 1980s. Alongside lower average rates, special tax incentives aimed at capturing investment have emerged, further reducing the effective rates paid by transnational corporations. In the aftermath of the 2007-08 global financial crisis, many countries were compelled to slash spending and raise revenue in order to rein in precipitous budget deficits, and a similar challenge is being faced by governments amid the Covid-19 pandemic. Even as tax revenues as a share of GDP in many economies have reached their highest levels in decades, the trend towards lower corporate tax rates has remained largely intact. In the face of austerity post 2007-08, however, public tolerance of corporate tax avoidance has dissipated, giving rise to political momentum behind increasing transparency and limiting the scope for businesses to minimise their tax bills. The OECD has led the charge in this respect, in close cooperation with the G20 as well as partner countries and emerging markets, through the coordination of efforts to reduce base erosion and profit shifting (BEPS). Parallel efforts have been undertaken by the EU, which also continues to work towards a common consolidated corporate tax base that would have profound implications for corporate tax regimes in the region, if implemented.

DEVELOPED MARKETS: Average corporate income tax rates in advanced economies fell to 22% in 2015, down almost half from the rate in the early 1980s. In the OECD's latest comprehensive take of changes in tax policies among its 35 members with mainly advanced economies, "Tax Policy Reforms in 2017", the organisation pointed to a recent intensification of competition on corporate tax rates, coming after a period of relative stabilisation in the years immediately after the crisis. For example, 12 countries introduced or announced reductions in headline corporate tax rates in 2016-17, with only Chile and Slovenia hiking rates. The single most dramatic change during this period was the reduction in Hungary's corporate tax rate from 19% to 9%, effective January 2017. The OECD also highlighted rising global tax competition through new or enhanced tax incentives, with an emphasis on research and development (R&D), and intellectual property-related activities.

Despite periodic discussion around tax reform in the US, it had resisted jumping on the corporate tax-cutting bandwagon until late 2017. With a headline marginal corporate tax rate as high as 39.1% – one of the highest in the world, and more than 10 percentage points higher than the average in advanced economies – the US would appear to have been something of an outlier. When campaigning for office, US President Donald Trump called for corporate tax rates to be slashed to as low as 15%. In December 2017 the US Congress enacted a sweeping tax reform package, with the reduction in the corporate tax rate to 21% the standout feature. Additionally, a lower 15.5% amnesty rate is to be applied to historical profits, in a measure aimed at encouraging the repatriation of such funds to the US.

EMERGING MARKETS: Such moves are far from being confined to the most advanced economies. In addition to Hungary, the OECD also highlighted corporate tax rate reductions in other emerging markets in Europe and MENA, notably Slovakia and Israel. The Czech Republic and Slovenia have also cut rates since 2008. Turkey, with the introduction of its so-called super tax incentive model, alongside specific incentives for R&D investment, was one of the main EMEA movers in 2016, while Hungary and Poland signalled intentions to improve their tax incentive offerings.

In Latin America, Mauricio Macri, President of Argentina, introduced a tax reform that would bring the corporate tax down from 35% to 25% in October 2017.

Headline corporate tax rates have fallen by

20 percentage points

since the early 1980s

Annual tax revenue lost by developing countries as a result of tax incentives offered to large businesses amounts to $100bn, according to recent estimates.

According to Dante Sica, CEO of ABECEB, a regional consultancy, the move is in the country's interest. "The reform is geared more towards redistributing the burden of tax than drastically reducing it, in order to prop up investment and job creation," he told OBG.

This is not a new phenomenon. IMF research has identified evidence of a "partial race to the bottom" in corporate tax regimes in 50 emerging and developing economies in the decade running up to the global financial crisis, as countries have been under pressure to reduce tax rates in order to attract investment. The IMF found that tax competition served to reduce the tax base, even where the headline corporate tax rate was unchanged. Evidence of a race to the bottom in such special regimes, whereby parallel tax systems are essentially established, was found to be particularly strong in African countries, where effective corporate tax rates had essentially fallen to zero in many instances. The IMF also found that higher tax rates adversely affect both domestic and foreign investment.

TRICKLE DOWN: Long-term trends towards lighter taxation of corporate profits have impacted developing and least developed countries. In some cases profits on activities carried out in developing countries are diverted to friendlier corporate tax regimes in advanced economies. According to Oxfam, for example, corporate tax avoidance schemes give rise to $100bn in lost tax revenues for developing countries. There are also situations where developing countries may lose out on even greater revenues by following suit and introducing their own corporate tax avoidance schemes or incentive regimes. Action Aid, a South Africa-based NGO has estimated that annual tax revenue lost by developing countries as a result of tax incentives offered to large businesses amounts to $138bn.

IMPLICATIONS: One of the most important implications of downward corporate tax convergence is the reinforcement of inequality. When investment is diverted from emerging and developing markets, where returns should be higher, to advanced economies purely for tax reasons, the result is likely to be relatively slower cross-country convergence in living standards.

Reduced taxation on corporate profits means, on the one hand, that wealth remains more concentrated in the hands of shareholders; while on the other hand, a combination of increases in other taxes or reduced spending is necessary to maintain healthy public finances. In sub-Saharan Africa, to take an example, countries rely on indirect taxes for around two-thirds of their tax revenues while in advanced economies this they account for less than one-third.

At the same time, overall tax revenues in less developed economies are on the whole much lower than they are in advanced economies, meaning that there are fewer resources available for either public investment or social spending – both of which tend to benefit those who are on the lowest incomes, as well as improving an economy's productive capacity for the future.

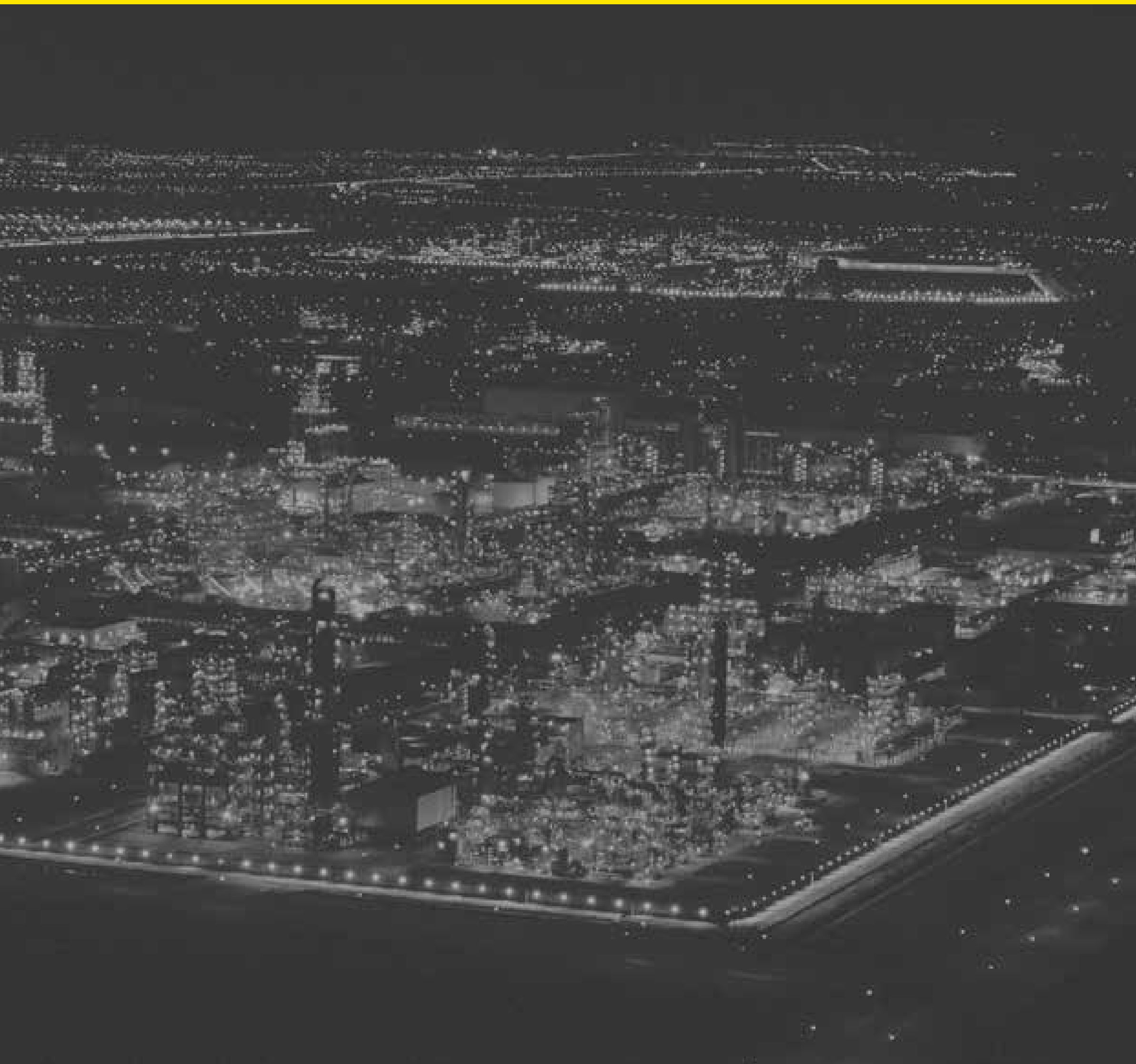
Trade & Investment

New laws for domestic and international investors

State funding schemes for foreign and local companies

Large increase recorded in investment made abroad

Enhancing infrastructure to boost trade opportunities



In 2018 the Kingdom accounted for around 13% of the global oil supply

Global partnerships

Government support for economic diversification is set to substantially increase opportunities for investment

The majority of oil produced by Saudi Arabia in 2018 was destined for Asia, with India, China and Japan taking 39.3m, 56.7m and 57.4m tonnes, respectively.

As one of the world's biggest oil exporters, Saudi Arabia's trade links are well established and have a global reach. The revenue raised from outgoing shipments of this resource fund the government's social and infrastructural programmes, and are therefore central to the Kingdom's economy. Saudi Arabia's non-oil exports, however, are considerably smaller than its non-oil imports, and reducing the non-oil trade deficit is a central pillar of Saudi Vision 2030, the strategic blueprint that is guiding the economic and social development. Boosting investment inflows is an overarching part of the effort: to this end, Saudi Arabia is overhauling the laws and regulations that govern foreign investment, and taking steps to improve the general business environment – measures that have made the Kingdom the world's top-reforming country in the eyes of the World Bank. At the same time, the Kingdom is considerably increasing its volume of investment made abroad, with the figure rising from $7.3bn in 2017 to $21.2bn in 2018, according to the UN Conference on Trade and Development (UNCTAD) (see analysis).

In February 2020 the government announced that the Saudi Arabian General Investment Authority (SAGIA) would be absorbed by the new Ministry of Investment led by Khalid Al Falih, who headed the old Ministry of Energy, Industry and Mineral Resources. The new ministry will build off the work accomplished by SAGIA in recent years to promote the Invest Saudi brand and launch an initiative of the same name aimed at developing the investment environment in the country through attracting qualitative investments.

OIL TRADE: Saudi Arabia's standing as a trading nation rests largely on the crude oil it ships around the globe. With oil reserves of 297.7bn barrels, according to the BP's "Statistical Review of World Energy 2019" report, the Kingdom owns more than 17% of global stocks. In 2018 it was the world's second-biggest oil producer, accounting for around 13% of total supply. The Kingdom retained its title as the globe's largest oil exporter, sending approximately 367.4m tonnes abroad that year. The majority was destined for Asia, with India, China and Japan taking 39.3m, 56.7m and 57.4m tonnes, respectively. Europe and the US are also important clients of the Kingdom's hydrocarbons industry, each accounting for over 40m tonnes of exports in 2018.

The scale of the Kingdom's oil and gas activity means that it is a central component of the wider economy, accounting for more than three-quarters of total export earnings in the third quarter of 2019, according to the General Authority for Statistics (GaStat). The Kingdom's trade balance is thus largely dependent on the average price of oil in any given year. In 2012, when oil prices were close to their all-time highs, the Kingdom's trade surplus stood at SR873bn ($232.2bn). Since then, oil prices have softened and along with revenues, with the Kingdom posting a trade surplus of SR597.5bn ($158.9bn) in 2018. However, the spread of Covid-19 in early 2020 led factories worldwide to halt production, slowing demand for oil and likely impacting the year's trade flows. This carries with it significant fiscal implications, given the importance of the Kingdom's oil revenue to its current account (see Economy chapter).

Diversifying export composition is thus a key component of Vision 2030. One of the three central pillars of this strategy is to establish Saudi Arabia as an "epicentre of trade and the gateway to the world", taking advantage of its strategic location that connects Europe, Asia and Africa. This effort calls for a wholesale restructuring of the country's economy, increasing non-oil government revenues from SR163bn ($43.4bn) at the time of the plan's formation to SR1trn ($266.3bn) by 2030, and boosting the share of non-oil exports in the non-oil GDP from 16% to 50%.

The scale of the Kingdom's oil and gas activity means that it is a central component of the wider economy, accounting for more than three-quarters of total export earnings in the third quarter of 2019.

NON-OIL GROWTH: For the third quarter of 2019 the Kingdom's mineral exports – mostly oil – accounted for nearly 77% of total exports, according to GaStat. The next biggest category was plastics, rubber and related articles, making up 7.8% of total export value;

followed by chemical products (7.1%); base metals (1.6%); and vehicles, aircraft, vessels and associated transport equipment (1.5%). Boosting non-oil exports is a strategic priority for the government. However, according to the Saudi Export Development Authority (SEDA), non-oil exports actually declined slightly over the past year, from SR215.7bn ($57.4bn) in the first 11 months of 2018 to around SR202.7bn ($54bn) in the corresponding period of 2019.

The Kingdom's National Transformation Programme (NTP), the first of 13 Vision Realisation Programmes to be published under the umbrella of Vision 2030, established several trade targets for 2020, including increasing the value of non-oil commodities exports from a baseline of SR185bn ($49.3bn) to SR330bn ($87.9bn), and boosting the number of Saudi exporters from 1190 to 1500. In early 2020 SEDA posted a revised target for the year of SR310bn ($82.6bn); while lower than the NTP's earlier goal, it is a significant increase from 2019. Several government ministries and bodies are collaborating to achieve this target. SEDA has launched a SR120m ($32m) motivation programme in cooperation with the Private Sector Stimulus Office, offering nine World Trade Organisation (WTO)-compliant incentives that cover expenses incurred in the export process.

The Ministry of Commerce has initiatives that include establishing an export processing zone and an electronic platform for exporters, while the Ministry of Economy and Planning is improving the framework that supports export processes. Some of this effort involves regional partnerships. In February 2020 the Saudi Fund for Development signed an agreement with UAE export credit company Etihad Credit Insurance to finance and provide credit insurance for non-oil exports of both countries. The deal will see the two firms cooperate in areas that include insurance, reinsurance, collections, commercial information and credit opinions, and is primarily intended to assist local small and medium-sized enterprises.

IMPORT REDUCTION: While oil price fluctuations have caused the value of the Kingdom's exports to change significantly in recent years, the value of the Kingdom's imports has remained relatively static. In 2019 merchandise imports to the country totalled SR541.3bn ($144bn), up from SR514bn ($137bn) in 2018. The scale of the Kingdom's oil exports means that when it comes to assessing progress in diversifying the economy and reducing reliance on imports, the most useful data point is the proportion of imports that is covered by non-oil exports. The amount of imports covered by Saudi Arabia's non-oil export activity rose from 24.1% in 2015 to 40.1% in 2018, according to GaStat. Strengthening this trend by raising the level of domestic production is one of the goals of Vision 2030, and a number of manufacturing areas – such as pharmaceuticals and renewable energy – has been identified to help meet this goal (see Industry chapter).

TRADE AGREEMENTS: As it sets about the task of boosting non-oil exports, the Kingdom's strategic planners have a host of bilateral and multilateral trade agreements to capitalise on. Saudi Arabia has been a

In 2019 merchandise imports to the country totalled approximately $144bn, up from $137bn in 2018

member of the WTO since 2005, and its position within the Greater Arab Free Trade Area grants it privileged access to 17 countries in the MENA region. As a member of the GCC, Saudi Arabia benefits from the Customs Union agreed by the bloc in 2003, as well as free trade agreements (FTAs) the GCC has signed with nations such as Singapore. The GCC is working to secure similar arrangements with a number of other countries and economic blocs, including Australia, China, India, Japan, Jordan, Korea, New Zealand, Turkey, Mercosur, the Association of South-East Asian Nations and the EU. Many of these negotiations have spanned decades, but the GCC has made more timely progress with the European Free Trade Association (EFTA), comprising Norway, Ireland, Liechtenstein and Switzerland: a long anticipated EFTA-GCC FTA came into force in July 2014, introducing a wide-ranging framework that covers trade in goods and services, government procurement and competition. Individually, Saudi Arabia signed a trade and investment framework agreement with the US in 2003 aimed at improving legal protections for investors; boosting intellectual property protection; creating more transparent and efficient Customs procedures; and increasing transparency in government and commercial regulations.

INFRASTRUCTURE BOOST: The government's plans to boost trade include enhancing the infrastructure that supports it. This effort involves calling on the private sector to participate in developing new rail projects and increasing efficiency at the major international gateways of Jeddah Islamic Port and the King Abdulaziz Port in Dammam, as well as the commercial ports at Yanbu and Jubail, and the facilities at Jizan, Dhiba and Ras Al Khair. New logistics zones, meanwhile, aim to boost connectivity and attract investment. The Kingdom opened the Al Khomra Logistics Zone at Jeddah Islamic Port in October 2019. The 2.3m-sq-metre facility is the country's largest, and forms part of a wider plan to establish the Kingdom as a global logistics centre.

The share of imports covered by non-oil export activity rose from 24.1% in 2015 to

40.1%

in 2018

A new logistics zone opened in October 2019 at Jeddah Islamic Port

Among its goals, Vision 2030 aims for foreign direct investment inflows to represent

5.7%

of GDP

This effort is being guided by the National Industrial Development and Logistics Programme, which targets SR1.6trn ($426.1bn) of investment over the decade to 2030, some SR135bn ($35.9bn) of which is earmarked for the logistics sector. Other emerging logistics centres in the Kingdom include King Abdullah Economic City and the new city of NEOM, a giga-project in the country's north-west that is planned to include a logistics zone.

FOREIGN DIRECT INVESTMENT: As the biggest economy in the GCC, the Kingdom has long been a destination of interest for global investors. The recent liberalisation of the Kingdom's stock exchange and its recognition by leading index providers has meant that portfolio investment, rather than foreign direct investment (FDI), has garnered headlines in the global financial press of late. "The relatively recent inclusion of the Saudi stock exchange on the MSCI and FTSE indices is set to increase foreign capital inflows and broaden investors' exposure to Saudi Arabia's economy," Tariq Al Sudairy, managing director and CEO of Jadwa Investment, told OBG. Investment via swaps and buy-orders from qualified foreign investors resulted in SR91bn ($24.2bn) in portfolio inflow in the year to November 2019. Passive flows are expected to increase in 2020, supported by the late-2019 initial public offering by Saudi Aramco (see Capital Markets Chapter).

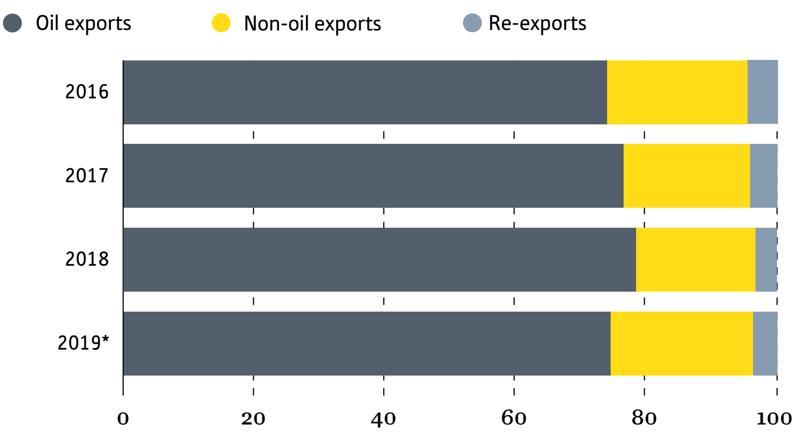
While this is a welcome development, alleviating the non-oil trade deficit is more directly aided by increases in FDI. One of the goals of Saudi Vision 2030, therefore, is to increase FDI into the country from 3.8% of GDP in 2016 to 5.7%. Achieving this ambition, however, will mean breaking away from the global trend of stagnant FDI flows in recent years. According to UNCTAD, net FDI to the Kingdom fell to $1.4bn in 2017, down from $7.5bn the year before, though it immediately rebounded. Invest Saudi reports that FDI investment inflows rose to $4.2bn in 2018, well on their way to prior levels. Additional increases were seen in 2019, with FDI reaching $3.5bn in the first three quarters, representing a 10.2% increase over the same period of 2018. The UNCTAD reports that 2019 saw an overall yearly FDI increase of 9%, with several deals being struck outside the oil and gas sector.

Total FDI stock in the country, meanwhile, has remained static in recent years, standing at $231.5bn in 2016 and $230.8bn in 2018. According to the latest data from The Arab Investment and Export Credit Guarantee Corporation, the most important sectors from an FDI perspective in 2017 were the chemicals industry, which accounted for 30.8% of the total that year, followed by real estate (27.7%); coal, oil and gas extraction (7.9%); the automotive industry (7.1%); and hotels and tourism (6.9%). In terms of the main investing countries in 2017, the UAE accounted for the largest share, with approximately 21.9% of the total, followed by the US at 20.3% and France at 9.1%.

BUSINESS FACILITATION: Improvements to the legal framework underpinning FDI into the Kingdom have also been geared towards attracting inward investment. In pursuing this goal, the country starts from a strong base that includes a history of political stability; good relations with nations that possess large pools of potential investor capital; and strong assessments from major credit ratings agencies ("A-" from Standard & Poor's, "A" from Fitch and "A1" from Moody's, as of the first quarter of 2020). Beyond its general advantages, the government has also rolled out several investor-focused incentives, including a scheme by which foreign companies are eligible for low-cost funding from the Saudi Industrial Development Fund for up to 50% of a project cost, and a new framework that allows investors to secure permanent residency in Saudi Arabia (see analysis).

These steps, and others, are helping the Kingdom to improve its ranking on the World Bank's influential ease of doing business index – an effort that is being overseen by the Ministry of Investment. The country carried out a record number of business reforms in 2019, and that year the ministry issued more than 1100 foreign investor licences to recipients in a score of different countries, representing a 54% increase from 2018.

Breakdown of total exports, 2016-19 (%)



Source: GaStat

*through Q3

These efforts resulted in the Kingdom being named the most-improved nation in the world in the "Doing Business 2020" report. Saudi Arabia placed 62nd out of 190 countries in the ease of doing business ranking with an overall score of 71.6 out of 100 – a significant improvement from its ranking of 92nd in 2019. Its moves to improve protection for minority investors resulted in it ranking third globally in this area, a level comparable to Singapore and New Zealand – the two easiest places to do business in the world.

Elsewhere, the launch of a new online platform has resulted in numerous efficiency gains: for example, local businesses now need just 100 days to obtain all necessary authorisations to build a warehouse, at a cost of approximately 1.9% of the value of the warehouse – half the regional average of 4.4%. Similarly, it took nearly half the time for businesses to obtain electricity connections in 2019 than it did in 2018. The biggest improvement over the year, however, came in the area of starting a business. According to the World Bank, it now costs only 5.4% of income per capita for an entrepreneur to start a business in the Kingdom, considerably lower than the MENA average of 16.7%.

LEGAL MATTERS: The legislative framework governing FDI in the Kingdom has undergone a process of liberalisation for some years, most notably through the removal of minimum capital requirements that were originally attached to agricultural, industrial and services projects. The Kingdom has also opened more sectors to 100% foreign ownership, adding film distribution, communication services, rail, air and space services to accompany the liberalised engineering, education and recruitment sectors. More recently, the introduction of a new insolvency law in August 2018 has made it easier for indebted companies to maintain their operations while rescheduling their debts, thereby improving investor protection.

The nation's legal infrastructure is enhanced by a commercial courts system in place since 2019 in Riyadh, Jeddah and Dammam, as well as a number of specialised commercial chambers in the public courts of main cities.

The Kingdom carried out a record number of business reforms in 2019

OUTLOOK: The onset of the Covid-19 pandemic in the first quarter of 2020 has slowed economic activity and reduced investor sentiment around the world, thus its effect on the Kingdom's trading activity and inward investment is yet to be seen. However, the process of legislative and regulatory reform that has altered the nation's trading and investment landscape in recent years is expected to continue to long-term benefit. The government's goal, according to Vision 2030, is to rank within the top-20 countries on the ease of doing business index – a feat that will require additional revision and innovation in the decade to come.

With an increasing number of international investors tapping into Saudi Arabia's more open and streamlined business environment, non-oil activity is expected to grow organically. However, large investments by the government and partnerships with the private sector are slated to help move the process along, leading to a more even non-oil trade exchange in the long term.

Local businesses now need just 100 days to obtain all authorisations to build a warehouse, at a cost of approximately 1.9% of the warehouse value – half the regional average of 4.4%.

Riyadh is set to host the G20 Leaders' Summit in November 2020

Improved inflows

New initiatives are enhancing the appeal of the Kingdom to international investors

The Future Investment Initiative, an annual gathering of global leaders, investors and innovators that began in 2017, has brought tens of billions of dollars in investment deals to the Kingdom.

The Saudi Industrial Development Fund is providing assistance to four primary sectors with its financing solutions: industry, mining, energy and logistics.

The effort to enhance the Kingdom's competitiveness as a destination for foreign direct investment (FDI) is taking place across a wide front. However, three initiatives in particular have caught the attention of the global investment community during 2019.

INCREASED VISIBILITY: In October 2019 Saudi Arabia staged its third large-scale global investment conference. Established in 2017, the Future Investment Initiative is an annual gathering of global leaders, investors and innovators. The 2018 event resulted in more than 25 deals with a combined value of around $56bn, according to Khalid Al Falih, then-minister of energy, industry and mineral resources, and current minister of investment. The 2019 conference was carried out with the support of a large number of international partners, including Credit Suisse, HSBC, MasterCard, Samsung, EY, PwC and Deloitte, and led to 24 investment deals worth $20bn. Focus areas of the 2019 edition included transformation in the energy sector; innovative solutions to global challenges; and connectivity and inclusivity. Among the more prominent attendees that year were President Jair Bolsonaro of Brazil and Prime Minister Narendra Modi of India, as well as nearly 300 decision makers, investors and experts from more than 30 countries. The scale and global prominence of the event has helped to highlight the Kingdom's place in the international investment landscape.

Saudi Arabia's profile as a worldwide leader will be bolstered further when it hosts the 2020 edition of the G20 Leaders' Summit in November. The first meeting of the G20's Trade and Investment Working Group was held in Riyadh in March 2020.

FUNDING BOOST: In its drive to boost FDI the Kingdom is opening some of its most important funding programmes to both foreign investors and a broader range of economic activities. The Saudi Industrial Development Fund (SIDF) was established by the government in 1974 in order to provide medium- and long-term loans to the private industrial sector. For decades it has focused on providing assistance to small manufacturers, and in 2018 alone it channelled more than SR9bn ($2.4bn) into 108 industrial projects. In 2019 the fund embarked on a new phase of development assistance, having been granted an expanded mandate to support the objectives of Saudi Vision 2030. As a result, SIDF is targeting four primary sectors with its financing solutions: industry, mining, energy and logistics. Under the new terms, companies in targeted sectors will be offered additional financing options, including multi-purpose loans and acquisition financing. Crucially, from a foreign investor's perspective, the fund has also been granted the ability to finance businesses outside the Kingdom, provided that have Saudi investors.

ATTRACTING INVESTMENT: The country's process of Saudiisation has resulted in a net outflow of foreign workers in recent years (see Economy chapter), but when it comes to investors, the authorities have taken a different approach. In June 2019 the Kingdom launched a permanent residency programme designed to increase foreign investment inflows. Aimed at high-net-worth individuals, a permanent residency permit is currently available to qualifying applicants at a cost of SR800,000 ($213,000). Minimum requirements include proof of financial solvency, as well as a clean criminal record and bill of health. In addition to the full permanent residency option, a less expensive alternative exists in the form of a one-year renewable residency permit, available for SR100,000 ($26,600).

The new framework makes the Kingdom more attractive to foreign investors as place to live and work, providing the government with a considerable boost in revenue: when the plan was first shown to Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud in 2016, revenue projections for the Kingdom foresaw a gain of approximately $10bn by 2020.

Investments abroad are aligned with the Kingdom's transformation goals

Worldwide ambitions

The Kingdom has been rapidly increasing its business footprint overseas through a variety of investments

Saudi Arabia has been dramatically increasing the volume of investment outside of its borders in line with economic development goals. The Kingdom's investments abroad have increased almost threefold in recent years, rising from $7.3bn in 2017 to $21.2bn in 2018, according to the "World Investment Report 2019", published by the UN Conference on Trade and Development. These funds have been concentrated in technology, finance and infrastructure-related activities, and included a $1bn outlay by the country's sovereign wealth fund, the Public Investment Fund (PIF), in US-based electric vehicle start-up Lucid Motors, and $400m in Magic Leap, another US company specialising in virtual reality.

The increase in outward investment is aligned with the Kingdom's aim of transforming itself into a "global investment powerhouse", as defined in Saudi Vision 2030, the country's long-term economic development blueprint. While attracting inward FDI is a prominent aspect of government policy, investing in businesses and industries around the world is also poised to help diversify the economy. Stronger connections with foreign companies are likewise forecast to result in greater trade volume and efficiency going forward.

PUBLIC ENTITIES: The Kingdom's overseas investment has been on an upward trend that has seen the total increase from $5.4bn in 2015. Much of this activity is being driven by government and semi-government institutions, chief among them the $320bn PIF, which has doubled in value between 2015 and 2020, and which aims to be the largest sovereign wealth fund in the world by 2030.

At the beginning of 2020 the fund had about 15% of its assets in foreign countries. Much of PIF's recent outward activity has been directed to its equity portfolio in the US, which included a $3.5bn investment in Uber in 2016 and the purchase of a 5% stake in electric car manufacturer Tesla in 2018. In addition, the fund has made a series of investments through other bodies, which, while they do not qualify as FDI, represent further indications of the fund's global investment ambitions. These include contributions to Japan's SoftBank Vision Fund in 2018; as of October of that year PIF had contributed some $45bn of the Vision Fund's total $93bn. PIF also made a $20bn commitment to a $100bn infrastructure investment fund managed by US private equity firm Blackstone towards the end of 2017, which is expected to undertake a series of projects across the US.

Meanwhile, national oil company Saudi Aramco, which has an extensive network of downstream operations in 20 countries, has also expanded its interests abroad. In late June 2019 it announced it had signed 12 agreements with South Korean firms; this followed the purchase of a 17% stake in Hyundai Oilbank for $1.3bn in April that year.

PRIVATE PLAYERS: A number of private Saudi firms have also made considerable foreign investments. In 2019 investment firm Atrabah Integrated Holding announced plans to construct a 500,000-sq-km medical city in Egypt, with initial investment valued at around $1bn. This builds on significant overseas commitments by firms such as Kingdom Holding, whose portfolio includes shares in French streaming company Deezer and US ride-hailing app Lyft.

EXPANSION CONSTRAINTS: There are concerns, however, that the global outbreak of Covid-19 in early 2020 could cause inward flows of FDI to slow in the short term and lead Saudi Arabia to redirect outward investment to its extensive domestic project pipeline. Several major projects are currently being rolled out across the Kingdom; these include the $500bn NEOM high-tech city and economic zone, the $8bn Qiddiya entertainment park and the 34,000-sq-km Red Sea Project. Given the size of these developments, international media have noted that the fund may be inclined to slow the pace of its overseas activities until private investors for the projects are found.

Investment abroad increased from $7.3bn in 2017 to

$21.2bn

in 2018

Much of Saudi Arabia's foreign investment is driven by government institutions such as the $320bn Public Investment Fund, which doubled in value between 2015 and 2020.

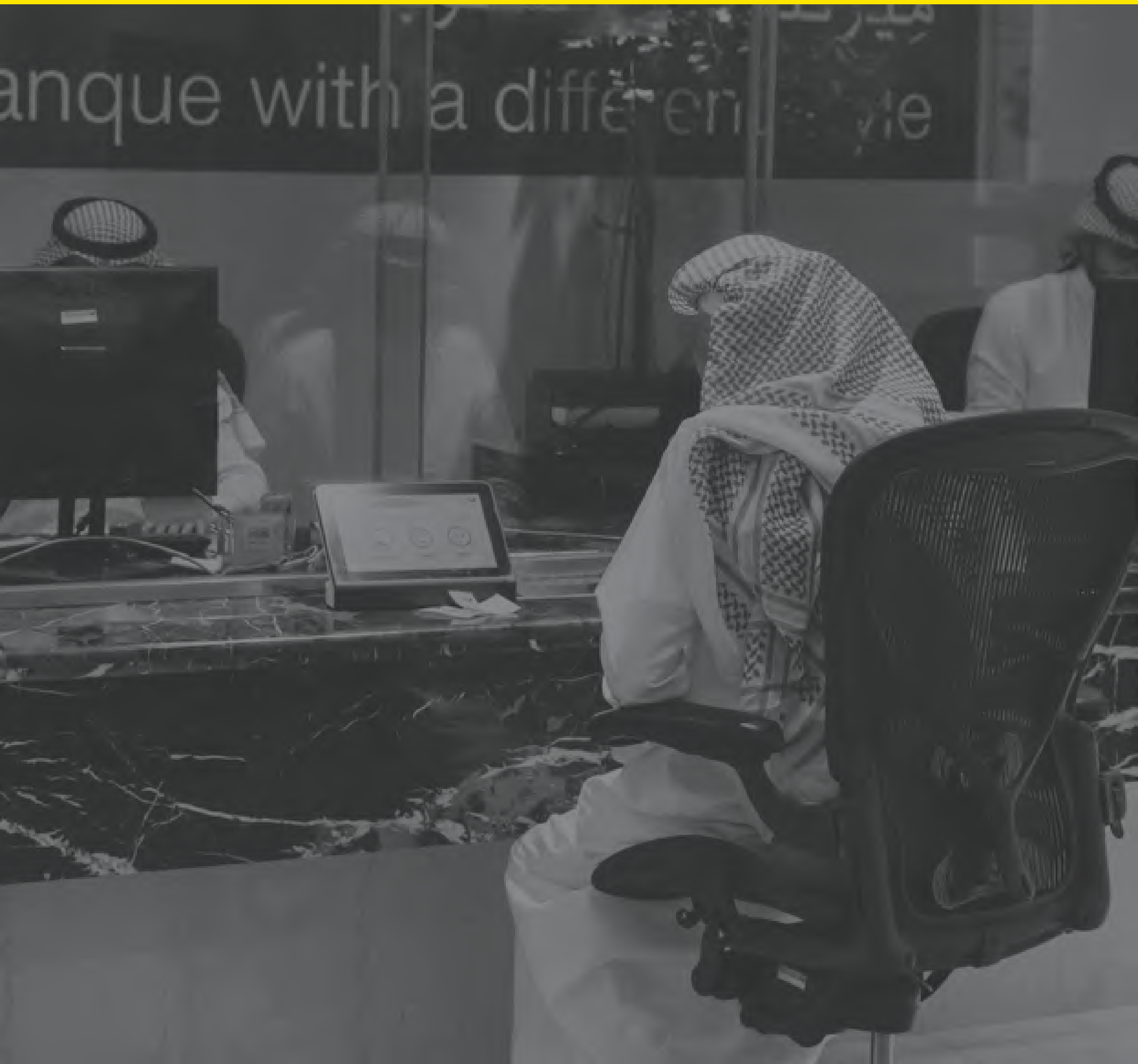
Banking

Top-five banks saw double-digit profit growth in 2019

Ongoing development of e-payments infrastructure

Real estate credit emerges as key driver of loan growth

Efforts to upskill local graduates and employees



The Kingdom's banking sector saw a 7.4% increase in profit in 2019

Solid foundations

The banking industry enters a challenging 2020 with a sound base and strong regulatory framework

Saudi Arabia is home to more than 27% of the GCC's total banking assets, and is the region's second-largest banking industry in terms of assets and the largest in terms of market capitalisation. Having achieved promising profit growth in 2019, the sector entered 2020 ready to capitalise on the opportunities presented by the Kingdom's ambitious development strategy. Vision 2030 provides a roadmap for the development of financial services in the country and a raft of lending opportunities in key sectors such as infrastructure, health, education and entertainment. However, declining oil prices and the effects of the global Covid-19 pandemic in early 2020 will make for a challenging year for the domestic banking industry. The government's announcement of a series of measures to mitigate the impact of the crisis has therefore been welcomed by market participants.

HISTORY: Saudi Arabia has one of the oldest banking industries in the region, dating back to the early part of the 20th century. Initially populated by a network of local money exchangers and a small number of foreign banks, the sector rapidly expanded in the years following the Second World War, prompting the authorities to consider the establishment of a central bank. The Saudi Arabian Monetary Authority (SAMA) was created in 1952 by two royal decrees to fill this role, and continues to oversee the banking industry to this day. In the years immediately following its creation SAMA licensed a large number of local and foreign institutions, which brought new services and products to both retail and commercial customers in the Kingdom. This period saw some of today's key players enter the market, including National Commercial Bank (NCB) and Riyad Bank.

The central bank experienced its first serious challenge when a number of large, non-performing loans (NPLs) made by Al Watany Bank in the 1960s resulted in the first collapse of a major domestic financial institution. This led to an overhaul of the regulatory framework governing the banking sector, the culmination of which was the 1966 Banking Control Law, which still forms the legislative backbone of the sector. The new law set rigorous liquidity, capital adequacy and reserve requirements for the Kingdom's lenders, and granted SAMA a raft of licensing and supervisory powers.

By 1980 Saudi Arabia was home to 12 banks, 10 of which were partially foreign owned. The sector continued to expand over the following decade, during which time a number of major players entered the market, including the Saudi Investment Bank in 1984 and the Al Rajhi Banking and Investment Corporation in 1988. In the 1990s the broader base of the Saudi economy reduced some of the systemic risk associated with volatile oil prices, and by the early 2000s an increasingly confident SAMA began to open the market to majority foreign-owned investment banks, a decision that overturned a 1975 requirement that all lenders be majority owned by a local partner.

Licensing for these international institutions was first issued in 2004, and over succeeding years global players such as Germany's Deutsche Bank, France's BNP Paribas and the US' JPMorgan entered the Saudi market for the first time.

DOMESTIC PLAYERS: As of the first quarter of 2020 Saudi Arabia's banking sector comprised 13 locally licensed banks, five of which held total assets worth more than SR200bn ($53.2bn). With over SR507bn ($135.2bn) in assets, NCB is both the largest and oldest bank in Saudi Arabia, and as such plays a central role in the country's economy. Its position as a catalyst for growth was further cemented in 1999, when the government acquired a majority stake in the institution through its sovereign wealth fund, the Public Investment Fund (PIF). The Kingdom's second-largest bank, Al Rajhi, is one of the largest Islamic banks in the world, and at

Saudi Arabia is home to more than 27% of the GCC's total banking assets, and is the region's second-largest banking industry in terms of assets and the largest in terms of market capitalisation.

As of the first quarter of 2020 Saudi Arabia's banking sector comprised 13 locally licensed banks, five of which held total assets worth more than $53.2bn.

The combined loans and advances of the top-five banks expanded by 15% in 2019 to reach $266.6bn

There are around

100

foreign-owned investment banks and financial houses

the beginning of 2020 claimed assets worth nearly SR384.1bn ($102.4bn). Founded in 1957, it is the leading institution in the sharia-compliant segment that also includes Alinma Bank, Bank Albilad, and Bank AlJazira – which altogether account for around one-quarter of total banking sector assets. The third-largest bank, Riyad Bank, is another early market entrant, having been founded in 1957. At the start of 2020 it posted total assets of SR265.8bn ($70.9bn). In December 2018 the bank revealed that it was engaged in merger talks with NCB, with which it shares a common shareholder in the PIF. However, in December 2019 both lenders announced that the negotiations had ended without any agreement.

The Kingdom's fourth-largest lender, SABB, secured its place among the country's top-five banks after a successful merger with Alawwal Bank in June 2019. Previously known as Saudi Hollandi Bank, Alawwal Bank had been active in the Kingdom since the 1920s. It assisted with the creation of Saudi Arabia's first currency and payment for the nation's first oil export. SABB, meanwhile, has been a key participant in the banking industry for almost 70 years and is an associate of the HSBC Group. As of December 2019 the total assets of the new merged entity stood at SR265.5bn ($70.8bn).

The fifth-largest lender is Samba Bank, with total assets of SR255.6bn ($68.1bn) as of early 2020. Established in 1955, it is most notable for leading the introduction of the first ATMs and payment cards, and its expansion into foreign markets such as Pakistan, the UK and Dubai. In September 2019 the bank entered the debt market for the first time since 2006, staging a $1bn bond sale at a fixed coupon rate of 2.75%. Samba Bank is currently the only bank in the Kingdom to have an outstanding bond on the international market, but the popularity of the sale – which was 3.7 times oversubscribed – paves the way for other domestic lenders to follow.

The merger of two Saudi banks in 2019 was the most significant recent structural change to the Kingdom's banking sector, and formed part of a wider trend of mergers and acquisitions across the region.

FOREIGN PRESENCE: In recent decades the regulatory framework governing the Kingdom's banking sector has undergone a series of changes designed to make it more attractive to foreign institutions. Prior to 2004 international market entrants were required to incorporate with Saudi partners in order to obtain a licence to operate in the Kingdom. Some of the market's largest players are the result of this joint-venture model, including SABB, which is 40% owned by HSBC; Samba Financial Group, which Norway's Norges Bank, the UK's Ashmore Investment, and US firms JPMorgan and T Rowe Price have small interests in; and Banque Saudi Fransi, which is 14.9% owned by French group Crédit Agricole.

After the local partner requirement was removed, the Kingdom's banking industry saw a new influx of foreign institutions. BNP Paribas and JPMorgan Chase were the first market entrants under the revised framework. As of March 2020 they had been joined by 18 other regional and global institutions, including First Abu Dhabi Bank, Emirates NBD, National Bank of Kuwait and Deutsche Bank.

A further phase of market liberalisation took place in 2005, which allowed for an expansion of foreign-owned investment banks and financial houses. These institutions, of which there were around 100 as of March 2020, are licensed by the Capital Market Authority (CMA) rather than the central bank. They include some of the world's largest investment banks, including Goldman Sachs, UBS and Credit Suisse, and emerging markets investment specialist Ashmore. These institutions carry out a broad range of activities, from investment fund management and custody arrangements, to deal arranging and underwriting, with the CMA issuing licences as appropriate and necessary.

NEW ENTRANTS: The merger of Alawwal Bank and SABB in 2019 was the most significant recent structural change to the Kingdom's banking sector, and formed part of a wider trend of mergers and acquisitions across the GCC. Saudi Arabia, however, has fewer banks per capita than many of its neighbours, and therefore it is not pursuing the same consolidation agenda as many Gulf regulators.

In 2019 SAMA also approved two new banking licences for Credit Suisse and Standard Chartered Bank. In the fourth quarter of that year Fahad Alshathri, deputy governor of supervision at SAMA, revealed that despite the consolidation trend across the region, there is still room for more banks in the Kingdom and the regulator was processing applications for three new banking licences – two traditional and one digital bank. "Today the number of banks operating in the Kingdom of Saudi Arabia is still not enough to fully serve the national market," Saadoun Al Saadoun, CEO of Saudi Financial Support Services Company, told OBG. "There are promising opportunities for entities willing to invest in innovative and new ways of doing business in the Kingdom."

The regulator is also speeding up the application process for banks seeking licences to operate in the

Effective guarantees that incentivizes SME financing and boosts their contribution towards the national economy

Credit for small and medium-sized enterprises accounts for 7.2% of the total private sector loan portfolio

In 2019 the top-five banks posted

30%

growth in profits

Kingdom. As a result, the licences that SAMA issued in 2019 took less than a month to gain approval, making the Kingdom an attractive location for banks looking to enter the market in the future.

PERFORMANCE: Saudi Arabia's banking industry has faced a number of challenges in recent years. The decline in oil prices in late 2014 brought to an end a period of double-digit growth that the sector had experienced for many years. The necessary fiscal reform that followed led to uncertainty regarding growth opportunities and, in some cases, delayed payments to contractors for government projects. In 2015 the effects of lower oil prices brought aggregate asset growth to a modest 3.4% over the year, totalling SR2.2trn ($586.5bn). By 2017 asset growth had slowed further, to 0.4%, while the sector's net loans showed a contraction of 1.1% for the year. In 2018 the positive effects of firming oil prices, which reached their highest point since late 2014, were offset by reductions in energy subsidies and companies adopting a wait-and-see approach with regard to expansion plans, resulting in fewer lending opportunities. However, by 2019 the continued stabilisation of oil prices, combined with the acceleration of major infrastructure projects under Vision 2030, brought more positive results.

The total assets of Saudi Arabia's five largest banks grew by 16% in 2019 to reach SR1.7trn ($453.2bn). Their combined loans and advances, meanwhile, expanded by 15% to SR1trn ($266.6bn). The top-five lenders posted an impressive 30% growth in profits, totalling SR34bn ($9.1bn), up from SR26.2bn ($7bn) in 2018. While the Kingdom's banking sector as a whole posted single-digit growth, its 7.4% increase in profits in 2019 was still a promising sign.

Lending growth was strong in 2019, with the first three quarters of the year recording an average expansion of 5.5% as banks showed a willingness to take on more risk.

However, looking ahead, the Covid-19 pandemic and the concomitant fall in oil prices in the first quarter of 2020 will certainly weigh on growth. As of April 2020 the full economic impact was not yet clear, but the Kingdom was quick to respond with a series of measures designed to mitigate the worst of its effects, including a SR50bn ($13.3bn) investment package for banks and micro-, small and medium-sized enterprises (MSMEs).

LENDING: The contraction of the sector's aggregate loan book by 1% in 2017 marked a departure from the Kingdom's usual pattern of annual credit expansion, and was the first time this trend had been reversed in 11 years. Since then, however, the industry has returned to its normal trajectory. Lending growth was strong in 2019, with the first three quarters of the year showing an average expansion of 5.5%, according to the "Saudi Arabia: Macroeconomic Forecast 2020-24" report published by Samba Bank in February 2020. The report also found that banks showed a willingness to take on more risk in 2019, with long-term lending representing 41% of net sector loans, up from 35% in 2018.

Lending to the corporate sector has traditionally been the preferred route to margin for the Kingdom's larger financial institutions, and competition for major deals remains strong. Entering 2020 corporate lending divisions are recovering from a recent phase of credit contraction in the segment, a rare scenario that has only occurred three times since 1999. The segment's return to growth was led by a recovery in mining and construction activity, driven in part by the infrastructure pipeline established under Vision 2030. Structured finance agreements for mega-projects in areas such as tourism, entertainment and hospitality have also provided lending opportunities for the Kingdom's larger players (see Tourism & Entertainment chapter).

While these deals are generally awarded based on price and reputation, the desire to secure and retain corporate clients is driving innovation in products and services tailored to this segment. Segments such as business-to-business (B2B) payments and dividend distribution have been a competitive battleground for some time, and in 2019 new services such as flexible hedging strategies for corporate clients began to appear in the local market.

Lending to businesses in Saudi Arabia remains skewed towards the top end of the market. While credit extended to small and medium-sized enterprises (SMEs) rose by 8% in 2019, this gain was made from a low base. SME credit accounted for around 7.2% of Saudi Arabia's total private sector loan portfolio and 5% of total loans. However, this figure is a significant increase on the estimated 2-3% share of the loan book that SME credit claimed prior to the launch of Vision 2030 in 2016. As the government continues to support the development of local SMEs, this lending segment is well positioned for further growth in the years ahead.

The retail credit market, meanwhile, recovered faster than corporate lending and steadily expanded from the end of 2017. In 2018 the segment recorded growth of 6.3%, driven largely by real estate and personal loans. Competition for lending opportunities

Most larger banks offer loyalty programmes with redeemable points for activities such as card usage

In March 2019 the Kingdom's first non-sovereign issuer released a riyal-denominated, fixed-rate instrument across several tranches, with five-, seven- and 10-year tenors.

in the retail segment is strong, and the increasingly sophisticated customer base continues to demand new incentives and benefits from its banking partners. As a result, most of the Kingdom's larger banks offer loyalty programmes, awarding redeemable points for activities such as card usage, registration for online banking platforms and settlement of bill payments using ATMs. Mobile banking and digital services represents another competitive arena for Saudi Arabia's lenders. This segment became particularly important in early 2020 as SAMA instructed banks to limit the number of working branches that do not offer online services amid the Covid-19 crisis.

MORTGAGE GROWTH: The emergence of real estate lending as a major driver of retail credit growth is a direct result of regulatory changes designed to increase the homeownership ratio among nationals from 47% in 2018 to 70% by 2030. The Kingdom was expected to achieve its target of 60% by the end of 2020, local media reported in March that year, although Covid-19 and declining oil prices are likely to slow the pace of construction projects and short-term demand for housing.

Major retail banks are working alongside the Ministry of Housing and the real estate sector to meet these ambitious targets, most notably through a state-backed housing programme that encourages lenders to allocate more funding to the mortgage segment. Mortgage lending also received a boost from SAMA's decision to raise the loan-to-value limit for real estate loans in January 2018.

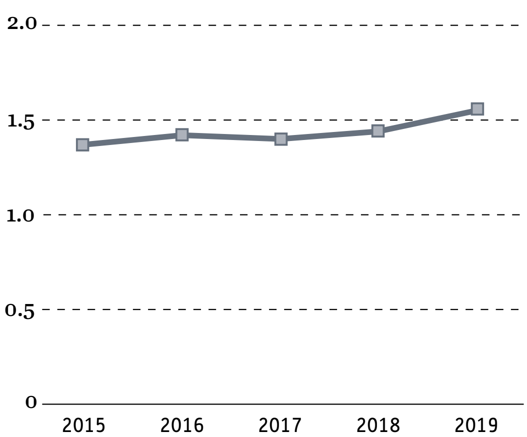
"Home loans in Saudi Arabia increased dramatically over the course of 2018 and 2019, as mortgage finance companies and commercial banks benefitted from subsidised financing designed to increase homeownership," Fabrice Susini, CEO of the Saudi Real Estate Refinance Company (SRC), told OBG. According to SAMA, real estate lending by banks grew by 168% in 2019 to reach SR27bn ($7.2bn).

The SRC, which is owned by the government through the PIF, provides funding for banks and finance companies to offer more affordable housing loans. This funding takes the form of direct loans or portfolio acquisitions that are combined into mortgage-backed securities and sold to investors. The company aims to refinance 20% of the Kingdom's mortgage market, which is forecast to grow to SR500bn ($133.3bn) in 2020 and SR800bn ($213.3bn) by 2030. The government is supporting the expansion of the SRC's activities by guaranteeing its SR11bn ($2.9bn) *sukuk* (Islamic bond) programme. In March 2019 the company became the first non-sovereign issuer in the Kingdom to issue a riyal-denominated, fixed-rate instrument across several tranches, with five-, seven- and 10-year tenors.

The Saudi Real Estate Development Fund (REDF) also provides a number of mortgage subsidies through banks. Its programmes include a guarantee worth 5% of the property's value as part of the required down payment, with a maximum limit of SR500,000 ($133,300) in most cases, although this is determined by family size and income. In certain cases, for example if a household has a monthly income below SR14,000 ($3730), the REDF could subsidise the entire down payment, which is usually around 10% for first-time homeowners.

INCREASED VISIBILITY: Saudi banks are able to make efficient, risk-assessed lending decisions with the support of an increasingly capable credit information segment. The Saudi Credit Bureau was established in 2003 to collect, analyse and provide detailed credit information on individuals and local institutions. It has expanded to offer a range of services including behaviour monitoring, risk-management consulting, over-the-counter derivatives trade repository services and analytical modelling services to give greater insight into portfolios and customer behaviour. In 2015 a second credit bureau, Bayan, was established, which acts primarily as a platform for B2B data. It is working alongside SAMA, the General Authority for SMEs (Monsha'at), the

Total bank credit, 2015-19 (SR trn)



Source: SAMA

Ministry of Commerce and Investment, and several other institutions to develop a digital database that uses artificial intelligence and blockchain to provide information on companies' financial standing based on the common reporting standard.

Sector players are confident that the use of such technologies will make institutions more efficient. "Automated machine learning is changing the banking industry for good, particularly in the field of lending for entrepreneurs and SMEs," Paul Melotto, CEO of Al Raedah Finance, told OBG. "Automation allows professional to have a better understanding of their customers' profile and needs, and therefore offer more tailored services."

However, more still needs to be done to prevent gaps in market data and lower the cost and risk of extending credit to all areas of the economy. "Moving forward, a key challenge within the Kingdom's financial sector is the accessibility of financial information," Ahmed Al Majed, CEO of Bayan, told OBG. "However, through collaborative initiatives between key players in the banking sector, increasing the accessibility of information is both necessary and achievable under Vision 2030."

REGULATION: The sector's evolving regulatory landscape has had a significant effect on performance. The 1966 Banking Control Law set out the statutory requirements on banks and established the activities that can or cannot be carried out in the Kingdom. This framework governs all banks nationwide, both Islamic and conventional, and SAMA makes no licensing distinction on the grounds of sharia compliance.

In recent years, the central bank has guided the implementation of the sector's reform agenda as agreed by the Financial Stability Board under the auspices of the G20 in the wake of the 2007/08 global financial crisis. The most significant regulatory change experienced by the sector since 2017, however, was the introduction of the International Financial Reporting Standard (IFRS) 9 at the start of 2018, which established stricter rules for banks when calculating their potential impairments. Instead of reviewing banks' past performance to determine their provisions against impairment, losses from an impaired asset are projected over the following 12 months.

The number of e-payment transactions grew by over 100% in 2019

SAMA's strategic direction is also determined by the Financial Sector Development Programme (FSDP), one of the key pillars of Vision 2030. The programme established a number of targets for the end of 2020, including increasing SME financing, mortgage lending and non-cash transactions.

"In line with Vision 2030's objective of modernising the country's payment infrastructure, increasing the number of cashless transactions per year is a high priority within the FSDP," Ziad Al Yousef, managing director of Saudi Payments, told OBG.

COVID-19 RESPONSE: While the FSDP provides a roadmap for the sector's long-term growth, in the shorter term it faces a number of challenges arising

The central bank's Financial Sector Development Programme established a number of targets for the end of 2020, including increasing mortgage lending, non-cash transactions and financing for small businesses.

Automation is set to allow banks to offer more tailored services

The central bank was quick to implement a number of measures to offset the economic impact of Covid-19, including a $13.3bn financial support programme.

from the global outbreak of Covid-19 in early 2020. However, the central bank was quick to implement a number of measures to offset the economic impact of the virus. In March SAMA launched the Private Sector Financing Support Programme as part of its mandate to strengthen financial stability and bolster the government's efforts to support private businesses affected by the pandemic.

The programme plans to deploy SR50bn ($13.3bn) in loan guarantees, allowing for deferred payments and direct funding for lending. Funding will also be available to cover the payment of fees normally charged by payment service providers. Targeted assistance will similarly be offered to companies adversely affected by precautionary measures taken in the cities of Makkah and Medina.

SAMA also provided support for bank customers by introducing a series of measures, including funding to enable companies to maintain employment levels; support for bank customers who have become unemployed as a result of the pandemic; restructured loans without additional fees; the removal of charges for accounts falling below minimum balance limits; changes to interest rates and credit card fees; and refunds for currency exchange fees for customers who have cancelled travel plans.

SECTOR STABILITY: Despite the challenges faced in the first quarter of 2020, the Kingdom's banking industry enters this period of uncertainty with a solid base. Historically, credit growth has outpaced the country's economic output, leading to concerns regarding excess leverage in the banking system. However, during the most recent period of economic prosperity beginning in 2017, bank credit expanded at a slightly slower rate than GDP. At the end of 2019 the sector's loan-to-deposit ratio stood at 77.1%, compared to 80% in 2015, suggesting that there is potential for sustainable credit growth.

As of the third quarter of 2019 the sector's aggregate NPL level stood at a healthy 1.9%, according to SAMA. NPLs in the corporate segment have increased in recent years, but remain at a comfortable level, reaching 2.4% by the last quarter of 2018. Retail NPLs, meanwhile, remain extremely low as this segment is largely secured by salary assignment.

The banking sector also showed strong capital adequacy with a regulatory Tier-1 capital to risk-weighted assets ratio of 18.1%, comfortably in excess of Basel III requirements.

DIGITAL BANKING: In recent years the Kingdom has taken steps to develop the digital banking segment. "Traditionally Saudi Arabia has been a cash-based society; however, with the rise of new platforms and a young, tech-savvy population, we are seeing an increase in the use of digital payment systems," Bashar Khalil Baidas, CEO and founder of Digital Cash International, told OBG.

The social effects of Covid-19, such as restricted mobility and the rise of remote working, has made the Kingdom's drive to develop a digital economy even more important. In March 2020 the central bank asked the nation's financial institutions to encourage customers to carry out transactions using online or mobile banking, having already requested that its own staff work remotely.

One of SAMA's main objectives under the FSDP is to increase the proportion of transactions conducted electronically from 18% in 2016 to 28% by the end of 2020. The central bank has already established the foundations for a digital banking segment, issuing guidelines for online-only banks that were updated in February 2020 to include the minimum requirements to obtain a licence.

FINTECH: At the same time, the Kingdom's banks are beginning to direct significant amounts of capital towards the financial technology (fintech) segment. In October 2019 Riyad Bank announced the launch of its Digital Partnerships Programme and its association with a SR100m ($26.7m) venture capital fund, making it the first bank in Saudi Arabia to establish such a fund to invest in fintech. The bank has also formed partnerships with technology start-ups and entrepreneurs to support the development of digital services and new banking products. In November 2019 SABB and HSBC became the first institutions in the Kingdom to conduct an international trade transaction using blockchain technology. The transaction involved the shipment of homogenised aluminium billets from Aluminium Bahrain to Saudi Arabia's Altaiseer Aluminium Corporation using a letter of credit issued on a blockchain-based platform. This deal is expected to improve the way that local companies conduct international trade, making the process more efficient, secure and transparent.

Meanwhile, in the retail segment, Al Rajhi Bank introduced a series of updates to its mobile app, including a facility that allows customers to add beneficiaries via their mobile phone numbers. According to the bank's 2019 annual report, more than 50% of its new accounts are opened digitally and the majority of customer transactions are carried out using online or mobile platforms.

Looking ahead, sector players argue that digital banking will reshape the way that physical branches operate. "Banks are continuing to invest in innovation to strengthen their digital strategies and expand their digital offering," Faisal Al Saggaf, CEO of NCB, told OBG. "While banks will continue to expand physical networks in order to extend their reach, branches are likely to be smaller and run more efficiently, aided by technology."

Underpinning these developments is the Kingdom's rapidly evolving digital payments infrastructure. SWIFT's global payment initiative (gpi) was first introduced in 2017 with the aim of making cross-border payments more transparent and traceable. In October 2019 SABB became the first bank in the MENA region to offer the SWIFT gpi for Corporates service, which was first launched in July that year. This development is helping to ensure that corporate clients in the Kingdom are able to conduct international payments at the same speed as domestic transactions, with processing times reduced from days to hours or even minutes.

The Kingdom aims to increase the proportion of transactions conducted electronically to 28% by 2020

In November 2019 two of the Kingdom's major banks became the first institutions in Saudi Arabia to conduct an international trade transaction using blockchain technology.

The Kingdom's digital transactions infrastructure is overseen by Saudi Payments, a wholly owned subsidiary of SAMA that is charged with ensuring that both banks and fintech companies provide a secure payment system. Its recent developments include the launch of Esal in June 2019, a B2B invoicing platform designed to make the payment process more transparent and efficient. As of March 2020 there were four electronic wallets licensed in the Kingdom: local firms STC Pay, Halalah and BayanPay, and major global platform Apple Pay.

However, as the segment continues to expand, new players are likely to enter the Saudi market. "In 2019 the Kingdom's e-commerce market expanded by 50% and e-payment transactions increased by over 100%. In the coming years, we expect these figures to grow exponentially and at an even faster rate," Muhannad Ebwini, CEO of online payment solutions company HyperPay, told OBG.

OUTLOOK: The Kingdom's banking sector started 2020 on a promising note, with lending to the private sector increasing by 8.5% y-o-y in January, supported by the rapid growth of non-oil sectors in the third quarter of 2019. However, falling oil prices and the disruptive effects of the global Covid-19 pandemic are likely to undermine asset growth over the course of the year. Nevertheless, the Kingdom's banks have previously demonstrated the ability to remain profitable despite difficulties, largely due to their strong franchises and relatively advantageous market structure, with 13 local banks serving a population of over 30m people. Looking to the longer term, banks are likely to venture beyond the highly competitive corporate and retail segments and develop their offering in underserved areas of the market, such as SME lending and microfinance.

In January 2020 lending to the private sector increased by

8.5%

year-on-year

The majority of Saudi banks offer in-house training for their employees

Local talent

The Kingdom is investing in financial education and training to increase the number of Saudis in high-ranking positions

In 2014 the banking sector achieved a Saudiisation rate of 89.1%, and since then the Kingdom's top-five banks have exceeded the industry average.

In recent years the government has sought to increase the number of nationals in the workforce through Saudiisation policies, which mandate that companies have a certain percentage of Saudi citizens in each position. However, the policy has presented significant challenges for many sectors that still rely heavily on expatriate labour.

Since 2011 the government has used the Nitaqat scheme to incentivise and penalise companies based on the number of Saudi employees. The system applies quotas for different economic sectors and effectively made some industries Saudi-only employers. Although progress has been mixed, the Kingdom's banking sector stands out as a Saudiisation success story. When the government renewed its commitment to the Nitaqat programme in 2014 the sector already boasted a Saudiisation rate of 89.1%, according to the Saudi Arabian Monetary Authority (SAMA). Since then the country's top-five banks have exceeded the industry average.

THE BIG FIVE: In 2019 National Commercial Bank (NCB), the Kingdom's largest bank, reported a Saudiisation rate of 97.6%. It also posted a female employee rate of 13.5% – an area of the workforce that has been particularly dynamic in recent years as a result of Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud's liberalisation agenda. The proportion of female workers at NCB is set to continue to grow; women accounted for 20.5% of the bank's new employees hired in 2019.

The country's second-largest lender, Al Rajhi Bank, recorded a Saudiisation rate of 96% in 2019. Women accounted for 14.8% of the workforce that year, a 70% increase compared to 2015. Saudi citizens accounted for 93% of employees at the third-largest bank, Riyad Bank, in 2015, according to its most recent Saudiisation figures available. SABB reported a Saudiisation rate of 91% and a female employment rate of 20% in 2019, while nationals represented 94.5% of the workforce at the Kingdom's fifth-largest lender, Samba Bank, as of 2018.

TRAINING UP: However, the success of the Nitaqat scheme as applied to the Saudi banking sector should not be judged on quantitative terms alone. Increasing the number of nationals in high-ranking positions remains a major challenge for the industry.

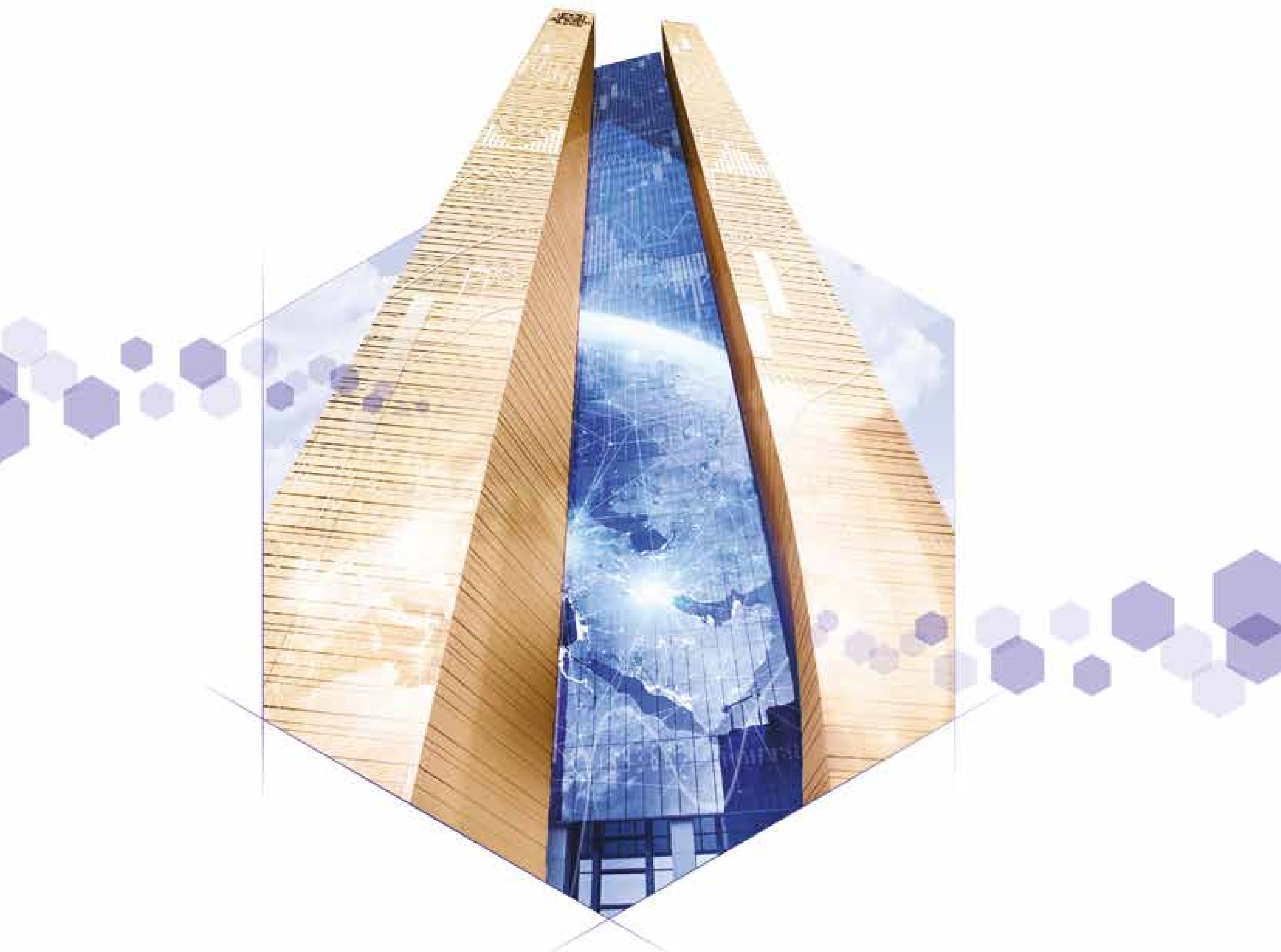
Historically, banks have found it necessary to meet their training needs with their own resources, which explains the advanced in-house operations that most institutions operate today. Banque Saudi Fransi (BSF) was an early mover in this area and established the Kingdom's first school of banking, BSF Academy. Its schemes include the Banker Associate Programme, which provides theoretical and on-the-job training for around 20 university graduates per year.

Its cohort must pass a thorough selection process involving panel interviews, cognitive reasoning tests, personality profiling and group assessments. Successful candidates, who must be Saudi nationals between the ages of 22 and 28, are organised into different segments including corporate banking, Treasury management and accounting, and work within the relevant business line from the outset.

In December 2019 BSF launched the International Banker Associate Programme in partnership with global financial education provider Fitch Learning. The 12-month initiative aims to nurture business knowledge, entrepreneurial insight and financial skills to create the future leaders of the company.

NCB has taken a similar approach to in-house training. Its Rowad Alahli Programme, aimed at "recruiting and training the Saudi leaders of tomorrow", graduated 99 employees in 2019. Another 247 members of staff qualified from the Branches New Hire programme, which focuses on retail banking, while 36 graduated from the Alahli Technology Programme. NCB is increasingly offering online training, with 7290 employees participating in digital courses in 2019.

7290
employees at the country's largest bank participated in digital training courses in 2019



The government introduced the Nitaqat scheme in 2011 to encourage companies to hire Saudi nationals

The Kingdom has supported skills development in the financial sector since 1965, when the Saudi Arabian Monetary Authority established the first banking training course.

Al Rajhi Bank, meanwhile, placed training and upskilling at the centre of its five-year development strategy, which ends in 2020. In 2018 the lender established Al Rajhi Bank Academy, which provides a platform for in-house training in partnership with 20 educational institutes, including Harvard Business School and London Business School. The bank conducted 71,000 training days in 2019, covering a range of areas such as technology, security, management and leadership development for senior executives.

SABB, as an associate of the HSBC Group, has access to a range of courses and training opportunities around the world. Within Saudi Arabia, it operates the Tamheer programme in partnership with the Ministry of Labour and Social Development, which aims to provide work experience and training for young Saudi citizens, some of whom are later offered positions within the bank.

Samba Bank, for its part, completed the first phase of its new Human Resources Management System in 2018. That year the bank organised 13,421 training days, which were attended by a total of 4840 people.

Riyad Bank operates the Fursan Al Riyad programme for Saudi citizens who have recently earned bachelor's or master's degrees in business administration, finance, accounting or other related fields. Over a 12-month period successful candidates are given full-time training designed to prepare them for a career in the banking industry. The lender also works alongside other local entities such as the Saudi Industrial Development Fund to provide specialised training for members of staff. The first cohort of the Credit, Corporate and Treasury Programme organised by the two entities graduated in July 2019.

As the distance-learning segment continues to expand, there are a growing number of opportunities for Saudis to undertake international qualifications without leaving the country.

INTERNATIONAL QUALIFICATIONS: Traditionally the Kingdom has sent a large number of students overseas, meaning that generations of Saudis have benefitted from skills training and education from other markets. Some programmes have proved particularly useful for the banking sector: for example, the Saudi Recruitment Programme, jointly funded by the Ministry of Finance and the World Bank, has enabled Saudi professionals from a number of sectors to gain experience in the financial sector. The initiative enables Saudis in junior and mid-level positions to undertake assignments lasting one or two years in the World Bank Group, which includes organisations such as the International Finance Corporation and the International Development Association.

As the distance-learning segment continues to expand, there are a growing number of opportunities for Saudis to undertake international qualifications without leaving the country. This became particularly important in early 2020 as travel restrictions were implemented amid the global Covid-19 pandemic.

Many international organisations also continue to maintain a physical presence in the Kingdom. For example, LEORON Institute, which emerged from Sweden's manufacturing sector in the 1990s, has established training centres across the region, including in Jeddah and Khobar. The institute offers a range of courses, such as an advanced diploma programme for risk-based internal auditors and a certified management accountant course.

Other institutions with a physical presence in Saudi Arabia include UAE-based Delphi Star Training, which provides a number of accounting qualifications, and Informa Connect, a UK-headquartered company that offers courses in disciplines such as governance, risk management and compliance, big data analytics and data analysis from its site in Riyadh.

GOVERNMENT EFFORTS: The government has supported skills development in the financial sector since 1965, when SAMA first launched a banking training programme. However, the central bank has expanded its role in upskilling the nation's workforce in recent years. In 2014 the Institute of Banking, a branch of SAMA, underwent a significant transformation, rebranding as the Institute of Finance and adopting a broader mandate. While the organisation had previously provided training programmes and courses to meet the sector's needs as they arose, the Institute of Finance took a more holistic approach, enlisting the support of New Zealand firm Skills International to develop a comprehensive qualifications framework for the banking and insurance sectors. The result was a completely revised financial education system, with a new training structure and an assessment team based in Riyadh responsible for ensuring quality and integrity.

In 2019 the institute's objectives were aligned with Vision 2030 and it was renamed the Financial Academy. Its courses cover a broad range of areas including banking, insurance and capital markets, as well as a number of cross-sector disciplines. As a result of these recent developments, the Kingdom has the capacity to equip citizens with the skills required by institutions across the banking sector and is well positioned to continue to meet Saudiisation targets.

Ahmed Alkholifey, Governor, Saudi Arabian Monetary Authority

Take it to the bank

Ahmed Alkholifey, Governor, Saudi Arabian Monetary Authority (SAMA), on boosting financial inclusion amid global disruption

What measures are being taken to mitigate the impact of Covid-19 on the banking sector?

ALKHOLIFEY: The Saudi authorities took strong and decisive action in March 2020 to mitigate the spread of Covid-19. The economic implications of the pandemic are still unfolding. Indeed, SAMA is maintaining close communication with players in the financial sector and other institutions under its supervision, and is following all developments carefully. We are ensuring the sector's internal preparedness for managing potential shocks, and assessing how operations and financial positions across banking and finance are being impacted.

SAMA considers the resilience of the Kingdom's financial system to be strong. The banks have adequate capital and liquidity buffers in place, and indeed these have been strengthened in recent years. This implies that the conditions remain in place for the banks to meet their customers' needs for financial services even in a more difficult economic environment. We know from previous experiences that in times of uncertainty there is a risk that the financial sector can become too cautious, and that credit constraints may amplify real economic challenges. SAMA has therefore promptly taken a number of actions to ensure that micro-, small and medium-sized enterprises can rely on a secure supply of credit to maintain their production and investment needs. In March 2020 a SR50bn ($13.3bn) financing support programme was announced for the private sector to enable it to continue playing its role in the economy. The programme consists of three basic elements: deferred payments, funding for lending and loan guarantees.

To what extent does Saudi Arabia follow interest rate cuts by the US Federal Reserve?

ALKHOLIFEY: Given the structure of the economy, SAMA and the Saudi authorities generally remain committed to the fixed exchange rate between the riyal and the US dollar. The objective of the Kingdom's monetary policy is to maintain financial stability in order to support economic growth. In light of evolving global developments, we lowered our repo and reverse repo rates by 50 basis points on March 3, 2020, and by an additional 75 basis points on March 16, 2020 to the levels of 1.00% and 0.50%, respectively. A significantly accommodative monetary policy is indeed called for in the current circumstances, especially given the evolving global developments and taking into account subdued inflation pressures in Saudi Arabia.

How can financial literacy be reinforced among Saudi nationals, especially when it comes to the basics of budgeting and saving?

ALKHOLIFEY: The Financial Sector Development Programme (FSDP), under the auspices of Vision 2030, recognises the importance of improving financial literacy, and encourages current and future generations to save more and in a smarter way. The FSDP focus is to help people make sound decisions and follow behaviours that will improve their financial well-being and stability.

In what ways can financial technology (fintech) help bolster financial inclusion?

ALKHOLIFEY: Fintech plays an important role in supporting financial inclusion, as it often reaches a larger number of consumers in a more efficient, user-friendly and inexpensive way than traditional financial avenues do. Saudi Arabia has seen the introduction of online bank accounts, electronic know-your-customer technology, digital payments and online financing, all of which improved financial inclusion rates among underserved groups. These solutions facilitate financial access for all segments of society, particularly those living in remote areas.

Tareq Al Sadhan, CEO, Riyad Bank

Digital solutions

Tareq Al Sadhan, CEO, Riyad Bank, on the increasing influence of technology in the financial sector

How are digitalisation and financial technology (fintech) positively disrupting retail banking?

AL SADHAN: Digital banking in general and fintech in particular are evolving from traditional banking channels, leveraging big data and smart technologies to provide customers with fast and secure financial services. This digital transformation increased competition in the banking sector and encouraged financial institutions to come up with creative solutions to enhance customers' banking experiences and reduce the need to visit physical branches. An important pillar of the sector's development has been the Saudi Arabian Monetary Authority (SAMA) sandbox for financial institutions and fintech players. It is a programme which aims to reduce the use of cash by providing safe electronic payment channels. The government's efforts to spread the use of digital payments have shown results; we have seen a significant growth in customers' trust in digital payments. The entire economic ecosystem will benefit from the inevitable transition. Due to the reliability of digital tracing systems, faster and more secure methods of digital payment are generally associated with increased consumer spending and stronger economies.

In which ways can the banking industry leverage new technologies such as artificial intelligence?

AL SADHAN: Banking and financial institutions in Saudi Arabia started to invest in artificial intelligence primarily to improve engagement and relationships with customers. For example, chatbots, integrated with other software, can effectively communicate with clients. Trust in digital payment systems is also encouraged through advanced technological innovations like customer identification tools and complex security software, introduced in smartphones and digital wallets. One key goal inspired by Vision 2030 is for Saudi Arabia to become a 70% cashless society by end of 2030. Because of this ambitious target, the Kingdom is now intensively investing in this field in order to transform the country into a digital centre and technology model for the entire Middle East. Despite joint initiatives between the public and private sector, encouraging the growth of the segment, the financing of small and medium-sized enterprises (SMEs) still presents a considerable challenge. However, technology and innovations related to financial services have the potential to bridge this gap. For example, technologically advanced solutions tailored to SMEs could help entrepreneurs develop their businesses by increasing financial planning capabilities, transparency and governance standards. Other than this, technology allows companies to drastically reduce operational costs, provide data about credit capacity and accurately assess the efficiency level of SMEs.

What concrete steps can be taken to reinforce financial literacy among Saudi nationals?

AL SADHAN: Financial literacy is a key objective of the Kingdom's Financial Sector Development Programme, launched by the Ministry of Finance (MoF) in 2016. Through a partnership network that includes regulators from financing and banking institutions across the Kingdom, a wide range of initiatives and activities have been promoted, such as awareness campaigns and workshop training programmes. Thus far these programmes have shown satisfactory results, boosting consumer engagement and increasing interest in more sophisticated financial products. The goal of increased financial literacy is achievable thanks to a joint effort between the private and public sector. As a result of this awareness, a number of banks are partnering with SAMA and/or the MoF to make the Kingdom a destination for financial technology, innovation and digital literacy. These ambitious targets will be achievable if market players cooperate to increase education about financial technology, and encourage younger members of society and entrepreneurs to invest in the sector.

Global Perspective

A swing in the balance

Following a retrenchment of overseas operations by numerous major banks, how are firms in emerging markets responding?

The three decades before the 2007-08 global financial crisis were marked by the world's financial networks becoming increasingly interconnected. Financial system regulatory convergence, the growing penetration of World Trade Organisation rules and the creation of currency unions, such as the euro, resulted in a surge in cross-border capital flows. Global banks began to see the emergence of a single international marketplace, and the potential this held for revenue and asset growth. In 1998 co-chairman of the freshly formed Citigroup, Sandford Weill, announced the dawn of a new age of banking in which large institutions would act as financial supermarkets to the world, with their activities so diversified that they would be able to withstand downturns of the global economic cycle.

Citigroup was not alone in this view: major financial players such as the Royal Bank of Scotland (RBS), Deutsche Bank, BNP Paribas, Barclays, HSBC, Crédit Agricole, UBS, Bank of America, Société Générale and JPMorgan Chase grew their international businesses on the back of a rising tide of global capital, which saw cross-border transfers rise from $500bn in 1980 to a record high of $12.4trn in 2007.

DISAPPEARING ACT: The global financial crisis which started that year, however, brought an end to this trend. According to data from McKinsey Global Institute, cross-border capital flows had declined by more than 80% from their peak by 2009, reduced to a level lower than that seen in the early 1990s. By 2016 cross-border capital movement had risen to $4.3trn, above levels in the late 1990s, but still 65% lower than the high of 2007.

During that period, banks offloaded foreign assets acquired during boom years, and the foreign claims of banks in the eurozone slumped by $7.3trn, or around 45%, as a result of this de-risking process. The primary driver of this trend was a reassessment of risk attached to foreign business, and the realisation that in many cases the revenue and margins obtainable in home markets – where banks enjoy the benefits of scale and local knowledge – are higher than those found abroad.

Since 2008 there has also been a gradual withdrawal of global banks from both developed and emerging markets. In 2014 Citibank announced that it was withdrawing from 11 markets, including Egypt, the Czech Republic and Japan. The announcement followed similar withdrawals from consumer markets in Pakistan, Uruguay and Spain, and left the bank's global footprint at 24 countries – half that of 2012. HSBC, meanwhile, has retreated from more than 20 markets since 2011, including Chile, Peru, Colombia, Jordan, Kuwait, Thailand and South Korea.

In 2015 Deutsche Bank announced that it would shed 9000 full-time jobs by 2020 and close operations in 10 countries, including Argentina, Chile, Mexico, Malta and New Zealand. However, the bank announced in March 2020 that it was pausing future retrenchments to minimise uncertainty for staff amid the Covid-19 pandemic. This announcement came as other major lenders reassured employees that their jobs would remain secure, despite the economic effects of the virus on their businesses.

Nevertheless, as Deutsche Bank still plans to cut 18,000 jobs by 2022, the trend is clear: many of the world's biggest banks are withdrawing from the advances they made in the 1990s and 2000s in order to focus on their domestic bases.

REGULATORY PRESSURES: The reasons multinational banks give for the closure of overseas businesses generally include improved profitability, income stability, more efficient allocation of capital and political instability. The most frequently cited reason, however, is the question of regulation. A 2016 analysis by Spanish banking group BBVA of banks from the US, Canada, the UK, Sweden, Germany, Austria, the Netherlands, France, Italy,

After the 2007-08 global financial crisis banks offloaded foreign assets acquired during boom years, and the foreign claims of banks in the eurozone slumped by $7.3trn, or around 45%.

In recent years there has been a gradual withdrawal of global banks from both developed and emerging markets, with regulation most frequently cited as the reason for departure.

The withdrawal of global banks from emerging markets has seen a concomitant decline in the number of correspondent relationships between large multinational players and smaller, regional banks.

Spain and China found that regulation was the key driver in the trend of banks pulling out of certain countries and business lines. Regulatory pressure points include the introduction of stricter capital and liquidity requirements, the ring-fencing of wholesale and investment banking from retail banking, and the different speeds at which countries are implementing banking reforms.

In addition, new reporting standards and a tougher stance on money laundering and illegal activities by the world's major regulators over the past 10 years have further encouraged geographic contraction. Banks doing business on a global scale have found it difficult to avoid the $800bn-2trn of "dirty money" that the UN estimates is laundered annually, and which has become a matter of interest to law enforcement agencies around the world.

Money laundering and fraud scandals have resulted in multibillion-dollar fines on global banks from the US Department of Justice, and shareholders have become wary of foreign ventures where proper scrutiny of capital may be more difficult to conduct than in their home market. Consequently, the global reach once seen as a fundamental strength of large banking groups is increasingly viewed as an unwelcome liability, with lenders open to regulatory and financial risks as they struggle to manage their geographically dispersed businesses effectively.

CORRESPONDENT DECLINE: The withdrawal of global banks from emerging markets is not limited to the closure of head offices and branches. Indeed, there has also been a decline in the number of correspondent relationships – where one lender provides services such as wire transfers and deposit acceptance on behalf of another – between large multinational players and smaller, regional banks. Correspondent banking relationships are considered to be important facilitators of the global economic system, and therefore any change in their status is a significant matter of concern for regulators.

A 2017 paper on the subject published by the IMF found that some emerging economies have been more adversely affected than others by this trend. In Belize, Iran, Liberia and Sudan, for example, there has been a considerable decline in the number of correspondent relationships, which has increased financial sector fragility and exposed some lenders to a potential ratings downgrade.

However, in markets such as Kuwait, the Bahamas, Morocco, Saudi Arabia and the UAE, the withdrawal of global banks from correspondent banking relationships has been less marked. In some cases, such as Kuwait, domestic banks acted pre-emptively to reduce the perception of risk associated with their operations, which might have otherwise prompted global banks to cut relations. Actions taken in this regard included closing the accounts of certain domestic charities and foreign exchange houses.

However, the challenge of maintaining correspondent banking relations for institutions with smaller capital bases remains a significant one. "It has definitely been an issue for smaller banks, where carrying out a more thorough risk assessment by foreign correspondent entities is more difficult," Ronald Harford, chairman of Trinidad and Tobago's Republic Financial Holdings, told OBG. "In addition, smaller banks do not usually have the capacity to certify that deposits do not have an origin in certain activities, such as gambling."

NEW OPPORTUNITIES: The retrenchment of international banks over the past decade has resulted in opportunities as well as challenges. Regional lenders, which had for decades fought for market space with large global institutions, have welcomed the chance to move into the recently vacated territory.

In some parts of the world this process has been an incremental one, characterised by domestic banks boosting their lending capacity through large bond issuances or initial public offerings, and using their stronger financial bases to move into nearby markets. In other regions, large domestic players have bought large amounts of foreign assets, quickly establishing themselves as regional giants.

Another key differentiator of international players and domestic banks is the comprehensive product array offered by the former. In order to fill the market space left by global banks, domestic players have been compelled to match their erstwhile rivals product by product, resulting in regional banks that are capable of performing more functions for a wider array of customers than before.

AFRICA: Regional lenders from Africa's most vibrant economies, such as Nigeria, Morocco and South Africa, have been quick to seek out the market space left by departing global players. Nigeria's biggest lender, GTBank, first stepped outside the domestic market in 2002, but since 2013 has pursued a more aggressive expansion strategy. Its acquisition of a 70% stake in the Nairobi-based Fina Bank Group gave it an East African foothold, and a strong digital offering has established it as one of the drivers of digital banking in the region.

Nigeria's United Bank for Africa (UBA) also has pan-African ambitions, having started its expansion with a move into Cameroon in 2007. As of early 2019 UBA had 18 African subsidiaries, which account for 20% of the group's balance sheet – a figure the bank intends to increase to 50% in the future. Moroccan banks, meanwhile, have been competing with global lenders across the continent since the early 2000s, and are now enthusiastically grasping the opportunities presented by the withdrawal of global players.

Leading the pack is Attijariwafa Bank, which took over Barclays Egypt operation in 2016 and is now present in 16 African markets. In 2018 Moroccan banks had some 50 subsidiaries in 25 African countries, and as income growth has slowed in their home market, their continental holdings are providing them with vibrant revenue streams. Approximately 28% of the consolidated net income of Attijariwafa Bank, Banque Centrale Populaire and BMCE Bank of Africa was derived from African subsidiaries in 2017.

Regional lenders, which had for decades fought for market space with large global institutions, have welcomed the chance to move into the recently vacated territory.

GCC: Some GCC markets have been particularly affected by the retreat of international players. Since the 2007 global financial crisis, for example, the UAE has lost RBS, Lloyds, Barclays and Standard Chartered, though HSBC has strengthened its presence. However, some regional lenders have made their own expansionary moves into economies beyond the Gulf. For example, Qatar National Bank, which until recently was the biggest lender in the region in terms of Tier-1 capital, opened its first foreign branch in London in 1976, before implementing an international expansion strategy that has resulted in a presence through subsidiaries or associates in more than 30 countries.

While a desire to protect domestic firms has traditionally curtailed intra-GCC expansion, some lenders have successfully overcome this hurdle. In 2017 the Bahrain-based Gulf International Bank took a significant step towards its goal of becoming a pan-GCC institution when it won approval from Saudi Arabia's Council of Ministers to establish Gulf International Bank – Saudi Arabia, thereby becoming the first foreign-domiciled bank to be granted a local commercial banking licence in the Kingdom.

A phase of banking sector consolidation is also sweeping the region, creating new lenders with balance sheets capable of financing large projects. Saudi Arabia's first bank consolidation in two decades saw SABB agree to complete a merger with Alawwal Bank in the first half of 2019. Abu Dhabi Commercial Bank, the emirate's second-largest bank, merged with Union National Bank in May 2019. The new entity also acquired Al Hilal Bank in December 2019 to form a new player with around Dh405bn ($110.2bn) in assets. With more than 70 listed banks in the GCC's crowded market, more mergers and acquisitions are expected over the short term.

LATIN AMERICA: Many multinationals such as HSBC, Citigroup and Credit Suisse have sold or reduced their operations in Latin America since 2013. While some players with strong franchises in the region, such as Santander and BBVA, remain, opportunities for regional banks to extend credit across the business spectrum have risen.

Six of the 10 biggest regional banks in 2018 were headquartered in Brazil, and the largest players, such as state-owned Banco do Brasil and private lender Itaú Unibanco, have established a solid presence across the continent. Itaú's cross-border acquisitions, in particular, have set it up to become a truly pan-Latin American institution: in 2014 it merged with the Chilean bank CorpBanca, a move which also saw CorpBanca's Colombian and Panamanian operations rebranded under the Itaú name.

Colombian banks sought regional expansion, too, with Bancolombia's acquisition of El Salvador's largest bank in 2007 marking the beginning of this process. Colombia's Grupo Aval, parent company of Banco de Bogotá, has also invested heavily in the region, acquiring Banco de América Central Credomatic's operations in 2012 and BBVA's Panama unit the following year. By 2017 Colombian banking groups controlled 53% of the financial system of El Salvador, 25.5% of Panama's and 21% of Costa Rica's.

ASIA: Regional banking growth has seen domestic and cross-border loans in Asia (excluding Japan) rise from $7.8trn in 2008 to $17.6trn in 2018. Chinese institutions have recorded especially strong growth, expanding their lending portfolios at a compound annual rate of 17% over this period. They have also shown a willingness to take on more credit risk than Western counterparts, offering leveraged loans to private equity firms at up to eight times earnings before interest, tax, depreciation and amortisation (EBITDA), while most US and European banks are limited by credit risk rules to around four times EBITDA.

Banks from Taiwan, India, South Korea, Japan and Australia have ramped up regional operations, as have lenders from the smaller markets of Singapore and Malaysia. The latter's Maybank doubled its market share as bookrunner for Asian syndicated loans (excluding Japan) in 2017, according to Bloomberg.

A phase of banking sector consolidation is sweeping the GCC, creating new sector heavyweights with balance sheets capable of financing large projects.

Capital Markets

Tadawul added to global emerging market indices
Multiple offerings stimulate the debt market
Regulatory changes boost foreign participation
New focus on promoting financial technology

In 2019 the Tadawul was added to two global emerging market indices

Major player

Ongoing efforts form part of a national strategy to boost the Kingdom's standing as a regional and global financial centre

Recent and ongoing reforms of Saudi Arabia's capital markets have seen the Kingdom gradually liberalise its investment framework and overhaul the operations of the Saudi Stock Exchange (Tadawul) – the largest exchange in the GCC by market capitalisation. These efforts were rewarded in 2017 when MSCI added Saudi Arabia to its Emerging Markets Index watch list, and again in June 2018 when the Kingdom was upgraded to emerging market status. This marked the fastest progression from watch list to emerging market status in the index's history. In August 2019 the Tadawul completed the second and final step of its inclusion on the index, bringing the Kingdom's weight to 2.8% of the index's total market capitalisation. During this time, the Tadawul was also added to the FTSE Russell Emerging Markets Index and the S&P Dow Jones Emerging Market Indices. These milestones mark key steps towards the country's goal of becoming an active player in the global financial community, as well as solidifying the Tadawul's position as the GCC's leading capital market.

MAIN MARKET: As of the first quarter of 2020 there were 199 companies listed on the main market of the Tadawul, an increase of nine on 2019. Equities are divided into 20 sectors or industry groups, as defined by the Global Industry Classification Standard: energy; materials; capital goods; commercial and professional services; transportation; consumer durables and apparel; consumer services; media; retail; food and staples retail; food and beverage; health care equipment and services; pharmaceuticals, biotech and life sciences; banking; diversified financials; insurance; telecommunications services; utilities; real estate investment trusts (REITs); and real estate management and development.

Equity trading accounts for the bulk of activity on the exchange, but over the past decade the platform has matured from a single-asset-class market to offer a wider array of instruments. This process began in 2010 with the addition of the Kingdom's first exchange-traded fund (ETF), the Falcom Saudi Equity ETF. It has since been joined by the Falcom Petrochemical and HSBC Saudi 20 ETFs. By the end of 2018 their combined asset value stood at SR37.7m ($10.1m), an increase of 4.6% on 2017.

While the first REIT was listed on the exchange in 2016, it was the following year that the Capital Markets Authority (CMA), which oversees and regulates the market, approved a regulatory framework governing REITs, paving the way for rapid uptake of the instrument. As of end-2018 the Kingdom's 16 REITs had accumulated an asset value of SR16.5bn ($4.4bn), up from SR3.6bn ($959.7m) the previous year. Further momentum was added to the expansion of REITs with the June 2019 inclusion of the Tadawul on the FTSE EPRA/Nareit Emerging Index, which helps align Saudi instruments with international best practices, as well as make them more accessible to foreign investors. "Local and foreign investor appetite has grown," Tariq Al Sudairy, managing director and CEO of local investment firm Jadwa Investment, told OBG. "Most of the capital flows from international investors has been directed towards the Saudi public equity market as a result of being included in the emerging market indices of FTSE and MSCI."

Adding to progress, in 2019 the Tadawul inaugurated its first tradeable index. The MSCI Tadawul 30 Index, or MT30, is composed of the 30 largest and most liquid securities listed on the equity market, based on free float market capitalisation. According to the exchange, the new index will serve as the basis of an index futures contract to be listed on the market, and can be licensed for other index-linked financial instruments, including mutual funds, derivatives and exchange-traded products.

PARALLEL MARKET: The year 2017 saw the Tadawul and the CMA launch Saudi Arabia's new parallel market, Nomu. Similar to moves enacted by other

In the first quarter of 2020 there were

199

companies listed on the main market of the Tadawul

Inaugurated in 2019, the MSCI Tadawul 30 Index, or MT30, is composed of the 30 largest and most liquid securities listed on the equity market, based on free float market capitalisation.

In early 2020, 69 of the 71 debt instruments listed on the Tadawul's Islamic and sovereign bond index were either government development bonds or floating-rate debt instruments.

global markets, Nomu is designed to make it easier for growing firms to approach the market for funding by offering less exacting listing requirements. Listings are required to hold SR10m ($2.7m) in capital, compared to SR100m ($26.6m) for main market participants; they must have operated for at least one year, as opposed to three years; they have slightly longer to comply with disclosure requirements; and they must offer a minimum of 20% of their company as free float, rather than the standard 30%.

At the beginning of 2020 there were five listings on Nomu, down from 10 a year earlier. This decline is partly a result of the parallel board's success in acting as a stepping stone to the main board: during November 2019 full-service restaurant company Raydan Food became the fourth firm to transition from Nomu to the main market. Attracting new listings and liquidity to the parallel board are strategic priorities for the exchange authorities.

Efforts to boost liquidity, however, are circumscribed by the fact that only certain qualified entities can invest in companies on Nomu – a measure intended to protect retail investors from the volatility usually associated with small- and mid-cap companies. Qualified entities include corporations, government-owned entities, GCC funds and companies, investment funds and discretionary portfolio managers, as well as large individual investors who meet a range of portfolio requirements.

In February 2019 Tadawul authorities announced a number of structural changes to Nomu aimed at making the platform more attractive to potential listings. These include provisions to allow companies to list directly without the need for an initial public offering (IPO), a move from quarterly to biannual reporting of financial results, and a streamlined process by which issuers can transition from the parallel market to the main market.

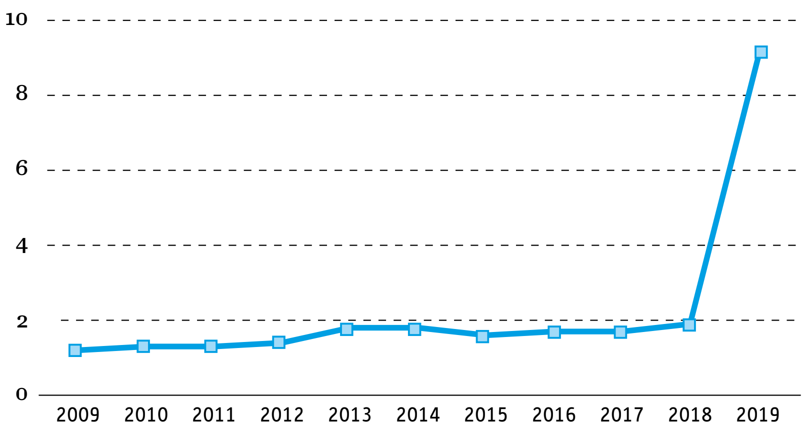
DEBT MARKET: The Kingdom's debt arena is one of the more interesting areas of the capital market scene. In 2017 the government made the decision to kick-start the Tadawul's debt component by listing sovereign bonds and *sukuk* (Islamic bonds) on the exchange, thereby significantly expanding the number of secondary market instruments available to investors. As a result, sovereign offerings now dominate exchange-based debt trading: in early 2020, 69 of the 71 debt instruments listed on the Tadawul's sukuk and sovereign bond index were either government development bonds or floating-rate debt instruments. In August 2019 the CMA, along with the Tadawul and the Debt Management Office, sought to further invigorate the bonds and sukuk market by overhauling its fees and commissions structure. The changes included listing fee reductions and lowering par values of government-issued sukuk from SR1m ($266,600) to SR1000 ($267).

Off the exchange, the government is also galvanising the wider debt market through its regular sovereign issuances. The Kingdom staged its first international bond sale in 2016, raising $17.5bn in a heavily oversubscribed offering. Another milestone was passed in 2017 with the issuance of Saudi Arabia's first dollar-denominated sukuk – sold in two $4.5bn tranches with tenors of five and 10 years. Since then, the country has emerged as a major regional issuer of international debt. In 2019 the Kingdom offered $13.4bn of euro- and dollar-denominated bonds – more than any other emerging market aside from Turkey, according to Bloomberg. A $2.5bn sukuk issuance made later in the year was particularly significant, as it followed a September 2019 drone and missile attack on Saudi Aramco facilities that prompted Fitch Ratings to downgrade the Kingdom's debt rating. A high level of demand meant that the offering was priced at 127 basis points more than the benchmark mid-swap rate, down from a forecast range of between 145 and 150 basis points. The deal therefore represented an important vote of confidence in the economy.

FUTURE ISSUANCES: Future sovereign issuances may be aided by Saudi Arabia's 2019 inclusion on the JP Morgan Emerging Market Bond Index, where its approximate weight of 3.3% was the highest in the region. This is likely to spur greater inflows, resulting in tighter spreads and primary market access. A growing budget deficit means that the Kingdom is likely to continue to tap the debt markets in 2020 (see Economy chapter), with January 2020 seeing the issuance of the first Eurobond of the year, a $5bn offering that was heavily oversubscribed. The Ministry of Finance indicated at the time that the Kingdom planned to sell around $32bn worth of debt over the course of the year.

A rise in the number of local currency bonds, in particular, would result in a welcome strengthening of the yield curve by which corporate issuances are priced. Here again, the Kingdom has played a key role in the region over the past year: the $12bn inaugural bond from Aramco in April 2019 was one of the most oversubscribed issuances in history. Demand for the offering meant that, unusually, Aramco was able to borrow at a lower yield than its sovereign parent.

Market capitalisation, 2009-19 (SR trn)



Source: Tadawul

PERFORMANCE: The global oil price decline that began in mid-2014 has had a negative impact on exchanges across the region, lowering trading volumes and pushing main indices into horizontal or negative trends. After a recent low of around 5400 points in January 2016, the movement of the Tadawul All Share Index (TASI) was broadly flat for the remainder of 2016 and into 2017. From 2018, however, firming oil prices and a strengthening economy resulted in a modest growth trend for the main index. The market hit a recent high of around 9360 points in May 2019, before retrenching slightly to consolidate around 8390 points at the end of the year, posting an annual gain of 7.2%. Total market capitalisation reached SR9.3trn ($2.5trn) by the close of 2019, indicating a 385.5% increase on the previous year. This sizeable gain was largely attributed to the December 2019 listing of Saudi Aramco. In terms of sectoral activity, consumer services showed the highest gain, with the sector's index rising by 34.3% that year, followed by utilities (30.5%) and transportation (26.4%). The sectors which saw the most retrenchment were media and entertainment (-7.6%); pharmaceuticals, biotech and life sciences (-7.3%); and diversified financials (-5%).

While the market entered 2020 on a positive note, the global outbreak of the Covid-19 virus, combined with falling energy prices, undermined market sentiment in the first quarter of the year. By March 2020 the index was approaching the resistance level of 5600 points established in 2017.

REGULATION: The continued development of the exchange is overseen by the CMA, which was given a broad mandate by the Capital Markets Law of 2003. This includes the issuance of securities; the oversight of listing, trading and settlements; and the enforcement of regulations. The CMA and Tadawul authorities have set themselves the target of establishing the Tadawul as the main market of the Middle East and one of the top-10 financial markets in the world. The Financial Leadership Programme was established by the CMA in 2016, providing the roadmap to this goal. Its key objectives include developing the sukuk and debt instruments market, promoting the role of mutual funds in the economy, attracting foreign investment, diversifying product offerings, enhancing governance and the regulatory environment, and building the capabilities of capital market participants. Such efforts form part of a broader national strategy to boost the Kingdom's standing as a regional and global financial centre, which is being pursued in accordance with the Financial Sector Development Programme – a principal component of Saudi Vision 2030 (see Economy chapter).

The number of qualified foreign investors rose to 1195 as of mid-2019

The Tadawul's total market capitalisation stood at

$2.5trn

at the end of 2019

FOREIGN INVESTMENT: A key regulatory theme in recent years has been opening the exchange to greater foreign investment. This began when the Tadawul introduced its qualified foreign investor (QFI) model in 2015, granting direct access to the exchange to a limited cadre of foreign institutions,

The authorities reduced par values of government-issued Islamic bonds from $266,600 to $267 in August 2019

such as banks and brokerages. In 2018 it revised the framework to increase inflows by dropping the minimum asset value requirement from $1bn to $500m, raising the limit for a single QFI's stake in one company from 5% to 10% and lifting the threshold for total foreign holdings in a listed entity to 49%. Early entrants into the market included some of the world's most prominent asset management brands, including HSBC Bank, Ashmore Investment Management and Blackrock Fund Advisors. In the first six months of 2019 the number of QFIs increased from 453 to 1195, representing a rise of nearly 164%. This rapid expansion in activity brought the foreign ownership level on the exchange to 7%.

The CMA plans to build on this momentum. To that end, in June 2019 the regulator approved a new set of instructions aimed at individual strategic investors, rather than the financial institutions that formed the first phase of foreign investment. The new rules set no minimum or maximum investment limit, representing market liberalisation.

At the time of the decision, Mohammed El Kuwaiz, chairman of the CMA, said in a press release that "the CMA approved these instructions as part of opening the capital market and the Saudi economy to the outside world, as [the CMA has] noticed a growing interest from foreign strategic investors to invest in companies listed on the Saudi Stock Exchange".

NEXT PHASE: In January 2020 the CMA approved the Securities Central Counterparties Regulation, which aims to bring the Kingdom's clearing framework in line with global best practices and open the door to new classes of securities, such as derivatives. Other recent reforms included an October 2019 decision to allow foreign issuers to list their shares on the main market; the revision of corporate governance regulations and some exchange procedures in line with the recently amended Companies Law; and the 2018 update of merger and acquisition rules.

Foreign ownership on the Tadawul rose to

7%

in the first half of 2019

The exchange has also taken steps to drive technological innovation. In January 2018 the CMA issued its Financial Technology Experimental Permit Instructions, establishing a regulatory framework for the nurturing of financial technology (fintech) on the capital markets. The first fintech licences were granted the following July to two companies trialling crowdfunding investment services. Technological innovation is emerging as a strategic differentiator for global markets keen to attract liquidity, making the CMA's promotion of fintech a central component to deepening capital markets and creating new employment opportunities by supporting entrepreneurs. The potential impact of domestic- and foreign-sourced fintech products on market processes is significant.

IPO: The MENA IPO pipeline slowed in 2018 as global trade concerns, regulatory changes and regional politics weighed on business sentiment across the region. However, Saudi Arabia led the IPO arena in 2018 both in value and volume, raising nearly $1.5trn through 12 offerings. In 2019, six Saudi companies or funds staged IPOs, for a combined offering value of just over SR100bn ($26.7bn). This was due in large part to the long-anticipated flotation of Saudi Aramco – one of the world's most profitable companies.

More than 20 multinational investment banks worked on the Aramco deal, including Goldman Sachs, JPMorgan Chase & Co, Morgan Stanley and Citigroup. An attack on Aramco's facilities in September 2019 pushed an initial October floatation date to the end of the year, and the offering's final form saw the sale of less than 2% of the company on the domestic market, rather than the previously anticipated 5% on global platforms. Nevertheless, the IPO valued the company at $1.7trn and claimed the record for the world's largest share offering. In February 2020 Aramco was reportedly making early preparations for an international listing, but unfavourable market conditions stemming from the worldwide outbreak of Covid-19 make a float on a global exchange unlikely in 2020.

OUTLOOK: Reform efforts by the regulator and the Tadawul continue to help the exchange meet performance targets. A number of milestones have already been passed, including boosting market capitalisation to 81% of GDP, increasing institutional investment participation to 19% of trading volume, and raising the number of small and medium-sized enterprises to 36% of listed companies. The increasing array of investment instruments is also attracting fresh capital. Looking to IPOs, the state's privatisation programme – a central component of Vision 2030 – is likely to generate further activity over the medium term. Targeted sectors include the environment, water and agriculture, transport, energy, housing, education and health. However, the timetable of the privatisation programme, as well as the movement of the Tadawul's main index, is likely to be adversely impacted by the Covid-19 outbreak that is expected to upend global markets far into 2020.

Khalid Al Hussan, CEO, Saudi Stock Exchange

On the world stage

Khalid Al Hussan, CEO, Saudi Stock Exchange (Tadawul), on the new products designed to encourage foreign participation

In terms of trade volumes, how has Saudi Aramco's initial public offering (IPO) affected the market?

AL HUSSAN: The Saudi Aramco listing marked a significant milestone in the history of the Kingdom's capital market and bolstered our position among international stock exchanges, with Tadawul becoming one of the top-10 largest stock exchanges in the world by market capitalisation. Being chosen as the venue for the largest IPO in history was a great source of pride, and the successful listing was testament to the effective collaboration between Tadawul, Saudi Aramco and the Capital Market Authority.

Since 2018 Tadawul has delivered market capacity and trading system upgrades to accommodate the significant increase in trading activity. The exchange has also introduced a number of measures to broaden the range of local and foreign investors participating in the market, and launched new products such as exchange-traded funds (ETFs) and index futures. These developments have strengthened our position as the most liquid market in the Middle East, with the daily average value of shares traded in 2019 reaching $938m.

To what extent has Saudi Arabia's inclusion in the MSCI Emerging Markets Index helped to increase the Kingdom's foreign equity flows?

AL HUSSAN: The Kingdom's upgrade to emerging market status in 2019 by all three of the world's largest index providers – MSCI, S&P Dow Jones Indices and FTSE Russell – indicates growing confidence in the Saudi market. The move also reflects Tadawul's continued commitment to enhancing the effectiveness of the capital market, creating an attractive environment for local and foreign investors, and aligning its regulatory frameworks with international best practices. The upgrades were accompanied by a record buying of Saudi shares by investors from around the world, which will help to achieve the objectives of Vision 2030 and make Tadawul more accessible to foreign investors.

Has the qualified foreign investor (QFI) programme broadened investor participation?

AL HUSSAN: We have seen great success with our QFI programme, which has welcomed more than 2000 international financial institutions since its inception. We amended the programme in 2018 to ease registration requirements and, as a result, expanded the range of eligible institutional investors. The number of QFIs has increased by over 202% since February 2019, and we are seeing an average of 49 new QFIs register each month. Foreign participation in the market has increased along with registrations, with QFI buy and sell activity valued at $693m as of February 2020. Foreign ownership now represents 1.5% of Tadawul's total market capitalisation and is currently valued at $32.9bn.

How are derivatives products helping to broaden investors' exposure and mitigate risks?

AL HUSSAN: The launch of derivatives trading is part of Tadawul's strategy to provide investors with a diversified range of investment products and services. It is a key initiative of the Financial Sector Development Programme, a pillar of Vision 2030. Recent market developments, including the Kingdom's inclusion in major international indexes and the creation of the MSCI Tadawul 30 Index, indicate that the time is right to introduce derivatives trading. The first derivatives product launched was the MSCI Tadawul 30 Index futures contracts, which provides investors with hedging tools to more effectively manage risk and leverage greater opportunities to gain exposure to the Saudi market.

We believe that an advanced capital market requires a broad range of investment products. As such, we recently launched the Kingdom's first ETF, backed by an underlying *sukuk* (sharia-compliant bond). We are the first exchange in the region to launch such an ETF, as well as the first emerging market exchange. Interest in ETFs continues to rise, with the total value of the instrument traded on Tadawul growing by 32.2% in 2019.

Rajiv Shukla, CEO, HSBC Saudi Arabia

Centre of attention

Rajiv Shukla, CEO, HSBC Saudi Arabia, on the Kingdom's strong credit profile and attractive yields

In what ways will futures and exchange-traded funds (ETFs) help broaden investors' exposure?

SHUKLA: ETFs are an increasingly popular way of investing globally. Assets under management (AUM) for US-based ETFs passed $4trn in 2019. The growth of ETFs has been much more pronounced in recent years, with net flows of over $1trn since 2018 as compared to the eight years it took for the AUM to reach $1trn in assets. In Saudi Arabia ETFs have also been slow to garner attention, with total AUM currently standing at only $10.5m, with the first ETF being launched in early 2010. Global ETFs focused on Saudi Arabia have fared slightly better, with current AUM of $1.5bn following the first ETF launch in early 2018. With Saudi Arabia having been included in emerging market indices of MSCI and FTSE, ETFs are likely to become increasingly important, especially for foreign investors looking to get exposure in the Saudi market.

Derivative instruments such as futures are extremely versatile securities that can be used in a variety of different ways. These instruments can be used to express investment views at lower upfront costs, to hedge investment positions, reduce the risk of holding an asset, as well as to determine the price of an underlying asset. The availability of futures will allow investors, both domestic and foreign, to explore strategies that would not otherwise be possible, making the market more efficient.

How do Saudi US dollar-denominated bonds and the sukuk (Islamic bonds) market compare to global sovereign bond market prices?

SHUKLA: Saudi US dollar bonds and sukuk perform quite well relative to emerging market sovereign issuers. The Saudi US dollar curve, however, has tightened significantly since the beginning of 2019, reducing the spread between Saudi Arabia and its higher-rated regional counterparts. Outside of the region Saudi US dollar bonds stack up well against other emerging market issuers. Saudi Arabia trades tighter than many other emerging market comparables such as Mexico, Malaysia and Indonesia due to its superior credit profile. Saudi Arabia is seen by investors as the best value A-rated issuer in emerging markets due to its strong credit profile and attractive yields. The Kingdom is well positioned as an issuer in the global sovereign bond market, with investors very well versed with the Saudi credit story and comfortable with Saudi risk. Since October 2016 Saudi Arabia has become a major player among emerging bond market, issuing $70.3bn of bonds and sukuk, by far the most by any emerging market issuer (in US dollars). Investors like Saudi credit, as Saudi Arabia is a transparent issuer in the region relative to comparables and provides excellent value relative to its credit profile.

To what extent does the Kingdom's secondary market encourage all types of private sector players to participate in the capital market?

SHUKLA: Saudi Arabia is by far the largest and most liquid market in the GCC, with market capitalisation that is approximately four times the market capitalisation of all other GCC countries combined, at $2.4trn as of end-2019, and liquidity that is the highest in the GCC, with an average daily traded value of roughly $880m for the year 2019.

The Financial Sector Development Programme, along with Tadawul and the Capital Markets Authority, are promoting private sector participation in the capital markets by increasing its liquidity and depth, as well as incentivising the private sector to list. With regard to supporting the deepening of the capital markets, the 2017 launch of Nomu – a secondary, parallel market with less stringent requirements – supported the listing of small and medium-sized enterprises while also introducing new measures that will facilitate the entry of foreign issuers as well as the planned launching of a derivatives market.

Alternative Investments

Fund market attracts some of MENA's largest players

New regulations boost asset management segment

Substantial growth in venture capital investments

Parallel market offers additional exit mechanisms





The Kingdom has established itself as MENA's biggest fund domicile

Resilient options

A diverse investment landscape and improved regulatory framework support sector expansion

At the close of 2018 there were 542 authorised investment funds, with aggregate assets under management of $77.3bn, a 15.2% increase from 2017.

The Kingdom's first real estate investment trust was listed on the Tadawul in 2016, and by early 2020 there were 16, with a combined asset value of more than $4.3bn.

Investment in alternative assets is taking place across an increasingly diverse array of financial instruments in Saudi Arabia. The Kingdom is a regional leader in mutual fund activity, with the deepest and most varied investment pool in the GCC. A large number of high-net-worth individuals and family offices, meanwhile, makes private equity (PE) one of the more active areas of the investment ecosystem. Furthermore, early-stage investment, which has traditionally been dominated by government funds and accelerator schemes, is starting to attract regional interest. With markets in turmoil as a result of the spread of Covid-19 in the first half of 2020, alternative assets may prove to be a more resilient part of the investment landscape.

MUTUAL FUNDS: Saudi Arabia was the first country in the GCC to establish a domestic mutual fund market, beginning in 1979 when National Commercial Bank (NCB) launched an open-ended, short-term dollar fund. A prohibition on foreign investment in the Saudi Stock Exchange (Tadawul) meant that, for decades, placing capital in Saudi mutual funds was one of the only ways global investors could gain exposure to local stocks. These restrictions – which remained fully in place until June 2015 – helped drive growth in the mutual fund segment. Market activity in the Kingdom saw further stimulation in 2003, with the government moving to formalise the industry through the adoption of a comprehensive regulatory framework for mutual funds. By 2015 the Kingdom had established itself as the biggest fund domicile in the MENA region by far, hosting approximately 77% of the $35.7bn worth of assets under management (AUM) in the GCC fund arena.

By global standards, however, the Kingdom's fund market is still at a relatively early stage of development. The most recent detailed appraisal of the domestic fund ecosystem – which was carried out by the Capital Market Authority (CMA) in 2015 – showed that public mutual fund assets were equivalent to around 4.6% of GDP. This is modest in comparison to a global average of around 18% and rates as high as 90% in mature economies such as Japan. The Kingdom's mutual fund segment, therefore, has considerable potential for expansion, and recent years have seen consistent double-digit growth in AUM. At the close of 2018 there were 542 authorised investment funds in the country, with an aggregate AUM of SR290bn ($77.3bn), a 15.2% increase on the year before, according to the CMA.

The diversity of fund types has also increased, from an initial focus almost entirely on money markets, and local, regional and global equities. This is in part due to the arrival of exchange-traded funds (ETFs) on the Tadawul in 2010 and, more recently, real estate investment trusts (REITs). As of the first quarter of 2020 there were three ETFs in operation, with a combined asset value of over SR35m ($9.3m). The Kingdom's first REIT was listed on the exchange in 2016, and by early 2020 there were 16, with a combined asset value of over SR16bn ($4.3bn). Overall, however, equities and money market funds continue to dominate, accounting for 56.7% and 17.3%, respectively, of the assets of the 249 authorised public investment funds in 2018. These were followed by funds of funds at 10% of the total, REITs (6.4%), real estate (4%), debt instruments (2%), ETFs (1.2%), balanced funds (0.8%) and others (1.6%).

Private investment funds, meanwhile, are vehicles that typically cater to high-net-worth individuals and numbered 293 in the Kingdom in 2018. Real estate constituted the largest share of assets in these funds, at 37.5%. Other popular fund categories in this segment included PE and venture capital (VC) (23.5%), equities (15.7%) and multi-asset funds (15.7%).

KEY PLAYERS: Saudi Arabia's fund market is served by some of the biggest operators in the MENA financial sector. With AUM of SR165bn ($43.9bn) recorded in the fourth quarter of 2019, NCB Capital is one of the largest asset management firms in the region, according to the CMA. Four other asset managers form a leading group with AUM of more than SR20bn ($5.3bn) each, all but one of which are subsidiaries of local banking institutions. Riyad Capital is the second-biggest custodian of assets in the Kingdom, with SR46.4bn ($12.3bn) as of the fourth quarter of 2019, followed by Al Rajhi Capital with SR43.9bn ($11.7bn), Alinma Investment with SR41.3 ($11bn) and HSBC Saudi Arabia with SR20.5bn ($5.5bn). In addition to the local institutions, an increasing number of international players have secured licences to offer investment services in the country, including Blominvest of Lebanon, Egypt's EFG Hermes, and financial giants such as Morgan Stanley.

OVERSIGHT: While the country's central bank, the Saudi Arabian Monetary Authority, oversees the financial system as a whole, the principal regulator of the Kingdom's asset management industry is the CMA. This body is tasked with licensing both locally domiciled and foreign fund managers. Over recent years the CMA has made a number of changes to its regulatory framework, aimed at boosting the Kingdom's asset management segment. In late 2016 it published a set of long-anticipated amendments to investment fund regulations. These reforms streamlined the process of establishing a fund, boosted investor protection, clarified the right of foreign nationals to invest in most funds and took into account the wider range of funds that have appeared in the market over the past decade. Furthermore, the regulatory amendments liberalised the fund governance framework through eliminating the obligation to establish a fund board, and abolished the previous limit on the number of investors that can be approached for a private placement. The same year saw the publication of the Kingdom's REIT regulations. The new framework introduced several basic requirements, including the stipulation that at least 90% of a REIT's net profits be distributed annually to the unit holders and that the REIT fund manager be licensed by the CMA as an authorised person.

In 2017 the CMA also liberalised the framework governing asset management firms by lowering the requirements for obtaining a management activity licence. The minimum capital requirement for investment firms was reduced from SR50m ($13.3m) to SR10m ($2.6m), while the requirement for management activities was reduced from SR50m ($13.3m) to SR20m ($5.3m). The professional experience and certification requirements necessary to qualify as a specialised investor were also broadened, making it easier for some individuals to invest in PE funds and private placements. The regulator continues to develop the framework governing investment activity in the Kingdom, and in doing so is guided by the Financial Sector Development Programme, one of the implementation programmes of Saudi Vision 2030 (see Economy chapter). The programme aims to develop deeper capital markets through more initial public offerings (IPOs) and security listings, in addition to encouraging the greater privatisation of government entities and boosting the role of mutual funds.

VENTURE CAPITAL: While the Kingdom is a regional leader in fund management, other areas of its alternative investments landscape are at an earlier stage of development. Accurately tracking VC growth is complicated due to the fact that many seed and early-stage capital injections are not reported; however, available figures show that VC investment in Saudi Arabia expanded from $7m in 2015 to $67m in 2019, according to a report by MAGNiTT. While this represents an impressive expansion, the country has yet to fulfil the potential suggested by the size of its domestic market. Indeed, in 2018 just 9% of regional VC funds were deployed in Saudi Arabia, although the Saudi economy accounted for 35% of the MENA total. A recent report by entrepreneurship platform Wamda found that the number of VC funds in the Saudi market is not sufficient to meet the equity financing needs of the growing number of tech start-ups in the Kingdom.

The Kingdom leads the GCC in terms of mutual fund activity, with the broadest investment pool in the region

If Saudi Arabia is to assume what many observers see to be its rightful position in the regional VC landscape, the next few years are likely to witness a considerable expansion of activity within this segment. "Saudi Arabia has shifted upwards in GCC and MENA rankings in terms of the number of VC deals completed and total VC investment funding," Ivo Detelinov, head of private equity funds at Riyad Capital, told OBG. "The main reasons for this are the realisation of the importance of investment in small and medium-sized enterprises (SMEs); the availability of risk capital resulting in the creation of new or larger VC funds; and embracing entrepreneurship as a respectable career path."

STC Ventures, an independently managed VC fund whose anchor investor is the Saudi Telecom Company (STC), estimates that VC investments in the Kingdom could reach $500m by 2025. The prediction assumes a CAGR of 40%, a lower rate than what has been seen in recent years that takes into account the anticipated slowdown in activity as the absolute amount of invested capital increases. Demand for smart tech solutions, for example, is particularly high in Saudi Arabia. According to Bain Company, a US-based management consultancy, 64% of Saudi shoppers make purchasers online, with

Venture capital investment expanded from $7m in 2015 to
$67m
in 2019

An increasing number of international financial institutions are offering investment services in the Kingdom

The role of the Public Investment Fund in the domestic venture capital (VC) market is played out through its $1.1bn fund of funds company, which aims to support small and medium-sized enterprises through investment in VC and private equity funds.

their average spend per basket comparable to that of the US and the UK. The emergence of digital storefronts like Salla, logistics companies such as Salasa, and a raft of payment solutions including PayTap, Hyperpay and STC Pay means that entrepreneurs can establish new e-commerce businesses in an increasingly short time frame. A number of successful exits in the region have also raised the interest of investors in VC prospects. These include the Kuwaiti start-up Carriage, which was acquired by Delivery Hero for $100m in 2017, the purchase of Dubai-based Souq.com by Amazon for $580m in 2017 and the $3.1bn takeover of Careem, another Dubai-headquartered entity, by Uber in 2020.

Players in the Kingdom are working to provide a diverse offering of products for local and global investors to ensure the sector's long-term growth and sustainability. "Islamic financial institutions are active in developing new products and tailoring sharia-compliant facilities so that they meet the needs of global partners and investors, while also complying with local regulatory requirements in 55 member countries," Ayman Sejiny, CEO of the Islamic Corporation for the Development of the Private Sector, told OBG.

PUBLIC BACKING: The concept of VC is a relatively new one in the country. In the early 2000s there was negligible VC activity and no formalised investment at the seed or angel end of the spectrum. Early development of the segment was driven by the public sector, with the creation of the Badir Technology Incubators and Accelerators Programme by the King Abdulaziz City for Science and Technology (KACST) in 2007. The incubator remains an important fixture of the country's VC segment. In 2018 it raised nearly SR110m ($29.3m) across 63 funding deals, with individual investors accounting for the majority of capital injections, followed by VC firms and government funding.

Since the creation of Badir, the government-directed VC apparatus has continued to grow, largely through tertiary education institutions. King Abdullah University of Science and Technology (KAUST), King Abdulaziz University, King Fahd University of Petroleum and Minerals, and King Saud University all operate investment arms. Of these, the Riyadh Valley Company, the investment arm of King Saud University, has emerged as the most prominent, starting in 2010 with an initial fund of SR229m ($61m). The organisation operates as a private company, and had a portfolio of 14 firms in early 2020 weighted towards investment in health and life sciences, ICT, renewables and water resource technology. Other initiatives receiving government funding include Wadi Makkah, an accelerator and investment company owned by Umm Al Qura University, as well as the 9/10ths start-up accelerator, established by KAUST and the Human Resources Development Fund, which has emerged as one of the most active in the region.

Quasi-sovereign entities provide another public funding channel for the country's VC activity. The majority government-owned STC established STC Ventures in 2017, recruiting private sector leadership expertise in the form of Abdulrahman Tarabzouni, an ex-Google executive. Since commencing operations STC Ventures has backed a number of success stories, including the education app Noon Academy, e-commerce platform Mrsool and ride-hailing app Careem. In October 2019 the VC investor revealed that it was considering raising a secondary fund of at least $500m, around the same size as its current assets. More recently, Saudi Arabia has tapped the Public Investment Fund (PIF) in a bid to drive entrepreneurship. As of April 2020 the PIF is ranked as the 11th-largest sovereign wealth fund in the world by the Sovereign Wealth Fund Institute, with assets of around $320bn. Its role in the domestic VC market is played out through its SR4bn ($1.1bn) fund of funds company Jada, which aims to support SMEs by investing in VC and PE funds. Launched in December 2019, Jada expects its investments to create 58,000 jobs and boost GDP by SR8.6bn ($2.3bn) by the close of 2027.

PRIVATE GROWTH: The government, therefore, continues to play a central role in the start-up and VC arena. However, it is also acting as a catalyst for private sector investment. For example, the angel investor network Sirb was founded by KACST in 2012, and as of early 2020 oversees a network of 32 individual investors in areas ranging from biotechnology to travel. Elsewhere, the government has joined forces with private sector VC institutions to provide funding channels. TAQNIA, a technology-focused government entity owned by the PIF, partnered with Riyad Capital to create the SR500m ($133.3m) VC vehicle Riyad Taqnia Fund in 2011.

Purely private VC entities began to emerge after 2011 in the form of small and loosely organised groupings of individual investors. An example of this is OQal, in which membership is offered on a referral basis and subject to an annual fee of SR25,000 ($6665). Regional accelerators were quick to follow, with Egypt's Flat6Labs beginning operations in Jeddah in 2013. The private VC vehicle has since assisted more than 150 entrepreneurs and 30 companies. Some of Saudi Arabia's biggest corporations have added further momentum to private sector VC growth. Prominent initiatives include

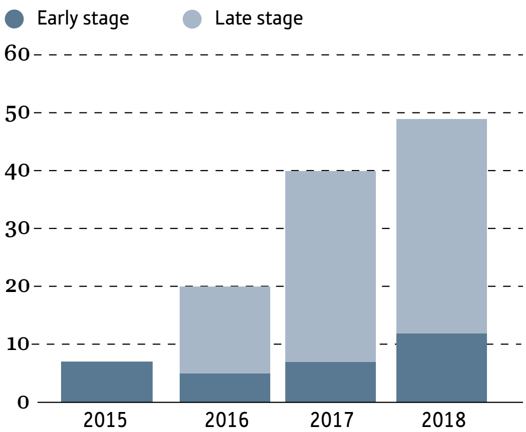
Saudi Aramco's entrepreneurship centre Wa'ed, which offers grants and loans to entrepreneurs, along with its $200m VC fund Wa'ed Ventures, established in 2011. Other examples are MBC Ventures, the VC arm of the MBC Group, which concentrates on media and entertainment start-ups, and Mobily Ventures, the VC fund of Etihad Etisalat (Mobily) Saudi Arabia, which focuses on ICT, media and entertainment investment.

PRIVATE EQUITY: Saudi VC funds are primarily focused on early-stage financing, while growth-stage investment in the local market is negligible. However, there has been an uptick in PE activity spurred by a number of recent changes to the Kingdom's legislative framework. The establishment of a commercial courts system in 2017, as well as an accompanying paperless court initiative, has reduced the period for executing judicial orders from two months to 72 hours, significantly lowering the cost associated with business disputes.

Meanwhile, in October 2018 Saudi Arabia's new insolvency law came into effect, a development which has made it easier for indebted companies to maintain operations while rescheduling their debts. The primary challenge facing this end of the investment spectrum is a lack of exit opportunities. While VC investors might anticipate an exit in seven to 10 years in the form of PE for a strategic buyout, for investors coming in at the PE level the exit options are more limited. IPO exits, secondary buyouts and leveraged recapitalisation are relatively rare in Saudi Arabia, leaving trade sales – a stake sale to other corporate entities – as the only viable exit from PE transactions in most cases.

While the challenge of limited exit mechanisms remains, the increasing depth of the Kingdom's capital markets is starting to generate solutions. In February 2017 the Tadawul and the CMA officially launched Nomu, a parallel market for smaller companies. Its listing requirements are designed to make it easier for expanding firms to approach the market for funding. Nomu remains at an early stage of development, but its potential as an exit route for PE investors is considerable. In February 2019 the Tadawul announced a number of structural changes to its parallel market, aimed at

Venture capital investment in Saudi Arabia, 2015-18 ($ m)



Source: MAGNiTT, STV

The Kingdom's liberalisation of capital markets is creating a positive outlook for alternative investment funds

making the platform more attractive to potential listings. These included provisions to allow companies to list directly without an IPO, a move from quarterly reporting to biannual reporting of financial results and a streamlined process through which issuers make the transition from the parallel market to the main market.

OUTLOOK: The ongoing liberalisation of capital markets provides a positive long-term outlook for Saudi Arabia's alternative investment segment. Nevertheless, some structural hurdles remain to fund expansion in Saudi Arabia. The lack of arrangements for the mutual recognition of fund licences between the GCC states means that regional funds face constraints to distribution. While the concept of a GCC fund passporting system similar to the European model has been discussed in the past, the complex process of regulatory alignment necessary for its introduction means that no short-term solution to this challenge is likely.

The industry will inevitably be affected by new technologies going forward, thus the government and local firms will need to work together to leverage the coming opportunities. "Strategic partnerships with key stakeholders are vital to developing the finance sector," Hani Salem Sonbol, CEO of International Islamic Trade Finance Corporation, told OBG. "This will help to achieve an integrated approach combining trade finance, trade development opportunities and advisory services, while also promoting development, leveraging technology and digitalisation, and removing trade barriers."

The CMA broadening its definition of a "sophisticated investor" means more investors are now able to direct capital into VC funds. The government's commitment to funding entrepreneurship also means state-backed equity funding is expected to expand. The stock market volatility that has resulted from the Covid-19 pandemic is a clear indication of reduced investor sentiment, but for VC and PE investors turbulent economic conditions often result in periods of opportunity, as valuations on target start-ups and growing companies are reduced.

Nomu, a parallel capital market for smaller companies, is designed to make it easier for expanding firms to approach the market for funding and serves as a potential exit route for private equity investors.

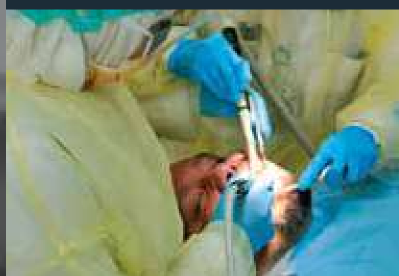
Insurance

Health coverage accounts for the majority of premium

New regulations set to increase customer protections

Steady compound annual growth over recent years

Highest premium retention rate in the GCC region



Saudi Arabia is home to the second-largest insurance market in the GCC

Poised for growth

New regulatory guidance seeks to increase policy uptake and encourage foreign investment

Saudi Arabia is home to the second-largest insurance market in the GCC, accounting for approximately 33.6% of the region's gross written premium (GWP) in 2018. Much of the sector's growth over recent years has been the result of government action: the Kingdom ranks joint-second in the GCC region in terms of the breadth of its mandatory insurance requirements, with compulsory insurance lines including health cover for both Saudi Arabian nationals and expatriates; vehicle liability; workers' compensation; and professional liability cover for health care workers and insurance consultants.

"In recent years we have witnessed premium growth across the sector due to the implementation of compulsory motor and health insurance coverage," Gary Lewin, CEO of Axa Saudi Arabia, told OBG. Insurance penetration in the country remains low, however, representing 1.2% of GDP in 2018, according to the Saudi Arabian Monetary Authority (SAMA), the Kingdom's central bank. As the government continues to implement a national development strategy aimed at boosting private sector activity, the uptake of insurance products is expected to grow in the short to medium term.

STRUCTURE: As of the first quarter of 2020 there were approximately 33 insurance and reinsurance companies licensed to operate in Saudi Arabia, according to SAMA. Because there are large number of insurers and brokers operating in the Kingdom, the prospect of rationalisation has been an industry talking point for some time. "The insurance market is currently heavily fragmented. While capital requirements have been raised, we are expecting to see additional consolidation through mergers and acquisitions with a large number of insurers and brokers," Mohammad Al Suliman, CEO of Najm for Insurance Services, told OBG.

Despite many players, a significant amount of premium in the country is concentrated among only a handful of companies. According to the most recent data from SAMA, in 2018 the Kingdom's top-eight insurers were responsible for 73.4% of GWP, leaving 26.6% for the remaining 25 companies. The top-three firms in terms of GWP in FY 2019 were BUPA, with SR10.4bn ($2.8bn); Tawyniya, with SR8.4bn ($2.2bn); and Al Rajhi, with SR2.6bn ($693.2m). Other prominent players in the Kingdom include Medgulf, Axa, Walaa and Allianz. The country's sole reinsurer, Saudi Re, was the fourth largest in the MENA region in 2018. Although the firm's GWP fell 23.5% from $251m in 2017 to $192.1m, it remains an important player in the regional market. In addition, Saudi Re enjoys a preferential position in the domestic market due to a right of first refusal on a portion of premium ceded by primary carriers.

Looking to the wider sector, SAMA currently licenses 86 brokers and 64 insurance agents, as well as a growing number of actuaries, loss assessors, adjusters and other insurance intermediaries. The number of foreign players is likely to increase in the years ahead as Saudi Arabia removed the 49% ownership limit for foreign investors in local listed companies in June 2019 as part of its strategy to attract global capital to the stock exchange.

THE SAUDI MODEL: The Kingdom's insurers are required by law to adopt a cooperative insurance model, which is Islamic in nature. Saudi Arabia is therefore contested by some as the largest *takaful* (Islamic insurance) market in the world, accounting for around 50% of worldwide premium. However, the cooperative model differs from the standard takaful model in a number of ways. Under the cooperative framework there is no requirement in regard to segregating policyholders' funds from shareholder funds, and cooperative insurers are not expected to invest in accordance with sharia principles. Additionally, insurance companies in Saudi Arabia are not required to appoint a sharia supervisory board,

In 2018 the Kingdom's top-eight insurers were responsible for 73.4% of gross written premium, leaving 26.6% for the remaining 25 companies.

The number of foreign players is set to increase as the government removed the 49% ownership limit for foreign investors in local companies in June 2019.

General insurance is the second-largest segment, accounting for over 40% of gross written premium in 2018

The Saudi Arabian Monetary Authority introduced new consumer protection measures in May 2019, establishing a resolution centre for individual vehicle insurance disputes.

Gross written premium totalled

$9.3bn

in 2018

which the takaful model – as applied in most jurisdictions in the region and beyond – requires.

The Saudi cooperative model offers a number of advantages to industry participants. The more lenient investment regime means that insurers are able to establish more sophisticated investment strategies. In addition, the fact that the policyholders fund can access the shareholders fund makes the cooperative model more stable than traditional takaful in the eyes of some industry observers.

REGULATION: Saudi Arabia's insurance industry is regulated by SAMA, with its General Department of Insurance Control responsible for overseeing the sector in accordance with the 2003 Insurance Law. The regulator publishes circulars in order to clarify points of law as well as introduce new regulations that address specific areas of the market when deemed necessary. SAMA works in tandem with the Council of Cooperative Health Insurance (CCHI), which oversees the Kingdom's health insurance system, and the Capital Markets Authority (CMA), which is the body charged with regulating the Saudi Stock Exchange (Tadawul), where much of the insurance industry's investment activity is targeted.

Financial stability has been a key concern for the regulator in recent years. After the implementation of the Solvency II directive in European markets, SAMA has begun to introduce disclosure requirements and internal risk controls as a first step towards a more efficient risk-based approach in line with the European model. These measures include standard reserve reporting templates for annual and quarterly submissions, and benchmarking techniques for the assessment and monitoring of technical provisions held by insurance companies.

In March 2020 the regulator made efforts to provide greater stability for the industry by improving actuarial performance through the issuance of the Actuarial Work Regulation for Insurance directive. According to SAMA, the new rules aim to support the growth of the actuarial segment in order to encourage "a financially strong and thriving insurance industry". The regulator also sought to make the market more attractive to investors through the issuance of licensing and controlling rules for foreign insurance and reinsurance companies in December 2018. The regulations allow foreign investors to increase their share of ownership of Saudi insurers, with the aim of promoting competitiveness within the local market.

The sector also stands to benefit from the Kingdom's wider digitalisation drive, which stakeholders argue will improve the process of training. "Thanks to digitalisation and new technologies such as virtual reality, training courses in the insurance sector have become increasingly accessible," Samy Al Ali, CEO of Jadara Alalamia Brokerage, told OBG.

In September 2019 SAMA updated the Unified Compulsory Motor Insurance Policy, which established a no-claims discount framework and updated existing regulations for third-party liabilities. These changes were introduced to encourage an increase in motor insurance uptake, particularly among new drivers, as the number of motorists has grown since women were first permitted to drive in July 2018.

Additionally, new measures to increase consumer protection were introduced in May 2019 through the establishment of a resolution centre for individual vehicle insurance disputes. The new platform is open to individuals making claims of under SR50,000 ($13,300) against any insurance company that has signed the centre's membership agreement.

PERFORMANCE: The Saudi Arabian insurance market has faced challenging circumstances in recent years. Although the Kingdom's total GWP expanded at a compound annual growth rate (CAGR) of 8.3% between 2013 and 2018, largely driven by compulsory health and motor insurance, the sector has seen muted performance since 2016. This was largely caused by lower oil prices, tightening regulatory oversight, a decline in the size of the Kingdom's expatriate population as a result of localisation policies and the introduction of higher no-claims discounts for motor insurance cover in 2018.

According to the most recent "Saudi Insurance Market Report" published by SAMA, GWP totalled SR35bn ($9.3bn) in 2018, down 4.1% from SR36.5bn ($9.7bn) in 2017. The central bank attributed this decline to the reduction in the average cost of vehicle insurance policies as a result of regulatory changes introduced that year. High levels of competition in the sector also negatively affected premium growth during this period. "The non-life insurance market is becoming increasingly competitive and we are witnessing a price war when it comes to premium," Samer Kanj, CEO of Buruj Cooperative Insurance, told OBG. "As a result, net underwriting surplus is decreasing, which affects profitability."

According to local media, approximately 10 of the Kingdom's 33 insurance companies recorded a net loss in 2019, with the majority of profits shared by just two companies – BUPA and Tawuniya. In February 2020 SAMA announced plans to raise capital requirements for insurance companies in an effort to strengthen the sector and encourage greater consolidation. The minimum capital requirement for a company offering insurance services is currently SR100m ($26.7m), while for firms offering both insurance and reinsurance the requirement is SR200m ($53.3m). The central bank has previously proposed an increase in capital requirements to SR500m ($133.3m) and SR1bn ($266.6m), respectively, although no time line for the higher thresholds been released as of March 2020.

Despite muted performance since 2016, one area that the Kingdom's insurers have performed relatively well in is premium retention. Saudi Arabia posted the highest retention rate in the GCC in 2018, at 76.2%. As with other jurisdictions in the region, retention rates have received a boost from the growth of motor and health insurance uptake, where less premium is generally ceded. SAMA has also taken steps to reduce the amount of premium transferred to foreign reinsurance institutions, imposing a maximum cession rate of 30%.

HEALTH: The Kingdom's largest insurance segment is health coverage, which accounted for approximately 56.8% of total GWP in 2018. Saudi Arabia was one of the first GCC nations to introduce mandatory health insurance for residents: since 2011 all private sector employees, whether native or expatriate, are required by law to acquire private health cover. The compulsory health insurance framework has undergone a number of updates since its introduction. The CCHI issued its most recent health policy in 2018, which established a new electronic system aimed at reducing administration costs and the potential for fraud. The platform includes an e-portal, through which patients can review their health records, and a health practitioner portal to access authorised information. In 2019 the CCHI also introduced compulsory health insurance for visitors to the Kingdom, which is available for purchase at the same time as the tourist visa.

The anticipated expansion of the private sector should ensure that the health insurance segment continues to drive premium growth. In recent years government entities have also started to offer private health cover to their employees, using this as a way to attract and retain staff.

GENERAL COVER: General insurance is the country's second-largest segment, accounting for 40.1% of GWP in 2018. Since the introduction of compulsory third-party liability cover in 2002, the Kingdom's market has become dominated by motor coverage, which accounted for 67.2% of general insurance premium in 2018. However, with nearly 30 insurers offering motor insurance, intense competition has at times eroded underwriting quality in the segment. SAMA has sought to overcome this issue through a number of measures: in 2017 new regulations were

Domestic insurance penetration is set to expand with economic growth

introduced to promote the collection of exchange of motor insurance information among companies, and in 2018 the regulator signed an agreement with the General Directorate of Traffic automatically check insurance records in cases where drivers have committed traffic violations.

This was followed by the property and fire category, which represented 12.1% of general insurance premium in 2018, followed by accident and liability cover with 7.1%. Other forms of general insurance accounted for the remaining 13.7%.

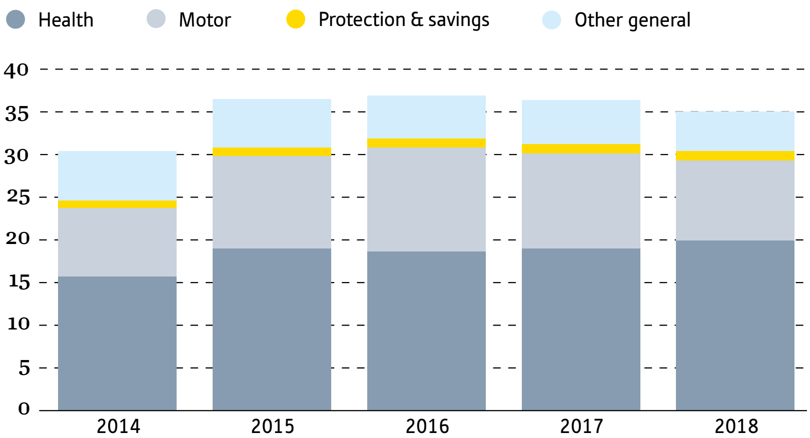
LIFE: The Kingdom's life insurance policies, which are known as protection and savings (P&S) cover locally, contributed 3.1% of total GWP in 2018. This is largely due to cultural reservations about the concept of insurance in addition to the existence of social welfare schemes for nationals. The Public Pension Agency's civil pension scheme had approximately 1.2m subscribers as of early 2019, while the number of private entities subscribed to the social

Health care made up

56.8%

of gross written premium in 2018

Gross written premium by line of business, 2014-18 (SR bn)



Source: SAMA

The Kingdom's insurance market, benefitting from the investment and reform agenda, is expected to outperform the regional average, with an anticipated compound annual growth rate of 5% between 2019 and 2024.

insurance scheme – the General Organisation for Social Insurance – stood at 453,800.

The availability of generous state benefits for Saudi nationals means that marketing for P&S products are largely targeted towards expatriates, with group life policies covering employees in larger corporations tending to dominate the segment. However, Saudi Arabia's strategy of reducing the government's role in the economy, as outlined in Vision 2030, the nation's long-term economic development blueprint, suggests a sense of optimism regarding the segment's long-term growth.

GROWTH AHEAD: Despite slowed growth in recent years, Saudi Arabia's insurance market has considerable potential in the near and long term. Although the Kingdom is the second-largest insurance market in the GCC, it ranks fourth in the region in terms of insurance density. This suggests that there is room for greater market penetration.

The domestic insurance industry will expand in tandem with economic growth. In January 2020 the IMF released a GDP growth forecast for the Kingdom for 2020 of 1.9%, down 0.2% from its projection one year prior. This may see additional change following the global onset of Covid-19 and the resulting economic impact in the first half of the year. According to regional investment bank Alpen Capital, the GCC insurance market is projected to expand at a CAGR of 4.3% between 2019 and 2024, driven by population growth, infrastructure development and economic diversification strategies in the region. The Kingdom's insurance market, benefitting from the investment and reform agenda, is expected to outperform the regional average, with an anticipated CAGR of 5% over the period.

OUTLOOK: The ongoing process of privatisation driven by Vision 2030 is slated to provide opportunities to assess or cover risk, both for the government and investors looking to take on state assets. Furthermore, as Saudi companies and citizens take up more financial tools, the insurance sector is likely to benefit. Coverage of risks in areas such as trade credit and investment in foreign markets have already emerged as more active market segments, with new products targeting specific concerns such as seizure of assets by a foreign jurisdiction. "While compulsory insurance lines have been a fundamental source of income for insurers and brokers in the last few years, there are a number of non-compulsory segments such as events insurance, and IT and cybersecurity protection, which the sector stands to benefit from moving forward," Mahmoud El Madhoun, CEO of Kingdom Brokerage, told OBG.

However, downside risks remain for the Kingdom's insurers. Volatile capital markets caused by the economic fallout from the global outbreak of Covid-19 may result in lower returns. As such, the market may well experience consolidation in the year ahead.

Global Perspective

Premium protection

As the risk of data theft continues to rise, the cyberinsurance segment is poised for significant growth

The threat of cybercrime has risen dramatically in recent years, and emerging markets are no exception. While the shift towards online platforms – along with the development of the internet of things, smart cities and blockchain technology – is generating significant opportunities for wealth creation and helping to raise efficiency, it is also creating a new set of complex challenges for governments, businesses and individuals.

CYBERCRIME: The widespread nature of cyberthreats has led to a considerable increase in the resulting cost of cybercrime. In 2015 UK bank Lloyd's estimated that cybercrime, including direct damage and post-attack disruption to operations, cost businesses as much as $400bn globally. The UN's International Telecommunications Union (ITU) predicted that this figure would reach $2trn by the end of 2019, while industry analyst Cybersecurity Ventures expects global damages to cost $6trn by 2021, a figure that would make cybercrime more lucrative than the illegal drugs trade.

CYBERINSURANCE: The elevated threat, along with the rise in cost, is driving investment in protection, with global cybersecurity spending expected to total $1trn between 2017 and 2021. A growing share of this protection is cyberinsurance. While it is not considered an all-encompassing solution, cyberinsurance is an increasingly important form of security as companies, government institutions and individuals look to protect themselves from threats. Policies usually include first-party risk coverage – related to the business' own assets – or third-party risk coverage, which deals with the assets of others, usually in the form of clients or customers. In terms of specific policies, coverage falls into one of three categories: standalone cyberinsurance; package deals provided within traditional policies such as general liability; and non-affirmative – also known as silent – coverage, whereby exposure to cybercrime is neither explicitly included nor excluded from coverage, which can often lead to uncertainty and litigation during the claims process. While cyberinsurance was first developed in the 1990s to protect telecoms and professional services companies against the loss of customer data, many insurers in more developed markets now provide cyber-related services, such as prevention programmes and post-breach response services. Additional services offer more practical assistance, such as deploying forensic investigators to look into the causes of the breach and offer solutions, public relations professionals to help with reputational damage and skilled negotiators to deal with ransom demands.

While still in its infancy, the cyberinsurance market has seen rapid growth in recent years. Market analysts estimated that global premium would rise from $1.5bn in 2016 to $6bn in 2019. As awareness grows, industry figures predict this could increase to $15bn by 2022 and to $20bn by 2025. Despite representing an estimated 1% of global insurance premium, a 2017 report by consultancy KPMG estimated that cyberinsurance growth was expanding at 10 times the rate of overall cybersecurity investment, highlighting its strong potential. Although it is expanding, cyberinsurance remains concentrated in data-heavy areas such as financial services, technology, retail and e-commerce, and health, which made up the bulk of global premium in 2018, according to Allied Market Research.

GROWTH DRIVERS: The growth in coverage has been driven by an accelerating shift towards digitalisation across the world. As companies and government institutions continue to migrate their services online, more and more executives have identified cyberinsurance as an effective way to secure their assets. In addition, a number of high-profile cyberattacks in recent years have helped to raise awareness of threats.

Another factor helping to drive cyberinsurance growth is the enactment of data protection legislation. Laws such as the EU's General Data Protection Regulation (GDPR), which was implemented in May 2018 and can fine companies for leaks in customer data, have been cited as factors driving insurance rates. Similar

Global cybersecurity spending is expected to total

$1trn

between 2017 and 2021

The cyberinsurance market has seen rapid growth in recent years, with analysts estimating that global premium would increase from $1.5bn in 2016 to around $6bn in 2019.

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laws are present in the US, with such legislation and stringent cyberattack reporting regulations common features of countries with greater cyberinsurance penetration. However, just as legislation has helped to drive penetration, a lack of relevant regulations has proved to be a disincentive to uptake. In countries without strict reporting regulations, cyberattacks often go unreported, with companies fearful of the resultant reputational damage. As such, it can be difficult to gauge the rate of cybercrime in some countries.

GLOBAL LEADERS: Cyberinsurance is dominated by industrialised, high-tech countries. For example, the US accounts for roughly 80-90% of the global market. Around 15% of US firms purchase cyberinsurance, significantly higher than in other parts of the world, where the rate is often below 1%. The EU holds about 5-9% of global market share; however, this figure is expected to increase as more companies comply with GDPR requirements. Together, these markets account for between 85% and 95% of global premium, according to various estimates. While uptake among other regions – particularly developing economies – remains low, it also indicates significant room for growth.

MIDDLE EAST & NORTH AFRICA: The cyberattack on state-owned oil company Saudi Aramco in 2012 emphasised the significance of cybersecurity for many governments and companies in the MENA region. The hack – which was described at the time as the biggest in history – saw 35,000 computers either partially wiped or completely destroyed within a matter of hours. While oil production remained steady due to the automation of drilling and pumping, the company's ability to supply approximately 10% of the world's oil was threatened as it was unable to make payments to distributors and other stakeholders along the supply chain. A report published by Siemens and the Ponemon Institute in 2018 found that half of all cyberattacks in the Middle East had targeted the oil and gas sector.

As a result of this risk, countries in the region have generally been more alert to cyberthreats. In ITU's "Global Cybersecurity Index 2018" report, five countries in MENA – Saudi Arabia (13th), Oman (16th), Qatar (17th), Egypt (23rd) and the UAE (33rd) – were ranked in the top 35 out of 175 countries for cybersecurity protection. While cyberinsurance penetration is still low in the region, solutions are becoming increasingly available. In Saudi Arabia, online-focused insurer Tawuniya launched a series of cyberinsurance products in 2019, while industry officials in Morocco have sought to improve the regulatory framework and implement policies to meet expected demand.

SUB-SAHARAN AFRICA: Despite having some of the lowest levels of cybersecurity in the world, cyberinsurance has yet to make a significant impact in sub-Saharan Africa. While overall uptake is still low, there have been significant developments in a number of the region's more advanced countries. South Africa leads the way with the most mature cyberinsurance market south of the Sahara, while in Kenya, which has a comparatively developed financial technology and digital payments market, efforts have been made to cover a variety of risks. In August 2019 Britam General Insurance, a subsidiary of Britam Holdings, the country's largest insurer, launched a cyberinsurance policy aimed at large firms, small and medium-sized enterprises, hospitals and state-owned bodies. The rollout comes as Kenya lost an estimated KSh29bn ($284.1m) in 2018 as a result of cyberattacks, while official statistics showed that the number of hacks increased by 10% year-on-year in the first three months of 2019. As in the US and the EU, cyberinsurance should see growth in Kenya after a new data protection law was passed in November 2019. Under the law, which complies with the EU's GDPR requirements, those found guilty of breaching data protection measures face a maximum fine of KSh3m ($29,400) or two years in prison.

Ghana is another country with significant cyberinsurance potential but low penetration. Despite being one of the most rapidly expanding economies in Africa, with an average annual growth rate of more than 7% between 2017 and 2019, there are a limited number of companies offering cyberinsurance, and uptake remains slow in part due to a lack of awareness. "Cyber liability insurance is important for any entity that keeps third-party data, thus demand for this cover should be high. Most corporates are exposed but do not seem to know that they can transfer the risk to the insurance markets," Darlington Munhuwani, CEO of Allianz General Insurance Ghana, told OBG.

ASIA PACIFIC: The Asia-Pacific region has varied levels of development in its cyberinsurance markets. While it is home to some of the world's most innovative countries in this respect, other economies still have very limited options. In terms of broader cybersecurity, Asia Pacific is home to five of the top-15 countries in ITU's "Global Cybersecurity Index 2018" report: Singapore (6th), Malaysia (8th), Australia (10th), Japan (14th) and South Korea (15th). In October 2018 Singapore announced the launch of the world's first commercial cyber-risk pool, a facility that provides insurance to corporate buyers. The pool would commit up to $1bn in risk capacity, and is backed by capital from traditional insurance companies and insurance-linked securities markets.

With 150m internet users and an underdeveloped cybersecurity system, Indonesia is at the epicentre of global cyber-vulnerability, experiencing more than 200m attacks in 2018. Indonesia is also the world's largest source of cyberattacks, with poorly connected servers being used to target both domestic and foreign firms. Given the significant threats – and the size of the market – Indonesia has more expansive cyberinsurance coverage than some of its South-east Asian neighbours, with most major banks, along with a range of private firms and start-ups, offering policies. While cyberinsurance coverage is forecast to gain traction in Indonesia, at the far end of the scale countries such as Papua New Guinea and Myanmar have limited industries dedicated to cybercrime and risk in general, with subsequently low levels of cyberinsurance. However, the ongoing liberalisation of the insurance sector in Myanmar could provide a platform for cyberinsurance development.

LATIN AMERICA & THE CARIBBEAN: Latin America has also experienced a rapid increase in both cyberthreats and cyberinsurance penetration. While coverage is still comparatively low, high-profile data breaches are helping to raise awareness. For example, Mexico experienced 300% growth in cyberinsurance premium in 2018, according to insurance broker Lockton Mexico. This came as MXN300m ($15.5m) was siphoned from five financial institutions that year. The intergovernmental Organisation of American States estimated in 2019 that cybercrime inflicts financial losses of $3bn-5bn per year in Mexico. "A lack of cybersecurity is one of the top threats facing businesses, and this is only growing as societies become increasingly digitalised and interconnected by technology," Marcelo Hernández, CEO of AIG México, told OBG. "Many emerging economies are underprotected, and therefore the growth in cyberinsurance will be most pronounced in these markets over the coming decade."

Peru is experiencing similar conditions: according to local media, the number of cyberattacks grew by 600% year-on-year in August 2018. This has created more awareness within the business community and resulted in increased investment in cybersecurity, rising from $135m in 2017 to $180m in 2018. While Peru still has a low level of cyberinsurance penetration, it is expected to grow in the near future.

COMMON CHALLENGES: Despite the threat of cybercrime increasing, the uptake of relevant forms of insurance remains low in developing countries. According to the "Global Cyber Risk Perception Survey Report 2019", released by US insurance and risk-management company Marsh and multinational technology giant Microsoft, 31% of businesses surveyed were unsure whether the cyberinsurance policies on offer could meet their needs. Although this figure was down from 44% in 2017, it shows significant room for improvement.

Furthermore, many business owners feel they are removed from the threat – especially smaller firms. According to the 2019 survey by Marsh and Microsoft, 57% of firms with annual revenue over $1bn were likely to have cyberinsurance, compared to 36% of those with annual revenue under $100m. Although large organisations remain key targets, smaller organisations are increasingly suffering from data breaches. KPMG noted that big businesses accounted for less than 20% of global cyber-losses in 2016, and professional services firm Accenture found that 43% of cyberattacks targeted small businesses.

LOOKING AHEAD: Cyberinsurance is expected to continue its strong growth trend across emerging markets as more companies and government institutions migrate their operations online. An increase in data protection laws across these regions should also help to drive expansion, with industry analysts expecting much of the market growth to come from mid-sized companies. Furthermore, as the market matures, so will the products on offer, and insurers are anticipated to target new sectors and provide more specific policies.

Some 57% of companies with annual revenue exceeding $1bn were likely to have cyberinsurance in 2019, compared to 36% of companies with annual revenue below $100m.

Makkah & Medina

Transport solutions facilitate the movement of tourists

Mega-projects to expand hotel and commercial space

E-visas streamline travel process for religious visitors

City planners focus on enhancing the quality of life

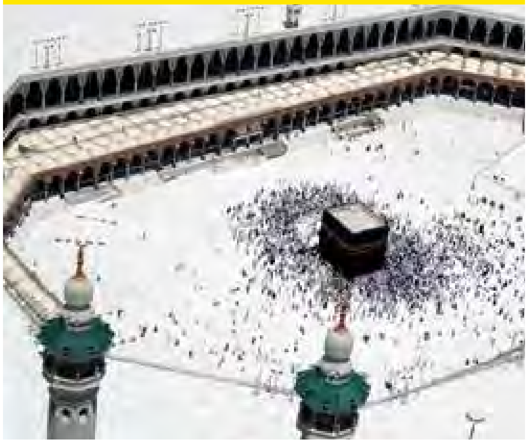
HUMANIZING MADINAH

EMPOWERING LOCAL COMMUNITIES & ATTRACTING INVESTMENTS THROUGH INNOVATION

هيئة تطوير منطقة المدينة المنورة
Al Madinah Region Development Authority

MDA - Shaker Samargandi

A beautiful, peaceful city for its residents and a welcoming place for all human beings



In 2019 the number of Hajj pilgrims increased by some 5% to 2.5m

Expansion plans

Hajj and Umrah pilgrimages play key roles in economic growth

Makkah has a total visitor spend of **$20.1bn** annually

The cities of Makkah and Medina, situated near the Red Sea in western Saudi Arabia, are the two holiest sites in Islam. The former is the birthplace of the Prophet Muhammad, while the latter, some 500 km away, provided him sanctuary when he fled Makkah and is where he is buried. It was in Medina that Prophet Muhammad was instrumental in developing the world's first mosque, the Mosque of Quba. The world's largest mosque, the Masjid Al Haram, also known as the Grand Mosque, is in Makkah and is home to the Kaaba, a shrine that Muslims consider the most sacred spot in the world. These holy sites attract millions of pilgrims each year, thus religious tourism is central to their economies.

In recent years Makkah and Medina have experienced considerable population growth. In 2020 Makkah's urban area was home to an estimated 2m people, marking average annual growth of 2.6% since 2015. Actual figures are set to be released after Saudi Census 2020 is completed. The wider Makkah region has 8.6m residents, many of whom (4m) live in Jeddah – one of the busiest ports in the Arab world and the country's second-largest city, after Riyadh. For its part, urban Medina has an estimated population of 1.5m, representing average annual growth of 2.8% in 2015-20, though this figure is closer to 2.1m for the wider region.

HAJJ & UMRAH: The main sources of economic activity in Makkah and Medina are the Hajj and Umrah pilgrimages, with millions of Muslims travelling to the holy cities every year. The Hajj is an annual five-day pilgrimage to Makkah during which pilgrims retrace the footsteps of Prophet Muhammad and Prophet Abraham around the city, focusing on the Grand Mosque. As one of the five pillars of Islam, all physically and financially capable Muslims are obliged to take part in the pilgrimage at least once in their lifetime. This pilgrimage can only be completed between the eighth and 13th days of Dhul-Hijjah – the last month of the Islamic calendar. In 2020 it is scheduled to take place between July 28 and August 2, though travel this year may not be possible, due to the spread of Covid-19; the Saudi authorities are expected to make a final decision regarding the pilgrimage in early May. The majority of Makkah's visitors arrive by air to Jeddah or Medina (see Transport chapter). Given the spike in visitor numbers during the Hajj, the government has put considerable effort and resources into ensuring that the required infrastructure is in place to support the influx of worshippers.

VISITOR SPENDING: Economic diversification is a central pillar of Vision 2030, as the Kingdom seeks to stimulate private sector employment for its large youth population and move the economy away from an over-reliance on hydrocarbons. According to the World Travel & Tourism Council, tourism accounted for 3% of GDP in 2018. The contribution of religious tourism in Makkah and Medina, as well as in Jeddah, is substantial. The Council of Saudi Chambers estimated that from 2018 to 2022 spending associated with the pilgrimages will generate $150bn in income and create up to 100,000 permanent jobs related to the Hajj.

According to "Mastercard's Global Destination Cities Index 2019" report, Makkah's annual visitor spend is $20.1bn, for a daily average of $135 per visitor. In 2018 Makkah placed 13th in the rankings for the number of international overnight visitors, with 10m. Although this marks a slight decrease from the preceding year's 10.5m, the report forecast a rise of 6.6% for 2019, and a more significant increase of 7.9% in spending. As of April 2020, 2019 figures had not yet been released.

The overwhelming majority of pilgrims come from outside Saudi Arabia, accounting for 1.9m, or 75%, of the 2019 total. Due to capacity constraints, the government imposes restrictions on the number of Hajj visas granted to Muslim-majority nations.

VISITORS & VISAS: According to the General Authority for Statistics, there were 2.5m Hajj pilgrims in 2019, representing an increase of 5% from 2.4m in 2018. The overwhelming majority of pilgrims come from outside Saudi Arabia, accounting for 1.9m, or 75% of the 2019 total. Capacity constraints and related safety concerns have led the Saudi government to impose restrictions on the number of Hajj visas granted to Muslim-majority nation each year. Typically, visas are given to 0.1% of the population. While Pakistan saw 20,000 added to its quota for 2020, a number of nations have considerable waiting lists for Hajj visas. Wait times in Indonesia, which has the largest Muslim population in the world, reportedly range from seven to 37 years.

The government has identified the Umrah pilgrimage as a key area to help boost visitor numbers in the Kingdom, with Vision 2030 aiming to increase overall capacity for international Umrah visitors from 6.8m in 2018 to 30m by 2030. Unlike the Hajj, the Umrah pilgrimage can be undertaken at any time during the year.

In September 2019 the government began granting e-visas for both Hajj and Umrah pilgrimages in order to enhance the speed and efficiency of the application process. As of early 2020 Umrah visas were free of charge and valid for a period of two weeks. However, the Covid-19 outbreak is expected to significantly impact 2020 participation numbers. In late February the authorities announced that there would be a temporary ban on entry for Umrah visa holders. The Kingdom has also suspended entry to Makkah and Medina for GCC residents, even though they do not require visas for the pilgrimage. Following this, the government announced the temporary suspension of tourists visas for those coming from countries where Covid-19 was particularly widespread, and in early April it began urging people to delay making travel plans for the 2020 Hajj. "We have asked our brother Muslims in all countries to wait before concluding contracts [with tour operators] until the situation is clear," Mohammed Banten, minister for Hajj and Umrah, told local media on April 1. As of early April international passenger flights had been suspended until further notice. For those already in Makkah and Medina before Umrah visas were suspended, the authorities have implemented measures in an attempt to contain the virus. For example, prayers have been banned at mosques, and entry and exit from Jeddah, Riyadh, Makkah and Medina has been restricted.

KEC: As part of efforts to boost economic diversification and job creation, six economic cities were under development as of February 2020. One of these is the 6.9m-sq-metre Knowledge Economic City (KEC), a $7bn mega-project located in Medina, 8 km from Prince Mohammad bin Abdulaziz Airport. It is also adjacent to the Haramain High-Speed Rail, which was launched in October 2018 and connects Makkah with Jeddah, King Abdulaziz International Airport, King Abdullah Economic City in Rabigh and Medina.

KEC will offer opportunities for investment in residential, commercial, hospitality, edutainment, services and tourism spaces, and provide an example of urban planning for other regions to follow. It also seeks to empower small and medium-sized enterprises (SMEs) by allocating space for local businesses to sell their products within pedestrian zones. The growth of local SMEs should help to raise Medina's socio-economic profile and encourage entrepreneurship. Indeed, the segment is already on a promising trajectory: SMEs in the Medina region posted 31% growth in 2019, Rami Hajjaj, the CEO of Namaa Almunawara, a company which focuses on SME empowerment, told OBG. "It is necessary to build the Medina brand and to give a high degree of credibility to Medina-based products and services in order to foster local entrepreneurs and improve the entrepreneurial ecosystem," Hajjaj added.

The economic city has seen a number of deals reached in recent months. In July 2019 KEC signed a 12-month memorandum of understanding (MoU) with the Saudi Public Transport Company to explore the feasibility of developing transport links within KEC, as well as to connect it to the Haramain High-Speed Rail. In August of that year KEC awarded a $3.6m project to Canadian firm IBI Group, tasking the firm with engineering and design work across some 3.7 ha for a period of 42 weeks. Furthermore, in late 2019 a deal was inked with Hilton to operate the 300-room DoubleTree by Madinah Gate, a hospitality and entertainment project slated to open in 2022. In February 2020 KEC signed a similar two-year MoU with India-headquartered hospitality firm OYO for the operation of 1500 hotel rooms within the Islamic World District of Medina. Wasat Almadinah joins Madinah Gate and Islamic World District as KEC's top development projects.

One member of KEC is the Madinah Institute for Leadership and Entrepreneurship, a non-profit organisation that aims to build leadership and entrepreneurial capacity in the Arab and Muslim world. It has welcomed hundreds of senior executives from more than 25 countries to discover new leadership and management practices to grow in their careers.

GRAND MOSQUE EXPANSION: In addition to the current focus on economic cities, a large-scale expansion of Makkah's Grand Mosque was launched in 2011 in response to the growing number of Hajj pilgrims. The $26.6bn project seeks to expand the mosque complex by 3000 sq metres, thus raising capacity by an estimated 300,000 to a total of 2.2m worshippers. Measures are also being taken to protect visitor safety through upgrades to the mosque's hospital and security buildings, and 79 electronic gates will be installed to ease crowding. Public officials reported that the third expansion was 85% complete in August 2019.

HOSPITALITY: In Makkah a mega-project operated by Jabal Omar Development Company (JODC) is set to complement the expansion of the Grand Mosque. The SR20bn ($5.3bn) development is within walking distance of the holy site and will cover a 2.2m-sq-metre plot, including 93 commercial units and 38 hotels. As part of the project, the DoubleTree Makkah Jabal Omar hotel opened its doors in late 2019, and many other hotels are slated to open in the near future, including the Jumeirah Jabal Omar in 2020. Upon completion, the project is expected to have the capacity to accommodate 34,000 guests, with this number reaching as high as 100,000 visitors during the Hajj season. The group reported an occupancy rate of 84-85% during the fourth quarter of 2019. "Although construction slowed during this period, the pace picked up again in early 2020," Khalid Al Amoudi, CEO of JODC, told OBG.

This is not the only large-scale project put forward to accommodate greater tourism inflows to Makkah. The Rou'a Al Haram Al Makki project will add 70,000 keys across 84,000 sq metres. The first phase is expected

In September 2019 the government began granting e-visas for both Hajj and Umrah pilgrimages in order to enhance the speed and efficiency of the application process.

In Makkah a $5.3bn mega-project is set to complement the expansion of the Grand Mosque. It is within walking distance of the holy site and will include 93 commercial units and 38 hotels.

The $16bn Haramain High-Speed Rail has reduced travel time between Makkah and Medina by approximately two hours. This reduction may encourage visitors to make both destinations part of their itinerary.

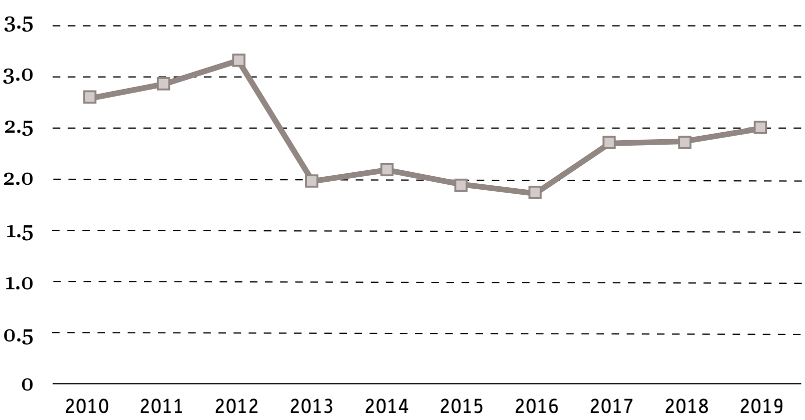
to be fully operational by 2024, and once complete it could contribute up to SR8bn ($2.1bn) to the national economy, based on estimates from real estate consultancy JLL. Furthermore, in December 2019 a real estate development fund was formed by the Kingdom's Umm Al Qura for Development and Construction Company, and Alinma Investment, a subsidiary of Alinma Bank. The fund's capital exceeds SR17bn ($4.5bn) and is primarily directed towards projects in Makkah such as three-, four- and five-star hotels, as well as apartments and two malls, as part of the city's 1.2m-sq-metre King Abdulaziz Road urban development project.

This pipeline of projects suggests that the real estate sector is poised for growth, fuelled by demand in Makkah. "Demand in the residential and commercial segments is currently present, and the right kind of private funding will provide an important boost," Al Amoudi told OBG. "The long leasehold format, from a regulatory standpoint, will prove pivotal in the Kingdom's real estate developers' market." Real estate development within the holy cities is closed to foreign investors.

TRANSPORT: The SR60bn ($16bn) Haramain High-Speed Rail has reduced travel time between Makkah and Medina by around two hours to two hours and 45 minutes. This may encourage visitors to make both destinations part of their itinerary. Operations were forced to halt in September 2019 after a fire damaged the main station in Jeddah, but a number of related works resumed in December (see Transport chapter).

According to Khalid Baghdadi, CEO of Hafil Transport, the transport sector is gradually being liberalised. "The government is increasing the number of tenders and encouraging the private sector to increase competitiveness," he told OBG. Growing levels of digitalisation could help encourage further liberalisation. The technology used on buses already includes passenger counters, which improve conditions for passengers and maintain safety. The counters may allow data collection and analysis, which will help maximise the efficiency of transportation logistics. This will be pivotal in meeting growing demand during the Hajj, and ensuring the sustainability of operations for the rest of the year.

Hajj pilgrims, 2010-19 (m)



Source: GaStat

SHARED BENEFITS: A number of sectors benefit from growing visitor numbers, including retail. "During the Hajj, the sale of watches increases substantially in the Makkah region, because many pilgrims buy watches as gifts for their families," Abdulrahman Al Hussaini, CEO of Al Hussaini and Al Yahya Investment Group, told OBG. "The price of watches for international pilgrims is lower than in their own countries, because value-added tax is lower in Saudi Arabia." In an encouraging indication for the Kingdom's retail segment, Indonesia – Makkah's second-largest visitor source market – has a growing middle class that is pushing up consumer spending at home. This suggests scope for the Kingdom to further tap into the spending power of Indonesians abroad. Growing global interest in modest fashion in particular offers a potential avenue for expansion – spending on Muslim footwear and apparel reached $283bn in 2018, a figure which is anticipated to grow by 6% annually to $402bn by 2024, according to "The State of the Global Islamic Economy Report 2018/19", produced by Thomson Reuters and DinarStandard.

Another promising sector is education, where the government is actively encouraging public-private partnerships; it signed an agreement for private companies to fund the development of buildings within the industry in late 2019 (see Education & Training chapter). Medina has considerable potential to raise the Kingdom's education profile internationally. According to Nabil A Alrajeh, rector at the University of Prince Mugrin, some 8m people visit Medina per annum. This exposure, along with Vision 2030, attracts several multi-billion mega-projects from around the world, which require substantial human capital development. The local educational system tailors its programmes to the needs of sectors including industry, health care, education, tourism and entertainment, and fosters connections among investors in the Middle East and beyond.

The cooperation between the public and private sectors ensures an improved business ecosystem and greater employment opportunities, necessitating advances in the tourism and hospitality offering in particular. Indeed, there is currently no public university that offers a hospitality degree within Medina. However, the students participating in its only private hospitality course typically receive a job offer before graduation, indicating firm demand for graduates with this skill set. "In addition to manpower and entrepreneurship, the Medina region is also taking practical steps to revitalise sectors such as investment and consulting through the creation of multiple digital platforms," Abdullah A Abualnasr, secretary-general of the Madinah Chamber of Commerce and Industry, told OBG.

OUTLOOK: While uncertainty remains surrounding Covid-19's impact on the 2020 Hajj season, the bigger picture looks positive for the Kingdom's two holy cities. The real estate sector is expanding alongside the Grand Mosque's capacity, and more streamlined visa processes and regulations should encourage a larger annual influx of visitors. The key challenge for the government going forwards will be to ensure that transport and hospitality infrastructure keeps pace with this anticipated growth.

Fahad Albuliheshi, Mayor, Almadinah Almunawarah Region; and CEO, Almadinah Region Development Authority

The next step

Fahad Albuliheshi, Mayor, Almadinah Almunawarah Region; and CEO, Almadinah Region Development Authority, on medium-term plans for Medina's economic development

How is urban infrastructure being developed for diversified economic and demographic growth?

ALBULIHESHI: Projects focusing on humanising the city began in 2016, with Medina undertaking radical structural reforms. The projects focused primarily on the revaluation of natural heritage; the transformation of central urban areas of historical and religious importance; and the development of local social, business and commercial communities. These three pillars were designed to increase the population's quality of life, attract visitors and foreign investment, and better prepare Medina to welcome the shared benefits of such progress. A further long-term aim of this project is to create a successful model that can potentially be replicated in all the cities in the Kingdom.

In terms of the city's natural heritage, we focused on the restoration of Wadi Al Aqeeq, or the "Blessed Valley", and its surrounding areas. We sought to revive the area's culture and placed renewed impetus on economic prosperity and environmental rehabilitation. Such a project revitalises culture through the protection and rehabilitation of sites, promotes well-being through community spaces, and pursues prosperity through innovation, foreign investment, the more efficient use of resources and sustainable development.

Concerning the transformation of urban areas, the project aimed to renovate the central Darb Al Sunnah Street and Quba Avenue, connecting the two major religious sites of Al Haram and the Mosque of Quba. We sought to create vibrant public spaces that would allow tourists and pilgrims to enjoy a pleasant walk in a multifunctional area rich in religious and historical sites, shopping centres and relaxation areas.

In what ways have local institutions fostered the empowerment of local communities?

ALBULIHESHI: We in Medina are well aware of the important role small and medium-sized enterprises (SMEs) play in the Kingdom's economy, and how difficult it is for these entities to access the resources they need to succeed. Local organisations are sensitive to this and have created a series of joint initiatives, both public and private, aimed not only at knowledge transfer and mentorship, but also at facilitating access to credit and strengthening commercial channels in order to generate higher revenue for SMEs. Upskilling efforts have also been made in slum areas.

The Almadinah Region Development Authority has prioritised SMEs, creating ad hoc physical spaces and promoting social events aimed at stimulating the economic development of this segment. Additionally, the Knowledge Economic City has dedicated spaces and opportunities for SMEs. These enterprises have been relatively successful in Medina in recent years, in part because of the essential support of Namaa Almunawara, a non-profit organisation committed to encouraging entrepreneurship and empowering SMEs.

What role can the education sector play in ensuring the availability of the skilled workers needed to meet development goals?

ALBULIHESHI: Especially in light of Vision 2030's Saudiisation objectives, close cooperation between the education sector and industry is essential. The results of the dialogue between the two parties has been positive. The education sector has been particularly receptive to what the different industry players need for growth. Local educational institutions have focused training offerings on the segments that are essential for profitable economic growth: tourism, technology and health care. Medina's universities, for example, are excelling at both the regional and the global level in these subjects, offering bachelor's, master's and executive degrees.

This alignment of resources has allowed the region to continue to grow at pace as a centre for tourism and pilgrimage, as a centre for health care excellence and as one of the leading smart cities in the world.

Medina is seeking the World Health Organisation's healthy city status

Appetite for wellness

Rising visitor numbers offer an avenue to promote medical tourism and encourage the development of healthier cities

Almadinah Region Development Authority is developing a pilot Humanising Cities programme, which aims to enhance the quality of life in Medina through sustainable development, innovation and social responsibility.

Leveraging the large number of pilgrims who visit the holy cities of Makkah and Medina to boost broader tourism activity is an important goal for the Kingdom, and one area that could benefit substantially from this push is health care. The Kingdom's increasing population, alongside enhanced transportation links with Makkah, Jeddah and major aviation centres, will contribute to demand for health care in Medina.

HEALTHY CITY: Medina is seeking the World Health Organisation (WHO) healthy city accreditation. According to the WHO, a healthy city has a long-term strategy to continually develop a holistic health environment. Achieving this goal will require a multifaceted approach that includes community participation and collaboration among multiple stakeholders. Crucially, the public and private sectors need to work together to successfully create a city in which wellness is a central consideration.

Urban planning for well-being has a strong role to play, and the Knowledge Economic City in Medina provides a strong example of ongoing efforts to achieve healthy city status. The project includes green areas, play areas for children, fitness and well-being facilities, stores, cafes and mosques, which create a sense of community. Another example is Almadinah Region Development Authority's pilot Humanising Cities programme. The goal of the project is to enhance the quality of life in Medina through sustainable development, innovation and social responsibility. "Humanisation is about how urban public spaces serve to enhance human happiness," Rekaz Faisal Aljedaani, senior urban designer at Almadinah Region Development Authority, told OBG. If successful, the project will provide a blueprint for schemes in other regions. "Saudis are becoming increasingly health-conscious. As a result, preventive care and wellness are growing, particularly among younger generations," Makarem Batterjee, president of the Saudi German Hospitals Group, told OBG (see Health & Life Sciences chapter).

The government's new electronic health information system will link all primary health centres, pharmacies, and public and private hospitals.

HUMAN CAPITAL: A healthy city requires that citizens have sufficient access to high-quality health care. In light of a number of government regulations that prioritise the employment of Saudis over foreign nationals, one challenge will be securing sufficient human capital to meet growing demand. "Saudiisation is affecting the health sector because there are not enough local doctors and nurses to fill all the specialities in demand. We need doctors and nurses from overseas," Sanjay Shah, executive vice-president at Fakeeh Care and executive chairman at Kameda Arabia, told OBG. Resources will therefore need to be directed towards the domestic training of doctors and preventing brain drain. Upskilling and ongoing training will also be key as new technology continues to transform health care.

TECH: As in many sectors of the increasingly knowledge-based economy, technology has a role to play in health care in the Kingdom. The government's new electronic health information system is designed to link all primary health centres, pharmacies, and public and private hospitals. "The government is making advancements in innovation and technology in health care," Faisal Al Battah, CEO of the Ghassan N Pharaon Hospital, told OBG. "The programmes are reducing bureaucracy in administrative areas and enhancing the quality of medical facilities."

Health care technology is also an important component of the medical tourism segment: the secure transmission of health care records between patients' home medical centres and overseas treatment facilities is a prerequisite for coordinated cross-border medical care. Furthermore, the quality of technology available, as well as the cost of the treatment that uses it, is a significant factor in determining the destinations patients select. In addition to the benefits of online information and marketing efforts, digital technologies can also support pre-treatment and post-treatment patient consultations in the Kingdom.

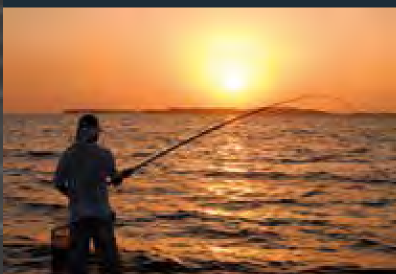
Jeddah

Transport, logistics and tourism key to diversification

Infrastructure development projects in the pipeline

Seeking private sector participation in transport plans

Cargo throughput at King Abdullah Port up 335%



The city is located near a series of economic cities under development

Facing forward

Developments in transport, tourism and entertainment underscore the city's investment opportunities

Located on Saudi Arabia's Red Sea coast, Jeddah is the Kingdom's second-most populous city after the capital Riyadh, and serves as a key commercial and logistics centre. Its regional importance stems from more than its proximity to the holy cities of Makkah and Medina. In addition to boasting the two largest seaports on the Red Sea, the city is benefitting from a host of development projects to expand transport and logistics infrastructure, and – as part of the city's growing tourism offering – the events and entertainment segment. However, the drop in oil prices and the country's response to the Covid-19 outbreak in early 2020, which included the temporary suspension of international flights in mid-March, will have an impact on Jeddah's construction, logistics and tourism sectors, among others. Nevertheless, the city is set to play a key role in realising the economic diversification aims laid out in the Kingdom's long-term development plan, Vision 2030.

ECONOMIC CITIES: Jeddah's geographic position places it in close proximity to a series of economic cities that are under development across the Kingdom as part of efforts to boost economic diversification. Situated on the Red Sea coastline some 150 km north of Jeddah, King Abdullah Economic City (KAEC) is one such project – with another located in Medina (see Makkah & Medina chapter). KAEC encompasses King Abdullah Port, residential districts, connections to the Haramain High-Speed Rail (HHSR) and an industrial zone. As of end-2019 approximately 40% of the project had been completed. Dubai real estate company Emaar Properties is in charge of the economic city's development.

Strategically located between Makkah and Medina, another mixed-use development is under construction with the goal of becoming a community-based centre for investment, entertainment and living. The 5.3m-sq-metre Jeddah Economic City (JEC) is being built by Kingdom Holding at an estimated cost of $20bn. In addition to residential and diplomatic quarters, business zones, commercial centres, academic institutions and tourist facilities, JEC will house the Jeddah Tower, formally called Kingdom Tower. The 1-km-tall structure is set to surpass Dubai's Burj Khalifa (828 metres) as the tallest building in the world. Jeddah Tower will comprise 243,866 metres of gross leasable area (GLA); a wide range of hotels, residential apartments, office spaces and luxury condominiums on over 200 floors; as well as the world's highest observation deck, standing at some 660 metres. The structure is estimated to cost $1.4bn and is set to open in the second half of 2020, though it is unclear whether this will be delayed by Covid-19.

PORT EXPANSION: The largest port on the Red Sea, Jeddah Islamic Port (JIP) has been a mainstay in the shipping industry since 1976, and handles around 60% of all sea cargo imports to the country. Total cargo throughput stood at 55.2m tonnes in 2019, an increase of 0.8% on the previous year. In the month of January 2020 this increased by 2.2% year-on-year (y-o-y) to 4.9m tonnes. In early April 2020 Red Sea Gate Terminal expanded its operational capacity at JIP, officially taking over operations at the northern section of the port. In December 2019 the Saudi Ports Authority signed a 30-year, $2.4bn build-operate-transfer contract with UAE logistics company DP World to develop JIP's Jeddah South Container Terminal. The agreement will see the firm invest $500m in key infrastructure upgrades to allow the port to handle ultra-large container ships.

King Abdullah Port, located in KAEC, is the second-largest port on the Red Sea, and is positioned on the primary east-west trunkline between Asia and Europe. The privately owned and operated port commenced operations in 2014, and has a cargo capacity totalling 30m twenty-foot equivalent units (TEUs). As well as being in close proximity to an industrial centre, the port's position in KAEC provides it access to

Total cargo throughput at Jeddah Islamic Port stood at

55.2m

tonnes in 2019

Located on the Red Sea coast, Jeddah is the Kingdom's second-most populous city after the capital Riyadh, and serves as a key commercial and logistics centre.

Al Khomra Logistics Zone is set to become the Kingdom's largest integrated logistics facility, at 2.3m sq metres

a range of transport links that help reduce shipping times and costs, and facilitate the port's growth. In 2018 the port was the second-fastest-growing facility in the world, and in 2019 its throughput for bulk and general cargo increased by 335%, from 689,000 tonnes to 3m tonnes.

LOGISTICS: Elsewhere on Jeddah's Red Sea coast, Al Khomra Logistics Zone (AKLZ) announced in October 2019 is set to become the Kingdom's largest integrated logistics facility. The industrial zone will cover 2.3m sq metres and is expected to create approximately 10,000 direct employment opportunities. Plans for the zone include 10 business areas across four sectors – electronics, vehicles, electrical equipment, and food and beverages – as well as facilities for both primary and secondary manufacturing, storage and cooling, and food distribution. AKLZ will benefit from connections to JIP, King Abdulaziz International Airport (KAIA) and the upcoming Saudi Landbridge Project. Nabil bin Mohammed Al Amoudi, the former minister of transport, told local media at the time of the announcement that investment opportunities in AKLZ would be offered to the private sector, with the state acting as a regulator, although full details have yet to be released.

Technological innovation has also played an important role in improving efficiency in the local logistics industry. "Clearance productivity at seaports and airports has risen in the last few years," Marwan Faisal Alfadl, CEO at logistics service provider Wared Logistics, told OBG. "There have been investments in technology in Customs clearance that have reduced cargo control times, easing trade activity." Mohkam Bahakim, CEO of logistics and supply chain firm Bahakim Group, similarly told OBG that enhanced Customs technology had reduced some service times from more than 10-15 days to under a few hours.

The $12bn Jeddah Public Transportation Programme is being rolled out, with the total length of the redeveloped network to span more than 1700 km.

INTERNATIONAL AIR ARRIVALS: Located 19 km north of Jeddah, the busiest airport in the country is KAIA (see Transport chapter). This is due in large part to the area's proximity to Medina and Makkah, and the significant flows of Hajj and Umrah pilgrims. The facility has undergone three phases of expansion since 2006, and in May 2018 the new Terminal 1 began operations. The newly opened KAIA space includes a shopping mall, a five-star hotel, and a dedicated Hajj and Umrah terminal with a capacity of up to 3800 people per hour during peak times. Passengers benefit from an integrated transportation network, which provides multiple options for transit to Jeddah or the holy cities, including the SR60bn ($16bn) HHSR. In early 2020 plans to connect Jeddah's metro were also floated.

In 2018 the government relaxed visa restrictions for Umrah visa holders, allowing travellers to procure a one-month tourism visa. While international arrival numbers will be dampened by the travel restrictions put in place in early 2020 to mitigate the global spread of Covid-19, the launch of tourist visas marks a significant liberalisation of the visa regime that will spur greater activity in the aviation and tourism sectors as passenger movement normalises.

In the interim, a February 27, 2020 order prevents Umrah visa holders from entering the country on public health concerns, and Saudi authorities are expected to make a final call in May as to whether the yearly Hajj pilgrimage, due to start in late July, can safely proceed (see Makkah & Medina chapter).

HIGH-SPEED RAIL: The HHSR opened in September 2018, connecting Jeddah to KAEC, KAIA, and Makkah and Medina. The line allows pilgrims staying in Jeddah to reach Makkah and the Grand Mosque in approximately 20 minutes, which could see more visitors use Jeddah as the base for their stay in the Kingdom and make day trips to the holy city.

In September 2019 operations at the HHSR were halted after a fire damaged the main station in Jeddah. December 2019 saw a limited number of routes begin again, and by January 2020, 30% of the project's total capacity was in use. According to local stakeholders, the line is expected to benefit 50m-60m passengers annually once fully completed.

PUBLIC TRANSPORT: Regarding transport infrastructure in Jeddah city itself, in March 2018 it was announced that contracts would be offered to the private sector for key parts of a master transport plan. Such initiatives will see the expansion of the city's public transport system, including several metro lines, a light rail, tram, commuter rail, feeder bus network and marine taxi service, connecting major transport centres including KAIA and JIP. The SR45bn ($12bn) Jeddah Public Transportation Programme is being rolled out under the Metro Jeddah Company, and the total length of the redeveloped network will amount to over 1700 km.

The Kingdom's Public Transport Authority has helped devise the strategy for the bus network, while private sector participation will likely be welcomed in the latter stages. Preliminary plans anticipated a completion date of 2022, with the public transport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Jeddah remains an important tourism destination in the Kingdom

In February 2020 the Ministry of Transport announced a feasibility study for the world's longest hyperloop track, which would enable passengers to travel between Jeddah and Riyadh in 45 minutes.

system forecast to be fully commissioned for use by the year 2025. As of January 2020 designs for the first stage of the three-phase $60bn metro system were approximately 30% complete. The line was originally scheduled to be completed that year; however, given the first phase involved launching a fleet of 770 buses, the project timeline is contingent on the progress of the bus network.

RAIL CONNECTIONS: Another large-scale transportation development is the Saudi Landbridge Project. It involves connecting Jeddah to the capital city Riyadh and Dammam, home to King Abdulaziz Port, via a 1000-km rail line. Initial plans outline a daily cargo capacity of 400 TEUs over 35-40 freight trains, and a reduction in freight transportation time from between five and nine days – depending on the route and whether trans-shipment is required – to just 18 hours. The benefits for shipping and related industries could be considerable. The east coast's King Abdulaziz Port experienced 4.3% growth in 2019, while JIP's more moderate 2.2% expansion is set to accelerate once its capacity is increased and operations begin at AKLZ.

There are also plans for five or six passengers trains per day between Jeddah and Riyadh, with stations to be located in the city centre and at KAIA. Passenger trains will almost halve the transit time between the Kingdom's two most populous cities – from 10-12 hours by bus to six hours.

In October 2018 Rumaih Al Rumaih, president of the Public Transport Authority, signed a memorandum of understanding (MoU) with China Civil Engineering Construction Corporation (CCECC) for the implementation of the project, although it was still in the planning and design stages as of early 2020.

Similarly, in February 2020 the Ministry of Transport announced a feasibility study for the world's longest hyperloop track. This would enable passengers to travel between Jeddah and NEOM, a planned cross-border city in north-western Saudi Arabia, in 40 minutes; between Jeddah and Riyadh in 45 minutes; and from the capital to Abu Dhabi in 48 minutes.

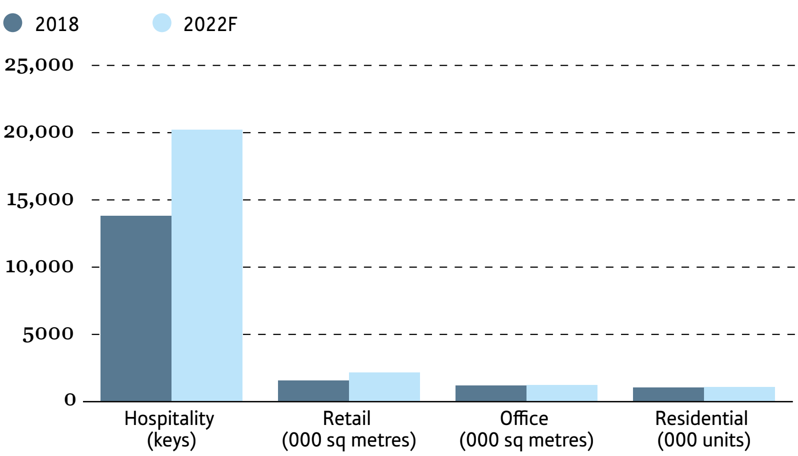
SMART TECHNOLOGY: There is scope for both the HHSR and the Saudi Landbridge Project to benefit from smart railway technology, following the signing of a MoU between the Saudi Railway Company and Chinese technology giant Huawei in July 2019. Both rail networks are included in the first stage of the project, which early estimations suggest will cost SR63bn ($16.8bn). One of its overarching goals is to transform the Kingdom's rail connectivity through integration with the internet of things, artificial intelligence, cloud services and a next-generation railway wireless network, as well as 5G technology.

MAKING ROOM: Jeddah remains an important tourism destination, and government initiatives have encouraged Hajj and Umrah pilgrims, as well as businesspeople and other international tourists, to visit, in line with broader Vision 2030 goals. To cater to an anticipated increase in tourist traffic, developments are under way to expand Jeddah's hotel supply.

According to US real estate company CBRE Group, the number of keys was expected to expand by almost 50% over the 2019-22 period, with the addition of 6400 more rooms to an overnight capacity of 13,760 rooms as of end-2018. While measures to stop the spread of Covid-19 will distort visitor patterns in 2020, figures from the start of the year showed that hotel supply was being outpaced by rising demand. Hotel occupancy rates in January 2020 rose by 31.8% y-o-y to reach 63.5%, according to data analysis company STR, marking a four-year high. Even with a lower average daily rate, which decreased by 9.5% to SR600 ($160), revenue per room increased by 19.4% to reach SR381 ($102).

ENTERTAINMENT: The Kingdom has identified the entertainment segment as a key driver of economic growth. The General Entertainment Authority was established in 2016 to guide the organisation, leadership and development of the entertainment industry. As part of the Quality of Life Vision Realisation

Jeddah's real estate supply, 2018 vs 2022F



Source: CBRE

Programme, a host of facilities were slated to open across the Kingdom in 2020, including 149 art galleries, 27 electronic games venues, 18 theatres and 16 family entertainment centres, among others. In Jeddah new projects were expected to add approximately 600,000 sq metres of retail GLA over the 2019-22 period, representing a 40% increase on 1.5m sq metres recorded in 2018, according to CBRE's "Jeddah Market Snapshot 2018" report. It was announced that the Saudi General Culture Authority would build Saudi Arabia's first opera house, which could be ready as early as 2022.

The programme's emphasis on entertainment is also targeted at improving the quality of life for citizens by enhancing the offering of cultural, environmental and sporting activities. Broader goals include having a Saudi city included in the top 100 of the Global Liveability Index compiled by the Economist Intelligence Unit, and 2.2% of household spend going towards leisure activities.

Jeddah is well placed to contribute to these efforts. Jeddah Season was launched in 2019 to establish the port city as a capital of tourism and entertainment, via a wide-ranging offering of "entertainment, leisure and thrills of activities entailing music, art, culture and sports", according to the website. The 2019 Jeddah Season offered 150 activities over the five weeks between June 8 and July 18, and provided seasonal employment to over 5000 Saudis – including valuable work experience for the population's youth. The season closed with the Kingdom's biggest music festival to date, the Jeddah World Fest, which welcomed a roster of international stars including Janet Jackson, 50 Cent, Chris Brown and Tyga to the 60,000-capacity King Abdullah Sports City stadium. The 2020 Jeddah Season was cancelled on March 19 as part of measures to curb the spread of Covid-19.

The city was also selected to launch the Red Sea International Film Festival, though this too was postponed due to the pandemic. The inaugural event had been scheduled for March 2020 and was set to showcase 107 local, regional and international features and shorts. The film festival is likely to be rescheduled at a later date.

OUTLOOK: Recently completed and ongoing developments to enhance Jeddah's transport infrastructure will continue to strengthen the city's position as a key thoroughfare for both cargo and passengers. Although visitor numbers will dip as a result of the Covid-19 pandemic, in the long term the city will be able to leverage relaxed visa regulations and the increased capacity of its hotels. Furthermore, expanding entertainment offerings should encourage visitors to include Jeddah on their itinerary. Alongside greater capital flows stemming from economic cities and transport and logistics centres, more funding will be available to continue expanding Jeddah's offering and boost economic activity.

The 2019 Jeddah Season offered 150 activities over the five weeks from June 8 to July 18, and provided seasonal employment to over 5000 Saudis – including valuable work experience for the population's youth.

Mohammed Yousuf Naghi, Chairman of the Board of Directors, Jeddah Chamber of Commerce and Industry

A new page

Mohammed Yousuf Naghi, Chairman of the Board of Directors, Jeddah Chamber of Commerce and Industry (JCCI), on encouraging tourism and entrepreneurship

How can the tourism industry leverage the expansion of King Abdulaziz International Airport (KAIA) and the newly liberalised visa regulations?

NAGHI: In line with Vision 2030, Jeddah will be promoted to become a destination for entertainment and tourism, and a global commercial and logistics centre. With its beauty, heritage, location on the Red Sea, and proximity to Makkah and Medina along with historical sites such as Al Ula and Jeddah it is well position to achieve these goals. The expansion of KAIA, easing tourist visa requirements, and the development of services provide all the essentials needed to attract tourists. The increased number of tourists will create additional economic opportunities for Jeddah and accelerate the region's economic growth. We are especially targeting tourists from Saudi Arabia and the MENA region, as well as international visitors. One segment with significant potential is health tourism, as the city is the access point for millions of pilgrims and Umrah visitors who can use the city's well-equipped hospitals to receive specialised treatment.

In what ways can intermodal transport centres like Jeddah Islamic Port boost trade flows?

NAGHI: Jeddah has the two largest sea ports on the Red Sea and one of the largest international airports in the region; our intermodal transport has attracted more than 70% of the Kingdom's total imports and over 23% of Saudi light industry is based in Jeddah. The fact that Saudi Arabia is the largest market in the region and Jeddah is located on the Red Sea near Africa make us a competitive candidate to be an international logistics hub. Multinationals can use Jeddah as a gateway to MENA and African markets, and we are facilitating this by amending many of the previous laws and regulations related to warehousing, logistics, visas, trans-shipment and reshipment to enhance investment and freight flows. Adapting to a digital economy is necessary in order to become a logistics centre, and as such we are targeting e-commerce. International and domestic e-commerce companies can find everything they need to establish a company including warehousing capacity, an environment conducive to doing business, and a modern digital network.

What is being done to encourage entrepreneurship and new businesses in Jeddah?

NAGHI: Creating a friendly business climate for small and medium-sized enterprises (SMEs) to flourish is a key objective of Vision 2030. The government has launched a dedicated programme called Monshaat, with the responsibility to recommend the amendment of laws and regulations. As a positive result of this programme, the new procurement law now gives them certain advantages while addressing challenges.

The JCCI's role is to work with large, Saudi conglomerates to become an incubator for private companies. We have spent years drawing ideas from best practices in countries such as Singapore, South Korea and Japan, and have applied these ideas at home. We are giving exposure to new projects that are trying to gain a foothold in the business landscape.

To what extent can public-private partnerships (PPPs) be utilised to meet growing demand for entertainment in the Kingdom?

NAGHI: The entertainment sector is still relatively new in Saudi Arabia, and it is becoming more and more important to tourism and the economy as a whole. It is aligned with the government's focus to undertake projects that enhance the confidence of the private sector, and we are confident that sentiment is such that PPPs will develop as an important investment vehicle. Jeddah has the ability to become an international centre for exhibitions and expositions. There are many international connections to KAIA, making the city an accessible destination for business tourism, a segment which has significant potential for growth.

Energy

Projects and acquisitions to increase refining capacity

Gas to make up a larger piece of the energy portfolio

Saudi Aramco’s long-awaited debut on the Tadawul

Global agreement to reduce oil production levels





Saudi Arabia's net refining capacity reached 3.6m barrels per day in 2019

Future in mind

New projects and acquisitions at home and abroad are set to ensure the long-term sustainability of the sector

The Kingdom is developing the Jafurah non-associated gas field, which promises to fuel power generation and industry in line with the strategy to diversify the economy away from oil.

The oil sector accounted for 77.3% of export revenue in 2019

Saudi Arabia's energy sector remains the backbone of the economy. While the country's reliance on the commodity exposes it to external shocks, domestic energy policy and influence within the Organisation of the Petroleum Exporting Countries (OPEC) can work to dramatically shape international oil prices, which in turn affects many parts of the world.

Internally, adjustments in the composition and control of the state's hydrocarbon assets are seen as crucial to achieving long-term economic transformation. A few months after launching the biggest initial public offering (IPO) in history, Saudi Arabia announced that it was pushing forwards with the development of the Jafurah non-associated gas field, which promises to fuel power generation and industry in line with the Kingdom's strategy to diversify the economy away from oil.

NEW DEVELOPMENTS: The relative significance of oil in the Kingdom's economy is closely tied to oil prices, which reflect fluctuations in global supply and demand. The oil sector accounted for 77.3% of export revenue and 27.4% of GDP in 2019. However, oil export revenue fell by 14% compared to the previous year, and the contribution of crude oil and natural gas, and petroleum refining to GDP at current prices contracted by 3.7% and 3.2%, respectively. According to Jadwa Investment, government oil revenue was SR602bn ($160.5bn) in 2019, down 2% from the previous year. In the 2020 budget, oil was initially expected to account for approximately 63% of government revenue, or SR513bn ($136.8bn). However the statement was released in December 2019, before the steep decline in oil prices that began in mid-February 2020 and the worldwide outbreak of Covid-19, which is on course to significantly slow global growth, and energy demand with it, in 2020.

STRUCTURE & OVERSIGHT: Saudi Arabia is a monarchy with King Salman bin Abdulaziz Al Saud ruling by decree and advised by the Council of Ministers. King Salman's father, King Abdulaziz, the country's founder, ruled Saudi Arabia when the Standard Oil Company of California (SoCal), today known as Chevron, signed an oil exploration concession agreement in 1933. Five years later the first oil was discovered, but the start of the Second World War delayed development. In 1949 SoCal was joined by other US companies, and the Arabian American Oil Company, or Aramco, was formed. By 1980 Aramco was fully owned by the Saudi Arabian government, and by 1988 it became known as Saudi Aramco, the national oil company responsible for all upstream and downstream operations.

In 1988 Ali Al Naimi became the first Saudi national to serve as the oil company's chief executive. Saudi Arabia was one of the five founding members of OPEC in 1960, and the country's interests on the international stage have typically been represented by energy ministers, with Ahmed Zaki Yamani serving from 1962 to 1986, and Al Naimi holding the post from 1995 to 2016. Brent crude dipped to $26.01 in January 2016 and two months later, Khalid Al Falih, who had served as Saudi Aramco chief executive and chairman, was appointed head of the new Ministry of Energy, Industry and Mineral Resources. By that time, Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud had revealed plans for a partial IPO of Saudi Aramco as a key component of the national transformation strategy. Al Falih was to hold the ministerial post for three years until September 2019, when the ministry was sub-divided again, with the Crown Prince's half-brother, Prince Abdulaziz bin Salman Al Saud, an industry veteran, assuming the role of minister of energy. Al Naimi, Al Falih and Prince Abdulaziz each adopted different strategies in response to oil price volatility through agreements with OPEC and other countries as they attempted to balance the market and maintain higher prices while protecting market share (see analysis). In March 2020

Saudi Aramco announced it had been directed by the Ministry of Energy to boost its maximum sustainable capacity from 12m barrels per day (bpd) to 13m bpd.

ARAMCO IPO: Crown Prince Mohammed bin Salman initially raised the prospect of an IPO for Saudi Aramco in January 2016, suggesting that the sale of 5% of the state-owned energy company would generate $100bn, effectively valuing Saudi Aramco at $2trn. On December 11, 2019 approximately 1.5% of the company's shares were sold, generating some $26bn and valuing the company at $1.7trn. Shares were sold for SR32 ($8.51) when the offering was first made on the Saudi Stock Exchange (Tadawul). The $25.6bn proceeds were due to be transferred to the Public Investment Fund (PIF).

In March 2019 Saudi Aramco – which has business units across the value chain, from upstream exploration to downstream petrochemicals – signed an agreement to acquire the PIF's 70% stake in SABIC, the state petrochemicals manufacturing company, for approximately $69bn.

In late February 2020 Saudi Aramco announced that it had received full clearance from the European Commission for its acquisition of SABIC. This represented the last jurisdiction in which antitrust filings were required for the deal to be approved. The Saudi Aramco IPO prospectus detailed the schedule of loan repayments that would be made over a number of years to complete the sale. The deal will ultimately provide the sovereign wealth fund with greater liquidity, while providing the state-owned oil company with an increased downstream portfolio.

PERFORMANCE: In March 2020 Saudi Aramco revealed that its first annual results as a listed company. The 20% fall in net profit, from $111.1bn in 2018 to $88.2bn in 2019, was attributed to lower global oil prices, declining refining and chemical margins, and a $1.6bn impairment associated with its joint venture with US-based Dow Chemical Company, the Sadara Chemical Company. Total dividend payments in 2019 equated to $73.2bn.

The Kingdom may become an exporter of natural gas in the years ahead

The Kingdom's gas-processing capacity is expected to rise to 21.6bn standard cu feet per day by 2023

The company's total hydrocarbons reserves under the concession agreement rose from 256.9bn barrels of oil equivalent (boe) in 2018 to 258.6bn boe in 2019, while its total hydrocarbons production averaged 13.2m barrels of oil equivalent per day (boepd) in 2019. According to the annual statement, Saudi Aramco had returned to normal production levels within 11 days of missile strikes on two of its two key production facilities in September 2019.

ROYALTIES & TAXES: Prior to the IPO of the oil company, a number of changes were made to the way proceeds from Saudi Aramco's activities would be paid to the government. Royalty rates were introduced based on the prevailing price for a barrel of Brent crude oil. For times when the price is below $70, royalties will be reduced from 20% to 15%; when the price is between $70 and $100 the royalty rate will increase from 40% to 45%; and over $100 the royalty rate would rise from 50% to 80%.

There were also changes to the tax regime for downstream businesses. On September 17, 2019, Royal Decree No. M13 and Council of Ministers Resolution No. 54 were issued, followed by Ministerial Resolution No. 559 by the Ministry of Finance on October 9, 2019. The resolutions stipulated that for a five-year period starting from January 1, 2020, domestic oil and hydrocarbons production would be subject to the general corporate tax rate of 20%. The legal directions included a proviso that the relevant taxpayer would be required to split its downstream activities from its oil and hydrocarbons production activities by December 31, 2024, and to create separate legal entities for these activities. Failure to comply with the new proviso would result in the taxpayer being liable to repay the government on a retrospective basis that subject to the 50-80% multi-tiered tax regime, which preceded the new laws.

On December 11, 2019 approximately 1.5% of Saudi Aramco's shares were sold on the Tadawul, raising some $26bn and valuing the company at $1.7trn.

The state-owned oil company's total dividend payments amounted to

$73.2bn

in 2019

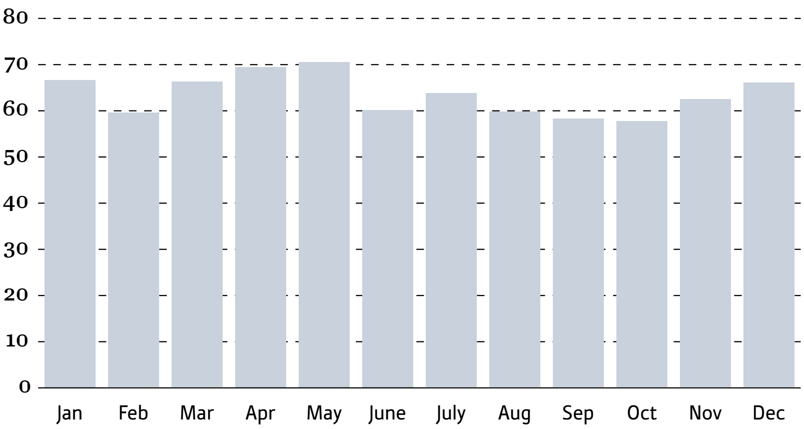
Saudi Arabia had the seventh-highest demand for gas globally in 2018

Saudi Aramco's production averaged **13.2m** barrels of oil equivalent per day in 2019

Jadwa Investment used data from 2018 to assess the difference that the new tax and royalties structure might have on government revenue. In that year Brent crude averaged $71 per barrel and government revenue stood at SR611bn ($162.4bn), made up of income tax (29%), royalties (35%) and dividends (36%). Jadwa found that under the new system, income tax would still contribute 29%, with royalties falling to 26% and dividends rising to 45%.

ATTACKS: The prospectus for Saudi Aramco's IPO revealed the impact on its facilities from attacks by "unmanned aerial vehicles" in 2019. In May 2019 the East-West pipeline that carries oil to Red Sea ports and processing facilities was hit, and in August 2019 a second attack caused fires and damage to the Shaybah natural gas liquids (NGL) and cogeneration facility, with the company estimating total damage of $28m. On September 14, 2019 drones and missiles were used to strike the Khurais oil field in the Eastern Province and the Abqaiq facility, which processes about half of Saudi Aramco's crude oil. The September attacks saw a temporary suspension of processing at Abqaiq and Khurais, which in turn led to a 54% reduction in the production of crude oil and associated gas. The company replaced the immediate loss of Arabian Light and Arabian Extra Light crude oil by diverting inventories held outside the Kingdom, and swapping grades of delivery to Arabian Medium and Arabian Heavy. Oil tankers owned by the country's national shipping carrier, Bahri, in which Saudi Aramco has a 20% share, were also attacked offshore from Yemen in 2018 and in the Strait of Hormuz in May 2019.

Monthly oil exports, 2019 (SR bn)



Source: GaStat

UPSTREAM: Saudi Aramco's 2019 annual report indicated that at the end of the year the Kingdom's hydrocarbons reserves amounted to approximately 336.7bn boe. Non-gas hydrocarbons products included 261.5bn barrels of crude oil and condensate, and 36bn barrels of NGL. The Kingdom's proven reserves of natural gas was estimated at 237.4trn standard cu feet (scf) and its reserves of non-associated gas at 143.2trn scf. The estimated life expectancy of Saudi Aramco's oilfields is 52 years.

Total average hydrocarbons production for the oil company fell from 13.6m boepd in 2018 to 13.2m boepd in 2019, representing a 2.9% decline. This included 9.9bn bpd of crude oil (including blended condensate), 202,000 bpd of unblended condensate, 9m scf per day (scfd) of natural gas and 960,000 scfd of ethane. Saudi Aramco is the exclusive supplier of natural gas in the Kingdom, which according to the IPO prospectus had the seventh-highest demand for gas of any country in 2018.

In February 2020 Saudi Aramco announced it received approval to move ahead with the development of the Jafurah non-associated gas field, which is expected to come on-stream in early 2024. By 2036 the company expects the new field to produce 2.2bn scfd of sales gas, plus 425m scfd of ethane, equivalent to 40% of production levels in 2019.

In a televised speech also in February 2020 Prince Abdulaziz announced that the country could soon become a natural gas exporter. From 2016 to 2018 Saudi Aramco produced approximately one in every eight barrels of crude oil pumped globally. Saudi Arabia's portfolio included 498 reservoirs distributed across 136 fields, both offshore and onshore. These include the Ghawar field, which at 280 km by 30 km, is the world's largest onshore conventional oilfield; as well as the Safaniya field, which is the largest conventional offshore field in the world. Ghawar has liquid reserves of 48.3bn barrels and combined reserves of 58.3bn boe. Safaniya's has liquids reserves of 33.7bn barrels, with combined reserves of 34bn boe. Saudi Aramco's oil is not only plentiful, but comparatively cheap to lift: in 2018 and 2019 its average upstream lifting cost was SR10.60 ($2.82) per barrel. Capital expenditure in 2019 was equivalent to SR17.50 ($4.65) per barrel.

MIDSTREAM: The crude oil, condensates, NGL and natural gas produced in the Kingdom are transported


At the end of 2019 the Kingdom's hydrocarbons reserves amounted to 336.7bn barrels of oil equivalent

through a network of pipelines that can connect to any of the country's refineries or export terminals. The 1200 km East-West pipeline from the oilfields of the Eastern Province to Yanbu on the Red Sea carried 2.1m bpd of crude oil in 2019, according to Saudi Aramco's "2019 Annual Report". The oil major operates four crude terminals, which had a storage capacity of 66.4m barrels as of the beginning of 2019. Additionally, it has strategic international delivery points in Rotterdam, the Netherlands; in Fujairah, the UAE; in Okinawa, Japan; and in Ain Sukhna, Egypt.

At the start of 2019 the Kingdom's gas-processing network, which feeds the master gas system (MGS) had a capacity of 15.5m scfd, up from 11.5bn scfd in 2010. Saudi Aramco has made several upgrades to the MGS in recent years, including the commissioning of the Wasit Gas Plant in 2016, which has a capacity of 2.5bn scfd. The Fadhili Gas Plant is expected to come on-stream before the end of 2020 and will have a capacity of 2bn scfd from the Hasbah field and a further 500m scfd from the Khursaniyah field. In all, Saudi Aramco operates eight gas-processing plants: two straddle plants at Hawiyah and Shaybah, and four NGL fractionation plants at Juaymah, Yanbu, Ras Tanura and Wasit. The company expects to increase its processing capacity to 21.6bn scfd by 2023 following the completion of expansion projects.

DOWNSTREAM: Saudi Aramco's downstream activity includes petrochemicals manufacturing and refining within the Kingdom and abroad. A number of its subsidiaries are operated as joint ventures. In 2019 the company's downstream business consumed 38% of its upstream segment's crude production. Its net refining capacity grew from 2.2m bpd in 2010 to 3.6m bpd at year-end 2019, by which time it was the world's fourth-largest refiner. At the start of 2020 Saudi Aramco had four wholly owned local refineries: Ras Tanura, Yanbu, Riyadh and Saudi Aramco Jubail Refinery (SASREF). SASREF was initially operated as a joint venture with Shell until September 2019, when it acquired Shell's 50% stake.

The state-owned oil company operates eight gas-processing plants: two straddle plants at Hawiyah and Shaybah, and four natural gas liquids fractionation plants at Juaymah, Yanbu, Ras Tanura and Wasit.

The Ras Tanura refinery has an installed capacity of 550,000 bpd and a throughput of 528,000 bpd; Yanbu has an installed capacity of 250,000 bpd and a throughput of 251,000 bpd; Riyadh has a capacity of 130,000 bpd and a throughput of 139,000 bpd; and SASREF has a capacity of 305,000 bpd and a throughput of 307,000 bpd. In addition, there are four other downstream facilities each with a capacity of 400,000 bpd capacity that operate as joint ventures. Saudi Aramco owns 50% of the Saudi Aramco Mobil Refinery Company (SAMREF) refinery with ExxonMobil. It has a 62.5% stake in the Saudi Aramco Total Refining and Petrochemical Company (SATORP), which it operates in partnership with France's Total, and another 62.5% stake in a partnership with China's Sinopec at the Yanbu Aramco Sinopec Refining Company (YASREF). Additionally, it has a 37.5% share in Petro Rabigh with Japan's Sumitomo Chemical. SATORP, YASREF and Petro Rabigh are all combined refinery and petrochemicals complexes. SATORP and YASREF are expected to increase their refining capacities to 440,000 bpd and 430,000 bpd, respectively, by the end of 2020. A $1.4bn, 400,000-bpd refinery, petrochemicals complex and terminal project at Jazan in the south of the country is expected to commence operations in the second half of 2020 and will be fully owned by Saudi Aramco.

There is sentiment throughout the hydrocarbons industry that the Kingdom has the capacity to develop its in-country downstream activities even further. "Saudi Arabia must capitalise on its oil and gas advantages," Jamal Malaikah, president and CEO of NATPET, a local petrochemicals firm, told OBG. "We need to take the necessary steps to become a global leader in the downstream segment."

OVERSEAS REFINING: At the start of 2019 the oil major had a share in four overseas refineries with a


The pipeline network can connect to any refinery or export terminal

combined capacity of just over 2m bpd and throughput of 1.9m bpd. By far the most significant of these assets for Saudi Arabia is the Port Arthur refinery in the US, which is controlled by Saudi Aramco's fully owned subsidiary Motiva. It has a capacity of 630,000 bpd and throughput of 654,000 bpd. Saudi Aramco has a 61.6% interest in a refinery of a similar size in South Korea: the 669,000-bpd S-Oil facility. Additionally, Saudi Aramco has a 25% share in the 280,000-bpd refinery and petrochemicals complex in Quanzhou, China, which is jointly owned by Sinopec and ExxonMobil, and in Japan Saudi Aramco has a 15.1% stake in the 445,000-bpd Showa Shell refinery.

Commercial operations are scheduled to commence in the second half of 2020 at the 300,000-bpd Pengerang Refining and Petrochemical (PRefChem) complex in Malaysia, as part of a joint venture with Malaysia's state-run oil company Petronas. In late 2019 Saudi Aramco completed its $1.2bn acquisition of a 17% share of South Korean oil refining company Hyundai Oilbank, which has a refining capacity of 650,000 bpd. The company anticipates its net refining capacity to increase to 4m bpd and gross refining capacity to increase to 6.8m among both its local and international refineries by the end of 2020.

IMPORT & EXPORT: According to the General Authority for Statistics, oil and related hydrocarbons products accounted for 77.5% of all merchandise exports in December 2019, at a value of SR65.9bn ($17.5bn). Combined sales of oil in 2019 amounted to SR759bn ($201.8bn), with monthly exports accounting for an average of 77.3% of all exports. The value of oil exports fell by 14% in 2019, while overall exports fell by 10.4%. In 2016, 2017 and 2018 customers in Asia bought approximately 69%, 71% and 71% of Saudi Arabia's crude oil exports. Of the total of 7.3bn barrels of oil exported internationally, customers in Asia received 5.2bn barrels, followed by North America with 1bn, Europe with 864m and other regions accounting for the remaining 240m.

In its January 2020 "Quarterly Oil Market Update", Jawda Investment reported that in 2019 Saudi Arabia was the leading exporter of crude oil to China, at an average of 1.7m bpd, and that China's crude oil imports had grown 9% that year despite signs of slower economic growth. Also in 2019 crude oil exports to India declined by 2.1%, as economic growth in the subcontinent's economy slowed.

INVESTMENT: In mid-March 2020 when Saudi Aramco reported its financial reports for 2019, the company revealed capital expenditure that year had made a slight decrease from $35.1bn in 2018 to $32.8bn in 2019. At the time of the announcement, some of the implications of the impact of Covid-19 on China's economy were becoming clearer; and one week earlier a pact to support oil prices by curbing production, struck by OPEC and Russia, fell apart following talks in Vienna, sending oil prices tumbling before the situation was restored in April 2020 (see analysis). Amin Nasser, the CEO of Saudi Aramco, said in a statement in mid-March that the company

The value of oil exports fell by 14% in 2019, with Asia purchasing 71% of outbound Saudi crude that year

expects capital spending to be between $25bn and $30bn for 2020 considering current market conditions and commodity price volatility, and that capital expenditure for 2021 and beyond is under review.

IKTVA: Since 2015 Saudi Aramco has been working to ensure the benefit of the billions of dollars it invests every year in the energy sector is shared as widely as possible across the economy through its In-Kingdom Total Value Add (IKTVA) programme. In 2019 the company spent 56% of its procurement in the Kingdom, and signed 66 memoranda of understanding worth $21bn with partner companies from around the world aimed at increasing opportunities for local business. One example was its 50:50 joint venture with Baker Hughes to establish a non-metallic business to innovate and develop non-metallic and composite materials for the oil and gas industry.

RENEWABLE ENERGY: Saudi Arabia is also trying to optimise the benefits of oil exports by reducing the volumes of fossil fuels used to generate electricity and desalinate water in the Kingdom. The Middle East Solar Industry Association estimates the nation will invest $50bn in renewables by 2023, as it strives to increase from less than 1 GW of installed capacity at the start of 2020 to 27.3 GW in 2023 and 58.7 GW by 2030. This is set to include 40 GW of photovoltaics and 2.7 GW of concentrated solar power.

OUTLOOK: As of March 2020, Saudi Arabia's energy sector faced the twin challenges of low prices for its products as well as the prospect of a severe shock in demand as economies around the world temporarily shuttered following the outbreak of Covid-19. However, the fundamentals underpinning the Kingdom's energy sector remain strong. The size of its endowment, the comparatively low cost of recovery and the opportunities to tap new natural gas fields suggest that when the world's industrial economies start up once again, the country's energy sector will be a valuable source of competitively priced fuel.

Installed capacity of renewables is expected to reach

58.7 GW

by 2030

Average upstream expenditure for crude was $4.65 per barrel in 2019

Leader of the pack

The short-lived price war in early 2020 showcased the global significance of the Kingdom's domestic oil policy

A multilateral agreement is set to reduce oil production by 9.7m barrels per day (bpd) on May 1, 2020 and run for two months. The cuts will then taper to 7.7m bpd through the end of 2020 and 5.8m bpd through April 2022.

Crude oil remains Saudi Arabia's biggest asset, and economies around the world are reliant on how the Kingdom responds to challenges. At 2019 production rates, Saudi Arabia's known reserves are expected to last more than 50 years, and at the start of that year more than 80% of the oil produced by the state-owned energy company, Saudi Aramco, came from reservoirs that were less than 40% depleted. According to BP's "Statistical Review of World Energy 2019" report, the cos reserves-to-production ratio in 2018 was 66.4%, compared to 25.4% in Russia and 11% in the US.

SUPPLY & DEMAND: The Kingdom has worked to optimise the benefits of its hydrocarbons endowment for its citizens, balancing the volumes produced with the value of oil on international markets, weighing price and market share. In December 2016 the Organisation of the Petroleum Exporting Countries (OPEC) brokered the first oil production pact with countries outside the organisation since 2001, resulting in restrained oil output from Saudi Arabia and other members for three subsequent years. The most influential allies in the so-called OPEC+ group have been Russia and Mexico. However, while OPEC+ initially trimmed production, shale in the US recorded the largest annual increase of any country in both oil and natural gas production in 2018.

Previously planed OPEC+ output cuts were scheduled to run until the end of March 2020, with Saudi Arabia advocating for a further extension, conditional on compliance by Russia. OPEC had agreed to an additional 1.5m barrels per day (bpd) of oil cuts to the end of 2020, in addition to existing cuts of 2.1m bpd, for a total reduction of 3.6m bpd. In February 2020 Jadwa Investment reported that in light of the existing OPEC agreement, Saudi crude production stood at 6.9m bpd in December 2019 and 6.5m bpd in January 2020. When Russia rejected the proposal on March 6, 2020 Saudi Arabia had to decide whether it would allow the US and Russia to continue to erode its market share while trying to shore up prices, or endure a price downturn while ramping up its own production. On March 11, 2020 Saudi Aramco received orders from the Ministry of Energy to boost maximum sustainable capacity from 12m bpd to 13m bpd.

While the implications of these decisions by two of the world's major oil producers would have been significant at any time, the supply shock also coincided with a contraction in demand. The global outbreak of Covid-19 resulted in major hydrocarbons consumers, from Chinese manufacturing plants to global airlines, pausing or altogether ceasing their operations as governments tried to stem the spread of the disease by imposing quarantine measures. The demand shock had early implications for Saudi Arabia, as it supplied more oil to China than any other country in 2019, with Russia coming a close second.

While for several weeks the two countries flooded markets with cheap oil, the price war seemed to be nearing an end in early April 2020, when the Kingdom and Russia alongside OPEC+ came to an agreement, pending Mexico's approval. The plan will see output reduced by 9.7m bpd – the largest production cut in OPEC's history – beginning on May 1 and running for two months. Then the cuts will taper to 7.7m bpd until the end of 2020 and 5.8m bpd until April 2022.

INVENTORIES: According to Saudi Aramco's September 2019 IPO prospectus, the company had a storage capacity of approximately 66.4m barrels at the beginning of 2019. Financial statements in the prospectus showed that the company's inventories, including refined products and hydrocarbons, had increased in value from SR21.1bn ($5.6bn) in December 2016 to SR45.2bn ($12bn) in June 2019. Three days before the announcement, US President Donald Trump announced that his government would purchase some $2.6bn worth of oil from US shale producers, which would be placed in underground storage reservoirs belonging to the US Strategic Petroleum Reserve.

Crude oil production stood at

6.5m

barrels per day in January 2020

OIL MARKETS: In the first half of 2020 global stock markets exhibited great volatility, with large one-day falls and some significant upswings in response to government stimulus packages. On March 18, 2020, two days after Saudi Aramco's earnings call, oil prices hit an 18-year low, with West Texas Instrument falling 18% to $21.85 and Brent crude trading at $24.52, down by more than 14%. On the same day Chevron's share price fell 22.1%, its biggest one-day slump in 40 years, eclipsing the fall in prices during both the 2008-09 financial crisis and Black Monday in 1987. US-based Citibank predicted that Brent crude prices could fall as low as $5 a barrel in the second quarter of 2020. Although there was some recovery in oil prices the following day, by March 22, 2020, international oil companies were reporting up to 20% cutbacks in investment plans with Royal Dutch Shell's plans pared from $25bn to $20bn, Total's down from $18bn to $15bn and Chevron's down from $20bn to $16bn.

LOW-COST PRODUCTION: The Kingdom has key advantages when it comes to global market share. Its existing storage infrastructure around the world has allowed it to build up millions of barrels in inventory, and Saudi Aramco has among the world's lowest production costs. The nature of the Kingdom's geological formations, both onshore and in its shallow offshore fields, as well as its existing infrastructure and logistical infrastructure, have resulted in an average lifting cost of just SR10.60 ($2.82) a barrel in 2019, while average upstream capital expenditure on its fields stood at approximately SR17.50 ($4.65) a barrel. According to Saudi Aramco, its lifting and investments costs were lower than those of any of the world's five major international oil companies.

TANKER RATES: Saudi Arabia's brief decision to ramp up production in March 2020 displayed the significant influence it also has on international oil tanker markets. On March 13, 2020, a week after Russia rejected the OPEC proposal, Argus Freight reported a 213% increase in the very large crude carrier (VLCC) rate on the Gulf-to-Asia Pacific route fell to $42.21 per tonne due to a sudden influx of bookings reserving nearly all available tanker supply.

At 2019 production rates, oil reserves are expected to last 50 years

The state-owned oil company had a storage capacity of approximately 66.4m barrels at the beginning of 2019

ADDITIONAL CAPACITY: The call by the Ministry of Energy to increase output had implications for a number of Saudi Aramco's business units and for its main oil fields. International media highlighted that bringing the Fadhili gas-processing facility on-line would allow more gas to supply power generators and industry, freeing up some 250,000 bpd of oil for export. These developments also coincided with the resolution of a dispute between Saudi Arabia and Kuwait that had implications for both countries' oil outputs. At the end of 2019 the two countries signed a memorandum of understanding to restart hydrocarbons production in the shared Partitioned Neutral Zone, which has been inactive since 2014. Disputes saw the closure of the Khafji Joint Operations (KJO) offshore venture in October 2014 and the onshore Wafra Joint Operations (WJO) in May 2015.

Before the Covid-19 crisis and fall in oil price, production was expected to start gradually in 2020 at the two fields, which previously had a combined output of 500,000 bpd, with KJO contributing 300,000 bpd. The equity in KJO is shared by Kuwait Gulf Oil Company and Aramco Gulf Operations Company. In 1949 Chevron signed an agreement with Saudi Arabia to operate its 50% share in WJO until 2039. Chevron predicted that with the application of its enhanced oil recovery technology, WJO has the potential to become the world's largest steamflood development. In March 2020 global media reported that a trial production of 10,000 bpd at WJO would begin in April 2020, with production expected to reach 145,000 bpd by the end of the year. Although the full implications of 2020's demand-side shock are yet to be seen, it is evident that Saudi Arabia has the resources and capabilities to execute its long-term production and export plans.

The Kingdom has key advantages when it comes to global market share. Its existing storage infrastructure around the world has allowed it to build up millions of barrels in inventory, and it has among the world's lowest production costs.


The Fadhili gas plant near Jubail is expected to begin operations in 2020

Tap in

A new gas development is poised to increase capacity and help meet growing demand around the world

In February 2020 the Ministry of Energy approved plans to develop the Jafurah onshore gas field, which is estimated to hold 200trn cu feet of raw gas.

Natural gas looks likely to play an increasingly important role in Saudi Arabia's economy in the years ahead as the Kingdom begins to tap into new reservoirs that are poised to satisfy the growing demand from the power generation, desalination and industrial sectors. Prince Abdulaziz bin Salman Al Saud, the minister of energy, hinted that the development of new sources may create a surplus, enabling Saudi Arabia to become a gas exporter in the near future.

JAFURAH: In February 2020 the Ministry of Energy approved Saudi Aramco's plan to develop the Jafurah onshore gas field in the Eastern Province. The field, which measures 170 km by 100 km, is estimated to hold 200trn cu feet of raw gas. Saudi Aramco aims to start production at Jafurah by 2024, with output capacity increasing to 2.2bn standard cu feet per day (scfd) of sales gas by 2036. The gas itself can be used in electricity generation and desalination plants as well as by energy intensive industries. Jafurah will also produce valuable feedstock for the Kingdom's petrochemical plants, with a capacity of 425m scfd of ethane, equivalent to 40% of output in 2019. Saudi Aramco also expects to produce 550,000 barrels per day (bpd) of gas liquids and condensates. Development costs for the project are estimated at $3.5bn.

GAS SYSTEM: Jafurah is a non-associated gas field, and as such, the gas is not produced as part of the oil extraction process. Traditionally, the associated gas produced while pumping for oil was burned or flared at the wellhead, but in modern times Saudi Aramco has reduced flaring to less than 1% of output, and in 2019 it signed a World Bank agreement to end all flaring by 2030. In the 1970s Saudi Arabia started work on the master gas system (MGS), a pipeline and processing network that was initially used to divert associated gas from the oil fields to be used in power stations, desalination plants and factories. In January 2018 the first phase of an expansion to the MGS was completed, adding 1bn scfd to capacity and bringing the total up to 9.6bn scfd. The aim in Phase 2 is to increase capacity to 12.5bn scfd, with the two expansion phases adding 1600 km of new pipelines to the network. Saudi Aramco has not announced when it expects to finish Phase 2. The MGS connects the Kingdom's oil and gas fields with industrial and petrochemical plants and power and water facilities. However, sales gas is not supplied by pipeline to homes and businesses, which primarily rely on gas canisters; 89% of the Kingdom's households used gas for cooking in 2019.

Demand for natural gas is expected to grow by an annual average of

3.6%

MEGA-PROJECTS: Most of the Kingdom's gas fields and production facilities are located in the east of the country, with new capacity due to come on-stream by the time Jafurah's first phase is completed. The first non-associated offshore Karan field was discovered in 2006, and within six years it was feeding the Khursaniyah gas plant near Jubail via a 110-km subsea pipeline. By 2021 an expansion at the Hamiyah gas-processing centre will see capacity increase by 1bn scfd to 3.6bn scfd. In 2015 the giant Wasit gas-processing facility 150 km north of Jubail came on-stream, reaching full capacity of 2.5bn scfd in 2016.

At the same time Wasit reached full potential the Shaybah natural gas liquids recovery plant located at the edge of the Empty Quarter came on-stream. It is designed to process up to 2.4bn scfd of associated gas and recover 275,000 bpd of ethane for use as petrochemical feedstock. In 2020 the Fadhili gas plant, located 30 km west of Jubail, is expected to start up, with the capacity to process 2.5bn scfd of raw non-associated gas from both offshore and onshore fields. In the north-west of the country on the Red Sea near Tabuk, some 75m scfd of gas and 4500 bpd of condensate from the Midyan field are used in power generation. The country's gas-processing capacity is expected to grow from 15.5bn scfd in 2019 to 21.6bn scfd in 2023, according to Saudi Aramco.

DEMAND: Natural gas demand is expected to grow at an average rate of 3.6% annually, from 9.1bn scfd in

2017 to 14.6bn scfd in 2030. Increased petrochemical production and other industrial consumption are likely to drive demand as well as the need to reduce the opportunity cost of burning oil in power generation. One of the biggest consumers of gas in the Kingdom is the utilities sector, with desalination plants, power stations and combined cogeneration units producing electricity and drinking water for a growing population, typically seeing peak demand in the summer months when air conditioning units are used more frequently. Many of these facilities are configured to run on oil or a mixture of oil and natural gas. Data from the Electricity and Cogeneration Regulatory Authority (ECRA) shows that in 2018, natural gas accounted for 57% of all fuel consumed by Saudi water and power plants, with oil accounting for the remainder. There were, however, considerable regional differences in fuel usage. In the eastern and central regions, which are close to the gas fields, the portion of gas used was 95% and 72%, respectively, while in the western and southern regions, oil accounted for 89% and 100%, respectively, of the fuel burned to produce electricity and water.

GAS PRICING: Saudi Aramco is the sole supplier of gas in the Kingdom under the Law of Gas Supplies and Pricing Regulations enacted by Royal Decree M/36 of 2003. Prices for gas are set by the Council of Ministers. The Ministry of Energy is responsible for allocations of gas to the electricity, desalination, industrial, oil and petrochemical sectors. Although some neighbouring countries have experimented with importing liquefied natural gas (LNG) in the summer months to reduce the burning of oil in peak months in power stations, Saudi Aramco's IPO prospectus only makes mention of LNG as part of its strategy to develop an integrated global gas portfolio through investments in joint ventures outside the Kingdom. Among these investments is a joint venture with Malaysia's Petronas: the Pengerang Refining and Petrochemical complex, which includes a LNG regasification plant and LNG storage facilities.

One of the biggest consumers of gas in the country is the utilities sector

Natural gas accounted for 57% of all fuel consumed by water and power plants in the Kingdom in 2018

BANGLADESH LNG: In November 2019 international media reported that ACWA Power and Saudi Aramco were to build a 3600-MW LNG power plant near Cox's Bazaar in Bangladesh. Under the $3bn agreement penned with Bangladesh Power Development Board, Saudi Aramco will supply the plant with LNG. The deal is a part of a broader strategy by Saudi Aramco to add LNG to its portfolio of products marketed globally, leveraging its close and long-standing relationships with many oil importing countries. According to Reuters, Bangladesh imports 700,000 tonnes of Arab Light crude annually for its only refinery.

PORT ARTHUR: In January 2020 Saudi Aramco and the US' Sempra Energy announced that two of their two subsidiaries, Sempra LNG and Aramco Services Company, had signed an interim project participation agreement for the Port Arthur LNG facility being built in Texas. The project will see the construction of two liquefaction trains with a combined capacity of 11m tonnes per annum (tpa), as well as storage and export facilities. The move followed the signing of a heads of agreement in May 2019 that would see Saudi Aramco purchase 5m tpa of LNG produced at the facility while taking a 25% stake in the project.

A report on Saudi Aramco's LNG strategy published by the King Abdullah Petroleum Studies and Research Centre (KAPSARC) in November 2019 pointed out that many of the Kingdom's traditional customers in China, Japan and India have started to noticeably shift away from oil to LNG. The report proposes that by adding LNG to the mix of fuels the Kingdom offers to these countries, Saudi Aramco can better work to maintain its market share. It also reported that Aramco Trading Company was formulating plans to launch an LNG trading business from its Singapore office. The KAPSARC notes that Saudi Aramco has not ruled out importing LNG at some point in the future if the development of non-associated and unconventional gas ventures within the Kingdom proves more costly than imports.

In November 2019 the state-owned oil company penned a $3bn agreement to build a liquefied natural gas (LNG) power plant in Bangladesh, as part of its broader strategy to add LNG to its portfolio of products marketed globally.

Utilities

Wind and solar projects to diversify the energy mix

Renewables free up hydrocarbons resources for export

Updated tendering process emphasises local content

New plan to recycle municipal and construction waste

As of 2018 there were 12 privately owned desalination facilities

Power up

New sources of water and energy emerge to meet rising demand

Saudi Arabia's utilities sector will undergo significant changes in the coming years as the country works to reduce the number of barrels of oil it burns to create electricity, as well as the amount of drinking water it consumes. Beyond that, the sector is shifting amid subsidy reforms, the gradual privatisation of public assets, improvements in sanitation practices and plans to expand the use of desalination.

Vision 2030 – the Kingdom's blueprint for social and economic reform – also works towards these ends, opening opportunities for privatisation, improving the quality of life, and diversifying sources of fuel for power generation and desalination. It includes commitments to ensuring the efficient use of high-quality energy and water services, as well as reforms regarding feedstock and end-user prices to ensure the market costs associated with the generation of electricity and desalinated water are reflected in household bills. Protections are included for low-income citizens, and the policy is expected to stimulate investment and boost competitiveness in the short to medium term.

OVERSIGHT: A number of government ministries have responsibilities related to utilities, and their roles – as well as the general organisation and regulation of the sector – have change significantly in recent years. In late August 2019 a royal order was issued dividing the portfolio of the Ministry of Energy, Industry and Mineral Resources into the Ministry of Energy, and the Ministry of Industry and Mineral Resources effective January 2020. The new Ministry of Energy – led by Prince Abdulaziz bin Salman bin Abdulaziz Al Saud – is responsible for oil, gas and renewable energy, while Bandar Alkhorayef is the minister of industry and mineral resources – two sectors that are crucial in efforts to diversify the economy, lower state spending and create jobs.

Also involved is the Ministry of Environment, Water and Agriculture (MEWA), handling issues related to potable water, wastewater and sewage. Abdulrahman bin Abdulmohsen Al Fadhli leads the ministry, which consists of the Directorate of Water Affairs and the Directorate of Water Services. Both directorates have a broad range of responsibilities, from the management of non-renewable and renewable underground water, to the organisation and management of reused and treated wastewater.

STRUCTURE & PERFORMANCE: While ministries have responsibility for policy, operations are managed by a number of entities that are either fully or partially owned by the government. Saudi Arabia's arid climate and limited groundwater reserves mean that, as is common in other Gulf nations, it is heavily reliant on desalination for the production of drinking water. Many desalination plants also generate electricity and, as such, are cogenerational. This has led to considerable overlap at the operational level between power and water operators.

The Electricity Cogeneration Regulatory Authority (ECRA) oversees the production of electricity and desalinated water by state-owned enterprises, independent water and power producers (IWPPs) and independent power producers (IPPs). The government owns equity in some of the major utility companies through the country's sovereign wealth fund. The Public Investment Fund (PIF) owns 74.3% of Saudi Electricity Company (SEC), with Saudi Aramco, the state-owned energy and chemicals company, having a 6.9% stake, and the remaining 18.8% of shares floated on the Saudi Stock Exchange. The National Water Company is wholly government-owned through the PIF, with water supply and sanitation operations in Riyadh, Jeddah, Makkah and Taif. Regional directorates of MEWA manage the supply in other areas.

Water, electricity and gas accounted for 1.6% of GDP in 2019, or SR47.1bn ($12.6bn) in current prices, with the sector contracting by 4% from the

Many desalination plants also generate electricity, which has led to considerable overlap at the operational level between power and water.

Water, electricity and gas accounted for

$12.6bn

of GDP in 2018

There were 79 power plants with a combined installed capacity of around 85.5 GW as of the end of 2018

In 2018 steam turbines and gas turbines each produced 41% of the power supply, followed by combined-cycle units (17%) and diesel generators (1%).

year before, according to the General Authority for Statistics (GaStat). This fall was the most significant decline of any sector and may have been a reflection of the impact of energy efficiency campaigns, subsidy reform and demographic changes.

ELECTRICITY GENERATION: There were 79 power plants with a combined installed capacity of 85.5 GW at the end of 2018. SEC operated 40 directly owned power stations that were responsible for 65% of installed electricity generation capacity in 2018, according to ECRA. Through its role as a shareholder in a number of IPPs, the agency contributed 69.4% of installed capacity, according to an October 2019 estimate from credit ratings agency Standard and Poor's. As of March 2020 the company served some 9.8m customers and was responsible for a transmission network of 84,600 km.

The majority of the remaining suppliers were smaller-scale producers, contributing between 1-2% of the total, with the next largest producer – the government-owned Saline Water Conversion (SWCC) – producing 9% of total electricity generated that year. Around 37% of capacity was licensed to producers in the Western Province, 36% in the Eastern Province, 19% in the Central Province and 8% in the Southern Province. Steam turbines and gas turbines each produced 41% of the supply, followed by combined-cycle units (17%) and diesel generators (1%). ECRA data showed in 2018 available capacity of the national grid was 68.8 GW compared to a peak load of 61.7 GW, leaving a reserve margin of 7.1 GW.

The Kingdom produces

54%

of all desalinated water in the GCC

Some of Saudi Arabia's cogeneration facilities and power plants serve industrial or energy companies, such as cement firms and Saudi Aramco. There are two cogeneration plants in the twin industrial cities of Jubail and Yanbu, and a third desalination plant operated by municipal firm Power and Water Company for Jubail and Yanbu produces 485,900 cu metres of water and 2 GW of power. The Royal Commission for Jubail and Yanbu, Saudi Aramco, petrochemicals producer SABIC and the PIF each own 24.81% of equity in the desalination plant's operator, with the remaining 0.76% in private hands.

SEC's financial statements for 2019 showed a 72.9% fall in net comprehensive income from SR2.6bn ($693.2m) in 2018 to SR641m ($170.9m), while net profits fell by 21% from SR1.8bn ($479.9m) to SR1.4bn ($373.2m). Historically, net profits were SR3.6bn ($959.8m) in 2014, but fell to SR1.5bn ($399.9m) in 2015 before climbing for two consecutive years to SR4.5bn ($1.2bn) and SR6.9bn ($1.8bn) in 2016 and 2017, respectively. In terms of electricity sold, volumes increased from 287,692 GWh in 2016 to 288,519 GWh in 2017, and fell to 282,124 GWh in 2018, reflecting a 2.1% compound annual growth rate (CAGR) over that period, according to SEC. The number of electrified customers also rose, with its CAGR of 5.5% outpacing that of sales.

DESALINATION: With installed capacity of 7.6m cu metres per day and desalinated water providing about 60% of the water needs of municipalities, Saudi Arabia is the world's largest producer of desalinated water. The Kingdom accounts for over half (54%) of total desalinated water production in the GCC, and 22% of that throughout the world. The authorities aim to increase production further, with MEWA issuing a directive to provide 90% of urban water supply from desalinated water by 2030. According to the ministry, by 2030 only four regions – Najran, Hail, Al Jouf and the Northern Borders – will continue to rely on groundwater, and the remaining nine regions will use desalinated and surface water.

The SWCC operates 17 plants on the eastern and western coasts, as well as the 5600-km water transmission network. The SWCC produced around 60% of all desalinated water made in the country in 2018, with the private sector accounting for the rest. It is a key target for privatisation under the Kingdom's Vision Realisation Programmes, created to support the government in achieving the objectives laid out in Vision 2030 (see analysis).

According to ECRA's "Statistical Booklet 2018", in addition to the SWCC's plants, there were 12 privately owned desalination facilities. There were also 16 steam plants – eight of which were owned by Saudi Aramco – with the country having the capacity to produce 15,600 tonnes of steam per hour. One steam plant belonging to Rabigh Arabian Water & Electricity Company produced both desalinated water and steam. It accounted for 39.3% of all steam produced, with Saudi Aramco producing 29% and Tihama Power Generation Company producing 18.5%. Smaller producers accounted for the remainder. There were four IWPPs in operation that year.

DOMESTIC USE: The principal off-taker of water is Saudi Water Partnership Company (SWPC), which changed its name from the Water and Electricity Company (WEC) in March 2019. The WEC was jointly owned by SEC and SWCC when it was founded in 2003. SWPC is owned by the Ministry of Finance


In 2018 there were 16 steam plants with the capacity to produce around 15,600 tonnes of steam per hour

Total urban demand for water is expected to increase to 14.6m cu metres a day by 2025 before falling to 14.2m cu metres a day in 2030.

In 2018 the Saudi Energy Efficiency Programme's mandate was expanded to include utilities – specifically, energy efficiency in power generation, electricity transmission and distribution, and water desalination.

and purchases desalinated, purified, treated and untreated water, as well as cogenerational activities. In addition to purchasing and selling water, SWPC is responsible for tendering new desalination and cogeneration projects and water storage.

With an eye on the future, in 2019 SWPC published a strategy running through 2025 covering desalination plants, sewage treatment facilities and strategic reservoirs. The company aims to fill gaps in water production, strategic storage and treatment capabilities by analysing supply and demand, and planning projects accordingly. It is building off efforts of other entities such as MEWA, which instituted a number of policies aimed to reduce water network losses and engage in demand-side management, such as the use of water-efficient appliances and tariff reforms. According to the strategy, total urban demand for water is expected to increase to 14.6m cu metres a day by 2025 before falling to 14.2m cu metres a day in 2030 as the strategy bears fruit.

The framework includes insight for the private sector on projects that are expected to be tendered by SWPC. The company foresees a gap of 4.5m cu metres per day of water by 2025, and the strategy will work to bridge the deficit by constructing 11 desalination plants in Riyadh, Qassim, Eastern Province, Makkah, Medina, Baha, Tabuk, Jazan and Assir. Together, they are expected to have a capacity of 5.5m cu metres a day. The statement projects total existing, under-construction and under-tendering water sources to reach 10.1m cu metres a day in 2025 and 8.4m cu metres a day in 2030.

According to the "Bulletin of Household Energy Survey 2019" published by GaStat, 89.3% of households use natural gas for cooking, while 10.2% used electricity, 0.3% used wood and 0.2% used other sources. Saudi Aramco supplies liquid fuel and gas used for domestic and commercial cooking, while the National Gas and Industrialisation Company is responsible for the filling, marketing and wholesale distribution of propane and butane cylinders.

EFFICIENCY SAVINGS: Launched in 2012, the Saudi Energy Efficiency Programme introduced a range of improvements and incentives to lower energy demand, such as stricter building standards and higher efficiency regulations for cooling and heating equipment. Between its establishment and 2018 it focused on industry, buildings and transportation, three sectors that represent over 90% of energy consumed in the Kingdom. In 2018 its mandate was extended to include utilities – specifically, energy efficiency in power generation, electricity transmission and distribution, and water desalination. It also raises awareness among the public about energy efficiency, running 10 campaigns between 2014 and 2018 via traditional media outlets, online advertisements and social media.

The government has also been edging towards electricity tariffs that are close to market rates by reducing energy subsidies in 2016 and again in 2018. In the latter round, residential customers, who collectively account for about half of the customer demand, saw an increase of 260% in electricity tariffs for those who consumed fewer than 6000 KWh. The impact of the higher tariffs, however, was to an extent ameliorated by new grants for citizens.

NEW GENERATION SOURCES: In order to encourage cleaner, more sustainable generation, Saudi Arabia is working to replace its stock of older power stations relying on crude, diesel or fuel oil with new plants running on natural gas. In 2018 the primary fuel at 239 plants was natural gas, with 227 using crude oil, 122 powered by diesel and 96 operating on heavy fuel oil. According to the "BP Statistical Review of World Energy 2019," in 2018 Saudi Arabia was using more oil to generate electricity than any other country, with 150.6 TWh generated through oil, accounting for more than half of the 310.9 TWh generated using oil throughout the Middle East. Japan came in second in terms of using oil to generate electricity, at 60 TWh. Even so, that year Saudi Arabia produced more electricity from natural gas, at 233 TWh, than it did from oil.

It is important not only to diversify sources of electricity for environmental concerns, but also to ensure production methods are kept up-to-date. As power generation units age, newer technologies are coming online and becoming more widely used. According to ECRA, in 2018 facilities built over30 years ago accounted for 9.4 GW of electricity, with 58.5% coming from steam turbines and 41.5% from gas turbines. Plants built between 21 and 30 years ago produced 6 GW of energy, 56.7% of which was from steam, 20% from gas and 23.3% from combined-cycle units. Facilities constructed 11-20 years ago produced 15.7 GW, 50.3% of which was from steam, 42% from gas and 8.3% from combined cycle. Meanwhile, plants built between six and 10 years ago produced 21.5 GW, 25.1% of which came from steam, 51.6% from gas and 23.3% from combined

Desalination satisfies some 60% of the water needs of municipalities

In 2018 there were

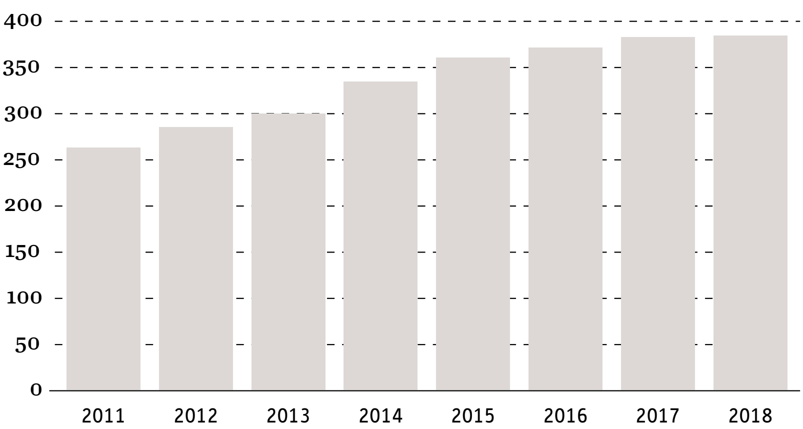
7791

circuit km of underground transmission cables

cycle. Plants built zero to five years ago produced 32.6 GW, 49.4% from steam turbines, 21.5% from gas turbines and 28.8% from combined cycle units.

WATER TECHNOLOGIES: It is not only power plants that are ageing and sources diversifying. The same is true with desalination facilities, with reverse osmosis (RO) and other technologies accounting for increasing proportions of the water supply. ECRA found that 1.7m cu metres a day of desalinated water was produced by facilities over 30 years old, while 442,000 cu metres a day were produced by plants built between 21 and 30 years ago, and 1.2m cu metres a day by those 11-20 years ago. Multi-stage flash distillation (MSF) was the dominant source of water in older facilities, accounting for 99.8% of water generated from facilities constructed over 30 years ago, 72.4% from those between 21 to 30 years ago, and 74.3% of water produced by facilities built 11-20 years ago, with the remainder produced by RO. By comparison, in facilities constructed between six and 10 years ago, MSF accounted for 36.9% of water produced, while 27% was from RO and 36.1% from multiple-effect distillation (MED). Facilities built within the last five years produced 37.8% of water from MSF, 52.5% from RO and 9.7% from MED. "While technologies now allow for the conversion of sewage water into potable water, neither Saudi Arabia nor European countries are currently doing so," Javier Diaz Gomez, country manager of water management company Aqualia, told OBG. "However, the Kingdom is introducing policies aimed at reducing per capita water consumption."

Electricity generation, 2011-18 (TWh)



Source: BP

IPP: Four of Saudi Arabia's major power plants have been built as IPPs, granting the private sector an important role in electricity generation. Together, they have a combined capacity of 9.3 GW. The Qurayyah IPP, a 4.1-GW facility built on a build-own-operate (BOO) basis, was the largest combined-cycle, gas-fired power plant in the world when it was launched. Qurayyah began operations in 2015 with an off-take contract lasting 20 years. It is managed by the group Hajr for Electricity Production Company and investors include ACWA Power, SEC, Samsung C&T and private equity investor MENA Infrastructure. It is the largest IPP in the country, accounting for 5% of total electricity produced.

In 2013 ACWA Power led another consortium into a power-purchase agreement with SEC to develop the 2.1-GW Rabigh 2 IPP on a BOO basis. The SR6bn ($1.6bn) plant – managed by the project group Al Mourjan for Electricity Production Company – began commercial operations in 2018. Other IPPs include the Riyadh PP11, a combined-cycle plant with net power output of 1.8 GW located 135 km west of the capital Riyadh and managed by Dhuruma O&M Company. The first Rabigh IPP has a capacity of 1.3 W and is managed by Rabigh Power Company. Rabigh-1, Rabigh-2 and Riyadh PP11 each contribute 2% of total electricity produced in the Kingdom.

IWPP: In addition to IPPs, three IWPPs operate in the market: Jubail Water and Power Company (2.9 GW), Shuaibah Water and Electricity Company (1.2 GW), and Shaqaiq Water and Electricity Company (1 GW). Shuaibah and Shaqaiq each contributed approximately 1% of total electricity produced in 2018, while Jubail contributed around 3%.

On Saudi Arabia's western coast, two project companies, Shuaibah Water and Electricity Company (SWEC) and Shuaibah Expansion Project Company (SEPCO), collectively have a daily output capacity of 1m cu metres, with 888,000 cu metres coming from SWEC and 150,000 cu metres from SEPCO. The Shuaibah facility accounted for 14% of water produced in the Kingdom in 2018. Jubail, managed by the SWCC, has a daily output of 805,500 cu metres and accounted for 10% of water produced, while Shuqaiq produced 212,000 cu metres of water a day and accounted for 3% of total output.

GRID & NETWORK ISSUES: According to ECRA data, at the end of 2018 there were 7791 circuit km of underground transmission cables carrying


The authorities are looking for desalinated water to make up 90% of the urban water supply by 2030

up to 110 KV and 337,700 circuit km of high-voltage distribution cables. Overhead lines carried 75,691 circuit km of transmission cables and 312,851 circuit km of high-voltage distribution lines. The combined length of overhead cables grew by 4.3% that year, while the underground network grew by 6.9%. Losses in transmission and distribution networks have ticked upwards since 2014, when it was at 6.9% of power supplied to the grid. The figure rose to 7.7% in 2015, 7.8% in 2016, 9.4% in 2017 and 9.5% in 2018. The authorities are looking to bridge these losses through investments and renovations in the grid.

The country is also moving to establish a smart grid. In December 2019 SEC awarded China Electric Power Equipment and Technology Company a $1.1bn contract to install 10m smart metres across the country. Around 3.5m of the metres will be sourced from local manufacturers, adding value to the economy. The metres are expected to be installed by March 2023. Once in place, the metres will be connected to the telecommunications grid and SEC's billing system, and a smartphone app will be launched to allow users to monitor consumption in real time, obtain information about how to improve usage patterns and pay their bills electronically.

Similarly to the power segment, there are losses and shortages in the water networks. In its 2019 strategy document SWPC estimated that the urban water requirement in Saudi Arabia is 362.5 litres per capita per day, or 250 litres per capita per day for consumption, 50 litres per capita per day for peak consumption and 62.5 litres per capita for day for network losses. As such, losses are estimated to measure in at 17.2% of all water produced.

In July 2019 a waste-management programme for Riyadh was announced that aims to recycle 81% of municipal waste and 47% of construction and demolition waste by 2035.

SWPC also noted that in some parts of the country, urban water demand has led to the overuse of ground and surface sources, much of which cannot be replenished. Part of SWPC's strategy for addressing this water stress is through the construction of reservoirs capable of holding three days' worth of water at any time, as well as strategic storage facilities for the Hajj, the annual pilgrimage.

RENEWABLES: Saudi Arabia is not only looking to improve its existing power grid, but also to increase the contribution made by renewables to its power generation, with targets of 27.3 GW and 58.7 GW of green electricity by 2023 and 2030, respectively.

In January 2020 the Renewable Energy Project Development Office (REPDO) invited developers to pre-qualify for the third round of the National Renewable Energy Programme (NREP), a strategic initiative in line with Vision 2030 that aims to maximise Saudi Arabia's renewable energy potential. REPDO was created in 2017 to drive green energy initiatives forward and its board includes representatives of Saudi Aramco, SEC, ECRA and the King Abdullah City for Atomic and Renewable Energy.

The NREP laid out a roadmap for the diversification of energy sources in order to stimulate sustainable economic development while simultaneously reducing CO_2 emissions. The first round, issued in 2017, included a 300-MW photovoltaic (PV) plant located in Sakaka and a 400-MW wind facility in Dumat Al Jandal, both tendered as IPPs. The second round, announced in August 2019, included six projects that will produce 1.5 GW of solar PV power. The third round consisted of four solar PV projects that had a combined capacity of 1.2 GW.

WASTE MANAGEMENT: Saudi Arabia is looking beyond clean and renewable sources to waste as a potential source of energy, with a goal to develop 3 GW of waste-to-energy by 2030. The kingdom produces around 15m tonnes of municipal solid waste a year. The development of waste-to-energy facilities would help the Kingdom reuse and manage solid waste, boost electricity capacity and even further diversify the energy mix away from hydrocarbons.

In line with the country's wider goals, in July 2019 the National Waste Management Centre, Riyadh Municipality and the Saudi Investment Recycling Company (SIRC) announced a waste-management programme for Riyadh that envisions recycling 81% of municipal waste, and 47% of construction and demolition waste by 2035. Under the plan, 18m tonnes of construction and demolition waste will be recycled into building materials for road and housing projects. As part of the agreement, the SIRC, a unit of the PIF, will also build recycling and sorting plants that will turn municipal waste into recyclables such as fertiliser, paper, plastics and metals.

OUTLOOK: The government is moving at pace to expand energy and water output to meet growing demand from businesses and individuals. Ambitious plans to upgrade utilities networks and facilities, while aligning more closely to market prices, make the Kingdom an increasingly attractive proposition for investors. There is an established framework for private participation and a will to increase the role played by the private sector in the transformation towards cleaner and renewable sources of energy.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Mohammed Al Mowkley, CEO, National Water Company

Optimising operations

Mohammed Al Mowkley, CEO, National Water Company (NWC), on improving efficiency through privatisation and leveraging local human resources

In what ways would the privatisation of water infrastructure in the north-western region improve efficiency in the long term?

AL MOWKLEY: This is the first in a series of projects that are part of Saudi National Water Strategy 2030's distribution sector restructuring and privatisation programme. This programme involves merging the Ministry of Environment, Water and Agriculture's 13 directorates and the four NWC city business units into six regional clusters under the NWC, as well as rolling out concession contracts in each cluster. Requests for proposals (RFPs) have already been issued for a management contract in the north-west cluster, covering operations, maintenance and customer services, in order to pave the way for subsequent concessions. In addition, we have commenced the merger process and preparation of RFPs for the five other clusters. Therefore, it is indeed a part of the government's privatisation strategy and fulfilment of Vision 2030, the Kingdom's long-term development blueprint.

Outsourcing operations and maintenance activities to qualified, established global players is a big step towards public-private participation. It would help us recreate clear baselines and improve many performance parametres, thereby enabling interested private organisations to participate in the water distribution business.

There is room for private sector partners to contribute to further improvements in the sector, which will lead to increased customer satisfaction and higher commercial returns.

What international benchmarks have been considered to ensure that best practices are applied within the local economy?

AL MOWKLEY: We have considered global best practices as well as lessons learned from both successes and failures. In particular, we have looked at practices in the UK, which has a fully privatised water sector; mainland Europe, where there are long-term lease or concession arrangements; and Spain, where there is water scarcity.

Furthermore, we have studied examples of management contracts in Armenia and Oman, and concessions in Indonesia and the Philippines. The ultimate goal is to reduce costs by optimising operations and increasing efficiency, while at the same time not compromising on citizens' services. The government strives to improve all elements of customer service, including connections of water and wastewater, as well as continuity of supply. In addition, we have definite targets in terms of upskilling existing human resources. Acquiring more talent also remains an objective.

How is the National Programme for Water Conservation (Qatrah) addressing environmental concerns linked to water usage in the Kingdom?

AL MOWKLEY: Qatrah is a new national conservation programme that has been launched to directly address the overuse and waste of Saudi Arabia's precious water resources. The team at Qatrah is working to reduce the Kingdom's water consumption by 24% by the year 2022, which is critical to the long-term economic prosperity of our country.

We developed a programme of sustainable activities that will highlight the issue of water conservation and effectively address the amount of water that is wasted every day. Water is an essential part of life, and the objective of the broader strategy is to make our customers feel that they are a part of this vital mission and journey.

With a young and growing urban population, the Kingdom's water demand needs to be managed and optimised with minimal losses and maximum effectiveness. Supply of water in all parts of the Kingdom needs to match the profile of demands.

The privatisation of Ras Al Khair is expected to raise up to $7bn

In good hands

Shift towards privatisation underscores investment opportunities in water and power production

Saudi Arabia's government has indicated it wants to raise as much as $200bn through the privatisation of state-owned assets, with one of its largest desalination plants among the first targets for disposal. The Ras Al Khair cogeneration plant has the capacity to produce more than 1m cu metres of desalinated water daily, and in 2018 the authorities announced it would be included in privatisation efforts. Indeed, it is anticipated that the plant will generate $7bn of the $10bn that is expected to be raised by the National Centre for Privatisation's 2020 Delivery Plan, which also included the sale of four flour mills.

The privatisations would build off momentum from the December 2019 initial public offering (IPO) of oil and chemical giant Saudi Aramco. That month the company raised $25.6bn through the IPO by selling 3bn shares. The next month the company sold an additional 450m shares through a greenshoe option, bringing the total raised to $29.4bn.

In January 2019 state-run desalinated water producer Saline Water Conversion Corporation (SWCC) invited banks to submit proposals to act in an advisory role in the sale of assets of as many as six plants. While plans for privatisation in the utilities sector have been delayed, it is anticipated that the government will press ahead with plans to privatise water works in the coming years.

PRIVATISATION PLANS: Efforts to privatise utilities began as early as 2008, when a decree was issued to privatise the SWCC's assets. While initial progress was slow, efforts were redoubled in 2016 with the launch of Vision 2030, the Kingdom's blueprint for economic and social reform. Vision 2030 contains commitments to ensure the public is serviced by efficient and high-quality water and energy services, as well as plans to cut subsidies and open state-owned utilities to private investment.

In May 2017 a Council of Ministers resolution gave the board of directors of the National Centre for Privatisation (NCP) the authority to produce the regulatory and procedural framework for the overall strategy. In April 2018 the Privatisation Programme, one of 13 Vision Realisation Programmes, published further details related to the water sector. The programme had three pillars: to establish the legal and regulatory basis for privatisation and public-private partnerships; establish government entities with the ability to implement privatisation in a manner that serves the interest of the government while guaranteeing fairness for participants in the private sector; and steer privatisation programmes. By unlocking state-owned assets to the private sector and privatising select services, the plan would improve the quality of services provided, attract foreign direct investment, grow small and medium-sized enterprises' contribution to the economy, diversify government revenues, design a leaner and more effective government structure and enhance the performance of government entities.

The Privatisation Programme identified the privatisation of Ras Al Khair as a potentially game-changing project that would pave the way for further restructuring of the water sector. Privatisation of the facility had the overall aim of increasing efficiency and raising revenues for the government. According to the document, the target date for Ras Al Khair's sale was 2020 and would be the first step in the privatisation of the SWCC's assets.

SWCC: The SWCC's assets are substantial, as the company produces 22% of the world's desalinated water. Meanwhile, the Electricity and Cogeneration Regulatory Authority found that the SWCC produced around 60% of all desalinated water that was manufactured in the country in 2018 from 17 facilities on the eastern and western coasts. That year, the company produced 4.6m cu metres of water a day, for a total of 1.8bn cu metres. The company also operates the 5600-km water transmission network.

The Ras Al Khair cogeneration plant has the capacity to produce over 1m cu metres of desalinated water a day, and in 2018 it was announced that the facility would be included in privatisation efforts.

In January 2019 a state-run desalinated water producer invited banks to submit proposals to act in an advisory role in the sale of assets of six of its plants.

Projects are in the works that will give the private sector a greater role through build-own-operate contracts

GREENFIELD SUCCESS: Once efforts to privatise pick up steam, there will be significant potential for private investment as utilities services have been expanding at pace. Importantly, this growth has already facilitated the private sector's involvement. There are three independent water and power providers that operate in the market: Jubail Water and Power Company (2.9 GW), Shuaibah Water and Electricity Company (1.2 GW), and Shaqaiq Water and Electricity Company (1 GW). Shuaibah and Shaqaiq each contributed 1% of total electricity produced in 2018, while Jubail contributed 3%. On the western coast, two project companies, Shuaibah Water and Electricity Company (SWEC) and Shuaibah Expansion Project Company (SEPCO) collectively have a daily output capacity of 1m cu metres, with 888,000 cu metres coming from SWEC and 150,000 cu metres from SEPCO. The Shuaibah facility accounts for 14% of total water produced in the Kingdom. Jubail, managed by the SWCC, has a daily output of 805,500 cu metres and accounted for 10% of all water produced in 2018, while Shuqaiq produced 212,000 cu metres of water a day and accounted for 3% of total output.

ACWA Power is a key investor in these schemes, as well as in two integrated solar cogeneration plants called Rabigh-1 and Rabigh-2, with daily capacities of 134,000 and 54,000 cu metres, respectively, as well as the independent water provider (IWP) Bowarege, a reverse-osmosis desalination facility with a daily capacity of 50,000 cubic metres. In total, ACWA Power had a stake in projects that produce some 2.5m cu metres of water a day, according to its 2018 annual report. As of 2018 the company had an asset portfolio of 50 projects worldwide, comprised of 32 operational assets, 10 under construction and eight in the advanced development phase. Nine projects came into operation in 2018 – more than any year since the company was established in 2004 – with ACWA Power's water portfolio expanding by 26%.

5.5m
cu metres of desalinated water a day will be added to the supply by 2025

The company's portfolio grew further in 2019. In July of that year Shuaibah II Expansion IWP was inaugurated, with commercial operations beginning in May. The facility, managed by ACWA Power, came on-stream just 21 months after construction started and adds 250,000 cu metres of water to the network. ACWA Power also owns and operates Shuaibah IWPP, the first IWPP developed in the Kingdom. By January 2020 ACWA Power had 56 assets in 11 countries, making it the largest power and water operator in the GCC region.

PROJECT PIPELINE: The future of greenfield development is expected to be bright, with the principal off-taker, Saudi Water Partnership Company (SWPC), lining up projects that will give the private sector a greater role. Two new reverse-osmosis (RO) plants will be constructed on a build-own-operate (BOO) basis and are due to commence commercial operations in 2021. These facilities are Rabigh-3, built by ACWA Power with a daily capacity of 600,000 cu metres; and Shuqaiq-3, with a capacity of 450,000 cu metres developed by Marubeni Corporation, a Japanese trading and investment conglomerate.

In February 2020 SWPC signed a 25-year agreement with Saudi Mowah Group and Engie of France to build the Yanbu 4 IWP, with a capacity of 450,000 cu metre a day and commercial operations beginning in 2023. As of March 2020 two other RO IWP projects in the Eastern Province – Jubail 3(A) and Jubail 3(B) – with daily cu metre capacities of 600,000 and 570,000, respectively, were in the tendering process, again as BOO models. It is expected that the two plants will be operational by 2022.

Additional desalination plant projects are due to be tendered, according to SWPC's seven-year strategy spanning 2019 to 2025. By 2023 Al Hassa and Ras Al Khair 2 are due to be operational, adding 300,000 and 600,000 cu metres, respectively. In 2024 Ras Al Khair 3, with a daily capacity of 400,000 cubic metres, will come online, while in 2025 Jubail 4 will add 300,000 cu metres of water a day to the supply. Five new plants are planned in the Western Province and are expected to come on-stream between 2022 and 2025: Ras Mohaisan (300,000 cu metres a day); Rabigh-4 (600,000 cu metres a day); Tabuk (400,000 cu metres a day); Rabigh-5 (400,000 cu metres a day); and Rayis 2 (300,000 cu metres a day). In the Southern Region, Shuqaiq-4 (400,000 cu metres a day) and Jazan-1 (300,000 cu metres a day) are due to start operations by 2023. SWPC's roadmap sees 5.5m cu metres a day of desalinated water added to the supply by 2025.

There are opportunities for private participation beyond traditional water services as well. "In light of privatisation and public-private partnerships, the water segment is expanding at a rapid rate," Awaadh Al Otaibi, CEO of water treatment company Miahona, told OBG. "This offers significant investment opportunities for local and international developers and contractors alike, including through the establishment of independent sewage treatment projects."

Khaled Al Qureshi, CEO, Saudi Water Partnership Company

Better integration

Khaled Al Qureshi, CEO, Saudi Water Partnership Company, on how technology and the private sector help to optimise efficiency

In what ways can the privatisation of state-owned assets increase efficiency in service provision?

AL QURESHI: The Saudi Water Partnership Company relies exclusively on the private sector to finance, design, construct, operate and maintain new water-related projects, with the aim to meet future water requirements. In late 2019, a strategic reservoir and transmission pipelines were added to the mix, and this is the first time in the world that such pipelines are being structured as a public-private partnership (PPP). Looking forward, we anticipate that the private sector will seize opportunities in the possible privatisation of several dams in the Kingdom for potable water supply, irrigation and possibly energy storage. Expanding the privatisation of government services is one objective, along with performance and productivity improvement.

What moves are being carried out to improve national water security in Saudi Arabia?

AL QURESHI: Many goals of Vision 2030 are related to the water sector. For instance, a number of the Kingdom's existing aquifers are at low water levels and need to be replenished. These groundwater sources are being replaced, and 95% of the water supply is expected to be sourced from desalinated water by 2030. Keeping in mind that desalinated water represents about 65% of the total water supply today, this means that a significant number of plants will have to be developed over the next three to five years. We envision that another eight to 10 desalination plants will be procured on a PPP basis. Each project will be structured on a build-own-operate basis over a 25-year concession, making them attractive for private sector participation.

How can new technologies help to optimise the energy consumption of water treatment plants?

AL QURESHI: Driving energy efficiency in water production with prescribed targets for developers and incentives to use less energy are key objectives. We encourage the use of seawater reverse osmosis (SWRO) as opposed to thermal desalination, which has been the dominant technology in the Kingdom for decades. SWRO is significantly more energy efficient than thermal desalination, and we have made great strides in making the process more robust to deal with difficult Middle Eastern seawater. The use of SWRO technology has enabled us to save about 15 KWh and 10 kg of CO_2 per cu metre of water generated.

In sewage treatment, we are insisting that developers build their plants with beneficial sludge to eliminate the need for landfill. We are also ensuring that the treated sewage effluent is reused in irrigation and agriculture applications. Going forward, we see sustainability as a major driving force and are looking to the private sector to help us with innovative solutions.

To what extent will prices continue to decrease for water desalination projects and potentially break the $0.40-per-cu-metre mark?

AL QURESHI: Tariffs are sensitive to interest rates; however, there are good indications that interest rates will remain low for the moment. There also appears to be sufficient liquidity in the market for financing these projects, and there are still many developers and contractors aggressively bidding for water projects.

Electricity still accounts for 30-40% of a plant's operating costs so there is room for tariffs to come down as energy efficiency improves. SWRO technology is changing fast, and a new generation of low-efficiency membranes and energy recovery devices will support a lower tariff, simultaneously enabling developers to maintain their profit margins. Energy costs will also decrease due to better integration of SWRO technology into the power grid and large photovoltaic projects that are being developed in the Kingdom. Future developments in technology will improve plant designs and help bring down costs further. So the question is not if the $0.40 barrier will be breached, but rather when.


In early 2020 there were 3 GW worth of solar projects being tendered

Solar powered

Diversifying the energy mix through solar and wind projects

The Kingdom is looking to invest
$50bn
in renewable energy between 2018 and 2023

Saudi Arabia has significant potential in renewable energy, and has worked in recent years to harness the power of the sun and wind to generate electricity. These efforts are not only environmentally friendly, but they also preserve valuable supplies of oil and gas that can instead be converted into value-added products or exported abroad. Broadening the electricity mix is also important, given that energy consumption rose 60% in the decade leading to 2019. Demand is expected to increase further, from 62.7 GW in 2019 to 120 GW in 2030.

As of 2020 there were signs that the implementation of renewable energy plans were picking up pace. The 300-MW Sakaka solar photovoltaic (PV) plant was connected to the national electricity grid in November 2019, and projects with a combined capacity of over 3 GW were in various stages of the tendering process. Indeed, the Kingdom is looking to invest some $50bn in renewable energy between 2018 and 2023, by which time the target will be 27.3 GW of installed capacity, later rising to 58.7 GW by 2030, including 40 GW of PV and 2.7 GW of concentrated solar power.

RENEWABLES AGENCY: The government office leading green energy implementation is the Renewable Energy Project Development Office (REPDO). Established in 2017, REPDO's role is to deliver the National Renewable Energy Programme (NREP) in line with Vision 2030's energy-related objectives. REPDO is guided by representatives of key stakeholders including from the King Abdullah City for Atomic and Renewable Energy, Electricity and Cogeneration Regulatory Authority, and Saudi Electricity Company. In September 2019 Faisal Al Yemni was appointed as the new head of REPDO.

The 300-MW Sakaka solar photovoltaic plant was connected to the grid in November 2019 and will supply 45,000 households, helping to offset 500 tonnes of CO_2 per year.

FIRST ROUND: The first bidding round announced by REPDO was in 2017 and included two projects: the Sakaka 300-MW solar IPP and the 400-MW Dumat Al Jandal wind farm. ACWA Power's consortium was selected for Sakaka, with financial close on the deal achieved in February 2018. By the time the $300m plant connected to the national grid, Sakaka had achieved a 100% Saudiisation rate, with 90% of staff at the plant drawn from the surrounding Al Jouf region. The facility was also built with 30% contractual local content in the construction and development phases. At a record low tariff of $0.236 per KWh, electricity will be supplied via the national grid to 45,000 households in Al Jouf, helping to offset approximately 500 tonnes of CO_2 per year.

There was another record low tariff – this time for onshore wind – when financial close was achieved in August 2019 on the Dumat Al Jandal wind project, with a levelised cost of energy of $0.0199 per KWh. The utility-scale wind project was secured by a consortium of the French energy giant EDF and Abu Dhabi's renewables investment group Masdar. The $500m wind station is expected to be completed by 2022 and will generate 1.4 TWh a year, enough to supply approximately 70,000 homes.

SIX SOLAR PROJECTS: The same month that financial closure was announced on Dumat Al Jandal, REPDO invited bids for the second round of the NREP. At that stage, 60 companies were pre-qualified to bid, including 28 Saudi firms. Round two was comprised of six solar PV projects valued at SR5.3bn ($1.4bn) with a combined generation capacity of 1.5 GW. In the second round, bids the projects were divided into two categories: A for smaller projects and B for larger schemes. The two category-A projects were Rafha (20 MW), and Madinah (50 MW). The four category-B projects were Qurrayat (200 MW), Rabigh (300 MW), South Jeddah (300 MW) and Al Faisaliyah (600 MW). The deadlines for proposals were November 2019 for category B and December 2019 for the two category-A schemes.

PV PIPELINE: In January 2020 the third round of the NREP was announced, with requests for qualification submitted by February 2020 and requests for proposals by March 2020. There were four PV projects with a combined capacity of 1.2 GW in the round. The 80-MW Layla and 120-MW Wadi Al Dawaser projects were category-A schemes, while the 300-MW Saad and 700-MW Ar Rass were category B.

LOCAL CONTENT: Renewables were identified as a targeted sector in the National Industrial Development and Logistics Programme (NIDLP). According to the NIDLP's January 2019 delivery plan, components manufactured at home could be up to 8% cheaper than imports from China, with the lower costs passed on to local manufacturers of items including glass, aluminium and plastics. The delivery plan recommends developing local talent while forming manufacturing and research clusters.

Starting in the second round of the NREP, REPDO introduced rules for bidders to ensure the new wave of renewable projects was having the maximum impact on the wider economy. Bidders for category-A projects were required to partner with at least one Saudi firm and companies were classified as managing member, technical member or local managing member of each consortium. The second round also sought to increase the extent of local content in production with a minimum of 17% required as calculated by the Local Content and Government Procurement Authority.

To facilitate the shift towards local content, in November 2019 ACWA Power announced it created a new business unit, ACWA Industrial Investment Company (AIICO), dedicated to enabling local content development and industrialisation in the Kingdom. AIICO will focus on compliance with mandatory local content regulations, while enhancing the company's capacity to export Saudi-made products for its projects overseas. The new division will also support the government's overall goal to diversify the economy, localise knowledge and innovation, and create jobs.

The business unit will build on the company's previous efforts to increase the contribution of local content. "Through our Sakaka PV project, we are already seeing the benefits of supporting local content for the wider industry," Paddy Padmanathan, president and CEO of ACWA Power, said in a statement announcing the establishment of the business unit in December 2019.

The next month, ACWA Power announced it signed a memorandum of understanding with SABIC to explore ways to increase the contribution of the local supply chain in the renewable energy industry. SABIC will conduct research on the local supply chain, and the firm will also facilitate ties between ACWA Power and local companies.

Local manufacturers have seized opportunities in renewable energy. Jeddah-based Desert Technologies (DT) established an automated solar-PV assembly plant with the capacity to supply panels capable of generating 110 MW a year. The factory opened in January 2018, and by early 2020 there were plans to introduce a third shift to keep up with demand. DT developed portable shipping-container solar-generation units with a capacity of 30 KW or 55 KW for rural African communities, and also installs smaller-scale rooftop solar systems on schools, mosques and commercial premises in the Kingdom.

Solar energy is set to help offset a rise in electricity demand, which is expected to increase to 120 GW by 2030

Renewables are targeted by the National Industrial Development and Logistics Programme, which found that making components at home could be up to 8% cheaper than importing them from China.

There has yet to be a marked shift to solar, however, with the "Bulletin of Household Energy Survey 2019" from the General Authority for Statistics finding that only 1.6% of respondents use solar energy at home. Even so, 52.3% of respondents were interested in using solar-PV panels in their homes.

LOANS TO INDUSTRY: In September 2019 the SR105bn ($28bn) Saudi Industrial Development Fund (SIDF) launched the Mutjadeda programme designed to support local companies interested in investing in and manufacturing for the renewable energy sector. It collaborates with a range of partners to maximise local content. As part of the programme, SIDF will offer loans of up to SR1.2bn ($319.9m) to support component manufacturers or participation in independent power producer (IPPs) schemes. Mutjadeda will offer companies planning to manufacture renewable energy components financing for up to 75% of project cost with loan repayment periods of up to 20 years, providing the scheme meets REPDO requirements.

Under the plan, loan repayment periods for IPPs feeding the grid will be for 20 years, while those serving specific industrial, commercial or other sectors would have 12 years to repay, with all loans granted a 36-month grace period. "Whether you are manufacturing, agriculture or retail, if you want to deploy renewable energy, we will finance it," Ibrahim Almojel, CEO of the fund, told international media in September 2019. "For renewables to be adopted in the Kingdom, we need to support it." The authorities hope these efforts will enable local renewable energy component manufacturers to expand in order to meet domestic and regional demand.

1.6%
of households used solar power in 2019


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Industry

Early 2019 launch of industry and logistics programme
Industry 4.0 environment set to engage more citizens
Mining identified as sector with significant potential
New partnership to focus on petrochemicals portfolio
Manufacturing clusters a key strategy for development

Industry will help raise the private sector's contribution to GDP to 65%

Alternative engine

Industrial operations are pegged to drive future non-oil growth and provide attractive employment for citizens

The industrial sector in Saudi Arabia is widely regarded as a promising area for business growth that can provide additional private sector employment for citizens in the decades ahead. The Kingdom has also recognised that a formula based on the inputs of plentiful crude oil and inexpensive foreign labour alone will not create enough distinctive products to diversify exports and generate sufficient wealth for a growing population. The sector is therefore embarking on an agenda based on Industry 4.0, a more efficient and educated workforce, and investment and skills transfer from the private sector.

VISION 2030: The sharp downturn in oil prices from 2014 to 2016 prompted a policy overhaul in which civil servants and management consultants re-appraised the Kingdom's economic strengths and weaknesses, and identified a new strategy on which to map future prosperity. The resulting document, Saudi Vision 2030, laid out a blueprint for success based on three pillars: a vibrant society, a thriving economy and an ambitious nation. Crafting a new economic composition is a project that requires the support of citizens and residents, as well as investment from the local private sector and international businesses. However, it is public sector agencies that are leading the charge in enabling progress.

Vision 2030 lays out 96 objectives within 13 programmes, each with its own measurable goals. Plans can be adapted to capture new opportunities as they arise, but accountability in delivery is emphasised. Goals that are important to industry include boosting the private sector's contribution to GDP from 40% in 2016 to 65% by 2030, while increasing the contribution of foreign direct investment (FDI) to GDP from 3.8% to 5.7%. Since the roadmap was launched in April 2016 there have been multiple changes in the public departments and agencies responsible for implementing the ambitious agenda, many of which have had a direct impact on the industrial sector.

OVERSIGHT: The overarching Council of Economic and Development Affairs (CEDA) is chaired by Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud. There are 22 seats on the CEDA board, many of them held by ministers. The Ministry of Economy and Planning (MEP) is responsible for coordinating with other ministries to enact the policies of Vision 2030. In 2017 the MEP assumed oversight of the new National Development Fund, an umbrella body comprising government financing agencies such as the Saudi Industrial Development Fund (SIDF), the Agricultural Development Fund, the Human Resources Development Fund and the Social Development Bank.

In 2016 the ministries responsible for industry, mining and energy were merged, with Khalid Al Falih, the former CEO of national oil giant Saudi Aramco, leading the new Ministry of Energy, Industry and Mineral Resources. However, in late 2019 the portfolios were separated again, and two new ministers were appointed. Khalid Al Falih was replaced at the helm of the Ministry of Energy by Prince Abdulaziz bin Salman Al Saud, an oil industry veteran. Meanwhile, Bandar Alkhorayef, a businessman with 25 years of experience in industry, was appointed head of the Ministry of Industry and Mineral Resources.

This shake-up also meant dividing the functions of the Ministry of Commerce and Investment, which had been responsible for issuing and enforcing commercial licences, trademarks and trade names. The functions of the Saudi Arabian General Investment Authority (SAGIA) were assumed by the new Ministry of Investment in February 2020, headed by Al Falih after a couple months out of office. At the same time, Majid Al Qasabi, the minister of commerce, was named acting minister of media. Ministerial reshuffles have become more common since Vision 2030 was introduced, which is the result of a strict code of accountability that has been implemented for the dozens of goals set for each government department.

Vision 2030 lays out 96 objectives within 13 programmes, each with its own measurable goals. Among its targets is increasing the contribution of foreign direct investment to GDP from 3.8% to 5.7%.

Broad categories identified for investment include mining and minerals, chemicals, manufacturing and logistics

INDUSTRY FOCUS: The reshuffle reflected concerns that a ministry combining the interests of industry, mining and energy had too broad a mandate to address the three sectors' needs effectively. At the end of the process many welcomed the return of Al Falih to a key government role related to investment, where he would be able to draw on dozens of years in industry and a vast network of international contacts. The agency he assumed control of, SAGIA, was formed in 2000. For two decades it spearheaded the Kingdom's FDI drive by identifying opportunities and partnerships that would bring new products and skills into the country, but also acted as a regulator by issuing licences to investors and setting standards.

Invest Saudi, SAGIA's promotional arm, highlights business opportunities in the Kingdom. Broad categories identified by Invest Saudi include mining and minerals, chemicals, industry and manufacturing, and transport and logistics. Within each of these the agency identifies subsectors ripe for investment. Under industry and manufacturing it mentions meeting demand for food and building materials by creating food processing businesses, aquaculture farms and companies manufacturing construction inputs. Parts needed for desalination plants, solar panels, vehicles, aircraft and armaments were also highlighted. "When speaking about localising manufacturing capabilities, there are many industries on which the Kingdom can capitalise under Vision 2030," Abdullah Al Khorayef, CEO of conglomerate Al Khorayef Commercial, told OBG. "Indeed, the military industry and utilities sector are two promising markets in which local content is being developed."

Developed industrial land managed by the government exceeds 198.8m sq metres. The agency responsible has attracted $133.3bn in investment to the Kingdom since 2001, and operates 35 industrial cities.

The government recognises that investors considering opening new factories and warehouses in the Kingdom require different types of locations to meet their needs, from industrial parks with installed sources of power, water and communications, to greenfield sites that can be developed to service the particular requirements of larger firms. The agency responsible for this service is the Saudi Authority for Industrial Cities and Technology Zones (MODON). MODON's developed industrial land exceeds 198.8m sq metres, and it has attracted SR500bn ($133.3bn) in investment to the Kingdom since it was established in 2001. It operates 35 industrial cities in all corners of the country, with three each in Riyadh, Jeddah and Dammam, and acknowledges that some businesses need to be located within manufacturing clusters or adjacent to shipping facilities.

REALISATION PROGRAMMES: Government policy outlined in Vision 2030 is broken down into 13 Vision Realisation Programmes (VRPs). Each VRP had short-term goals to be met by 2020, and as of March 2020 the process of measuring progress and planning for the next stage was under way. One VRP, the Privatisation Programme, has a 2020 commitment to raise SR35bn-40bn ($9.3bn-10.7bn) through the sale of government-owned entities, many of which are active in industry. This would generate net government savings of SR30bn-35bn ($8bn-9.3bn) in capital projects and operating costs for those entities, while creating 10,000-12,000 private sector jobs for the public servants who had been working in the public entities that were sold off. "The privatisation of government-owned assets can be a great stepping stone for the local private sector, as well as international bidders," Abdulaziz Mohammed Al Namlah, managing director of domestic investor Amnest Group, told OBG.

However, the most far-reaching VRP for the industrial sector is the National Industrial Development and Logistics Programme (NIDLP). Launched in January 2019, its mandate is to invest SR1.7trn ($453.2bn) and create 1.6m jobs in industry, non-oil energy, mining and logistics activities. SIDF is the primary financial enabler of the programme, and at the time the NIDLP was unveiled, the government injected funds into SIDF to raise its capital base from SR40bn ($10.7bn) to SR105bn ($28bn) (see analysis).

The NIDLP supports the growth of industry, mining, non-oil energy and logistics to create private sector jobs, boost their contribution to GDP and exports, and promote local content. It provides potential investors with useful context and historical footnotes on the development of Saudi Arabia's industrial ecosystem, and indicates its aspirations for the next 10 years. The NIDLP covers 11 of Vision 2030's 96 objectives, and its 2020 commitments are divided into two categories: legal and regulatory changes, including the encouragement of private sector investment in mining; and capacity development initiatives, such as expanding ports and airports, creating specialist centres devoted to Industry 4.0 technologies and supporting industrial compounds like Jubail Automotive Manufacturing City. It is likely that new goals will be published in 2020 or 2021 to reflect recent developments and achievements made in delivery.

PERFORMANCE: While government reforms are slated to drive economic performance on a number

Manufacturing contributed

9%

of overall GDP in 2019

of fronts, many of the country's industrial activities remain sensitive to fluctuations in global prices for oil, petroleum products and petrochemicals. In 2018 the average price for Brent crude was $71.19 per barrel, a significant improvement on $43.63 and $53.90 per barrel in 2016 and 2017, respectively, according to the US Energy Information Administration. However, prices dipped again the following year, with Brent crude slipping to an average of $64.37. Early 2020 brought further drops, which saw crude trading at around $25 per barrel in mid-March. A combination of factors led to this decline, most notably the global spread of the Covid-19 virus that shuttered factories and dampened demand, first in China then in other major economies. Production increases among leading members of the Organisation for the Petroleum Exporting Countries (OPEC) were also a supply-side factor. In mid-April 2020 the organisation and its oil-producing allies, known as OPEC+, agreed to a production cut of 9.7m barrels per day to help stabilise prices (see Energy chapter).

March 2020 saw the government release preliminary estimates showing overall GDP growth of 0.3% in 2019, compared to 2.4% in 2018. While non-oil GDP grew by 3.3%, oil GDP fell by 3.6%. The manufacturing sector, excluding petroleum refining, contracted by 0.9% at constant 2010 prices and 0.6% at current prices, which saw its value fall slightly to SR222.2bn ($59.2bn) and SR268.8bn ($71.7bn), respectively. The only other non-oil segment to fall in value in 2019 was electricity and water, which contracted by 4%. Manufacturing contributed 9% of overall GDP in 2019, roughly in line with 9.2% in 2018. Mining, for its part, grew by 4.8% at constant prices and by 5.3% at current prices. However, while it is seen as a sector with much promise, its contribution to overall GDP at both constant and current prices was just 0.4% in 2019, with a value of SR10.7bn ($2.9bn) at constant prices and SR13.2bn ($3.5bn) at current prices.

INDUSTRIAL TRADE: A good barometer of industrial health is the value of associated non-oil exports. According to the most recent data available from the General Authority for Statistics (GaStat), total non-oil exports for the month of December 2019 were valued 6.3% lower than in December 2018, at SR19.1bn ($5.1bn), compared to SR20.4bn ($5.4bn). Exports of products from the chemicals and allied industries fell by 19.3% year-on-year (y-o-y) to SR5.5bn ($1.5bn), plastics and rubber articles were down by 21.9% to SR5.4bn ($1.4bn), and base metals fell by 11% to SR1.6bn ($426.6m). While these industries saw significant contraction, exports of machinery, mechanical appliances and electrical equipment grew by 15.2% to SR1.1bn ($293.3m).

China is a critical trade partner for Saudi Arabia: it was the second-most-important destination for non-oil exports in December 2019 after the UAE, purchasing 15% of the total, down slightly from

17.6% in the same month of 2018, when it was the top buyer. The value of non-oil exports to China declined by 20.3% y-o-y in December 2019, from SR3.6bn ($959.8m) to SR2.9bn ($773.1m), while that month's data showed the Kingdom becoming more reliant on the Chinese economy for imported goods. The share of the Kingdom's imports that came from China was 18.3% in the final month of 2019 and valued at SR9bn ($2.4bn), up from SR6.5bn ($1.7bn) in December 2018, making China the country's most significant source of imports. All industrial category imports saw y-o-y increases in December 2019: base metals grew by 19.7%; machinery, mechanical appliances and electrical equipment by 11.7%; plastics and rubber articles by 8%; and products of the chemicals and allied industries by 3.8%.

EMPLOYMENT: Data on the workforce is compiled by GaStat and published in the Labour Force Survey on a quarterly basis. In the third quarter of 2019 the mining and quarrying sector employed 181,588 people, while there were 835,811 people working in manufacturing. Of the 112,653 Saudis in the extraction industries, 107,700 were men and 4953 were women. The manufacturing sector employed 198,029 Saudis, of whom 145,279 were men.

In its "Saudi Labour Market Update" report for the third quarter of 2019, Riyadh-based Jadwa Investment noted there was a fall in net employment in the manufacturing sector that quarter, with 1600 fewer citizens and 7000 fewer expatriates working in manufacturing than in the previous quarter. The number of workers in mining and quarrying grew in terms of both citizens and expatriates, building on the 800 Saudis hired in mining during the second quarter. In its 2018 annual report the country's largest mining firm, Saudi Arabian Mining Company (Ma'aden), reported that it employed 5772 people at the end of the year, of which 66% were nationals.

The mining sector is one of the main industrial targets of the NIDLP, which estimates the country could hold SR5trn ($1.3trn) worth of minerals (see analysis). According to the NIDLP, Vision 2030 initiatives in mining could lead to 450,000 direct and indirect jobs over the coming decade. To put this in context, Australia's mining industry, which estimates $282bn in revenue in 2019/20, employed around 250,000 people as of November 2019. The NIDLP's target for employment in the chemicals industry, meanwhile, is 400,000 jobs. For perspective, the 2018 annual reports of SABIC and Dow Chemical Company showed that the two global petrochemicals firms employed 33,000 and 54,000 people, respectively.

Although the creation of jobs for future generations of Saudis is a central pillar of Vision 2030, transforming industrial employment to create more jobs for citizens may take some time. A key component of the first phase of Saudi Arabia's industrial development from the 1970s was the use of cheap, often unskilled and primarily male labour. While that remains the case for many sectors of the economy, times are beginning to change. Data for the third

In the third quarter of 2019 manufacturing employed 835,811 people, 198,029 of whom were Saudi citizens

quarter of 2019 shows a total labour pool of 12.9m. Of these employees, 3.2m were expatriate domestic workers, including 1m foreign women. Therefore, the labour market in which Saudis were active was 9.7m strong, and of that total 3.1m were citizens.

Among Saudis 54% worked in the private sector and 46% in the public sector, which is in contrast to many GCC neighbours, where the public sector accounts for the majority of citizen employment. Saudis constituted 95% of all civil servants and 20% of private sector employees in the third quarter of 2019, while Saudi women made up 35% of all employed locals.

LABOUR FORCE: Expatriate levies were introduced in 2018 to incentivise companies to hire more Saudis, with companies expected to pay up to SR800 ($213) per month for each foreign worker in 2020 – a large bill for some companies, as expatriate males are the largest group in the workforce. In September 2019 the government made an exception for industry in order to stimulate investment, waiving the fees for five years – an exemption that could be worth a total of SR29.8bn ($7.9bn). However, the 706,717 expatriates working in mining and quarrying or manufacturing in the third quarter of 2019 accounted for just 11% of the 6.6m foreign men and women working in Saudi Arabia's private sector.

More than 1m unemployed Saudi citizens were looking for work in the third quarter of 2019. Of the job hunters, 84% were women; that period there were 857,312 female citizens looking for work, compared to 1.1m in positions. Among female job seekers 730,389 had a high school qualification or above, and 540,100 held a bachelor degree or higher. Of the 168,016 male Saudi jobseekers, 144,261 had completed high school or higher education, and 70,000 held at least a bachelor degree. "Many companies are thinking to establish their factories in Saudi Arabia nowadays. The Chinese workforce is becoming more costly, and there are many Saudis living in secondary

800

Saudis were hired in the mining and quarrying sector in the second quarter of 2019

In September 2019 industry was exempted from the foreign employee levy in order to stimulate investment, waiving the fees for five years – an exemption that could be worth $7.9bn.

The country's plants and factories could become more efficient and profitable through significant investment in Industry 4.0 technologies. This could be coupled with a reshaped, smaller workforce that employs more nationals.

cities who are willing to work," Ahmed Al Sultan, CEO of garment manufacturer Al Aseel, told OBG. "However, more incentives need to be put in place."

WORKFORCE 4.0: In this context, the real challenge is to create a significant number of positions that match the salaries and expectations of well-educated citizens, while maintaining economically viable businesses. The idea of Industry 4.0, in which manufacturing is transformed by technologies such as robotics, machine learning and artificial intelligence, was the basis of a study of Saudi industry under the NIDLP. The study suggested that the country's existing plants and factories could become more efficient and profitable if significant investments are made in developments such as 3D printing, automation and advanced analytics. Another conclusion of the report is that an industrial sector transformed by 4.0 technology could complement its investment in such tools with a reshaped workforce. This would entail replacing a large number of low-skilled expatriate factory hands with machines, and employing a smaller number of Saudis in data scientist, big data analyst or automation engineer positions.

While local business leaders can see the societal benefits of this shift, there are mixed views on how it would work in practice. Ali Mousa Al Jabrah, CEO of Astra Mining, has some ideas that he believes could help provide meaningful employment for ambitious young citizens. One is to create a cross between a fabrication laboratory and an industrial incubator on his firm's premises, with the idea that would-be entrepreneurs receive training and ongoing mentoring as they rent a small space in his factory, possibly with their own equipment or machinery, to launch their small business. "We want to work with the government to help young Saudi entrepreneurs, allowing them to start businesses and become employers themselves without the need to make a large capital commitment at the outset," Al Jabrah told OBG.

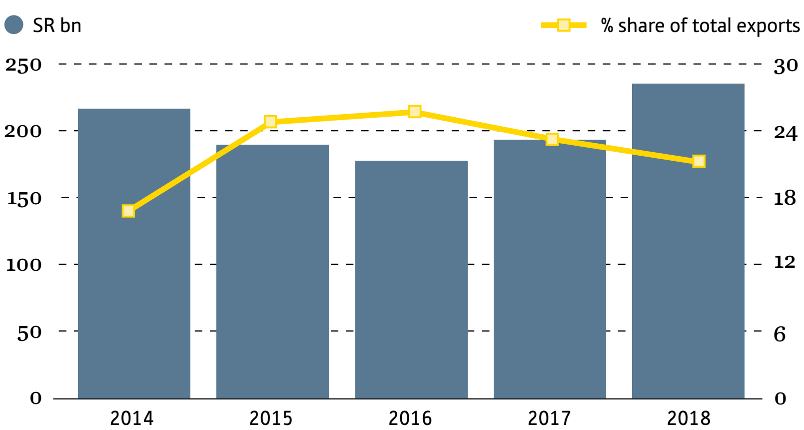
Another idea to solve a problem facing the mining industry is to replace fleets of smaller 3.5-tonne heavy goods lorries driven by expatriate drivers with fewer longer, heavier vehicles capable of hauling 44-60 tonnes driven by Saudis. Research on the introduction of such larger vehicles conducted by the EU found they would be safer than conventional heavy goods vehicles because replacing standard lorries with mega-trucks would reduce the overall number of kilometres travelled and thus lower the risk of accidents. The vehicles would also cause less wear and tear to roads, as multiple axles on larger vehicles allows the cargo weight to be spread more efficiently. The EU study conceded that some investment would be required to increase load-bearing on bridges. "This idea helps create jobs for Saudis because if a company operates many smaller trucks it cannot afford to employ local drivers at higher salaries; but if one mega-truck is carrying the same load as five smaller vehicles then it makes sense," Al Jabrah added.

According to Mutlaq Al Morished, CEO of petrochemicals manufacturer Tasnee, Industry 4.0 is already reflected in many segment operations. "The chemicals industry is already highly automated and technical, and we have high levels of Saudi employment, with many professional engineers in the industry thanks to the King Abdullah Scholarship Programme," Al Morished told OBG. "However, if we want our entire economy to diversify in the way Japan, Singapore or South Korea did, we need an education system based on science and not memorisation."

SUBSECTORS: In 2020 some key parts of Saudi Arabia's diversification drive with direct implications for industry will fall into place. The Public Investment Fund (PIF), the country's sovereign wealth fund, will play a much more significant role in capital spending in the Kingdom after it receives the $25.6bn raised in Saudi Aramco's November 2019 initial public offering, as well as the staggered payments from the fund's sale of its 70% stake in SABIC to Aramco, valued at SR259bn ($69bn). The understanding is that this will facilitate PIF investments in a range of diversification initiatives and mega-projects, such as the new smart city of NEOM being built in the country's north-west. This should benefit mining, logistics and advanced manufacturing that are targeted for growth under the NIDLP, but also bring some relief to more traditional segments like construction.

There were signs at the end of 2019 that cement businesses were benefitting from the Housing VRP, which aims to see home ownership among citizens reach 70% by 2030 (see Real Estate & Construction chapter). The Sakani affordable housing programme began in 2017, and its impact is noted by real estate consultancy Knight Frank. In the firm's third quarter 2019 report, it reported a 122% y-o-y increase in the number of residential transactions in Riyadh, with the value of transactions up by 139%. The report stated that 8000 new residential units were delivered in the capital in the third quarter alone, and that it expected to see a total of 70,000 residential properties built between 2019 and 2021. Cement producers are indeed seeing a boost to their financials due to the initiative. A look at the performance of Yamama

Non-oil exports, 2014-18



Source: GaStat

Around 1130 new investment licences were issued to foreign companies during 2019, up 54% on 2018

Cement showed a 47% rise in sales from the fourth quarter of 2018 to the fourth quarter of 2019, and a 27% quarter-on-quarter increase. The growth was attributed to heightened residential building.

The steel industry is also set to reap the benefits of ongoing construction activity, with SABIC executives at an industry conference in Dubai in December 2019 saying that steel product consumption in Saudi Arabia is expected to increase from 8.4m tonnes in 2019 to 8.5m tonnes in 2020 – although the Covid-19 pandemic may weigh on this projection. Hopes are that by 2030 private investment will bolster demand to a level similar to the 11.7m tonnes recorded in 2012. Both the cement and steel industries have excess capacity in Saudi Arabia, as reined in government project expenditure has dampened demand.

After a year of growth in 2018, 2019 proved to be a tougher year for the Kingdom's petrochemicals businesses (see analysis). SABIC reported a net profit of SR8.5bn ($2.3bn) in 2019, down considerably from SR31.9bn ($8.5bn) the year before, with a net loss of SR1.5bn ($400m) in the final quarter of 2019. "The petrochemicals industry was negatively impacted in 2019 by additional supply in key products coming on-stream, coupled with a moderation in global growth compared to 2018," Yousef Al Benyan, vice-chairman and CEO of SABIC, said in a January 2020 press release announcing the financial results.

Mining company Ma'aden also found itself facing lower sales prices for many of its key commodities, thus revenue fell from SR4.9bn ($1.3bn) in 2018 to SR2.3bn ($613.2m) in 2019, and net profit of SR2.2bn ($586.5m) in 2018 turned to a loss of SR1.5bn ($400m) the following year. Meanwhile, food and beverage giant Almarai saw revenue rise by SR793.4m ($211.5m) in 2019 to SR14.4bn ($3.8bn), but net profit dip from SR2bn ($533.2m) to SR1.8bn ($479.9m). Investment firm Al Rajhi Capital noted in the third quarter of 2019 that Almarai faced higher prices for the alfalfa that is used as animal feed, while limited population growth and expatriates leaving the market created downside risk. Saudi Arabia is conducting a census in 2020 to gain more accurate information on its population, but World Bank estimates put population growth at 1.8% for 2018, creating a challenge in regard to market size for the fast-moving consumer goods (FMCG) industry.

Foreign direct investment inflows between January and September 2019 rose to

$3.5bn

INVESTMENT: With an FMCG sector reliant on growth in population, consumer confidence and incomes; construction-oriented industries typically powered by government expenditure; and petrochemicals and mining industries subject to fluctuations in global commodity prices, widening the role of private sector investment is paramount. According to the "Investment Highlights Winter 2020" report by Invest Saudi, FDI flows to Saudi Arabia between January and September rose from $1.2bn in 2017 to $3.2bn in 2018 and $3.5bn in 2019.

Around 1130 new investment licences were issued to foreign companies in 2019 – 54% more than in 2018 and triple the number issued in 2017. Of the 2019 licences, 69% were for full ownership of a business and 31% were for joint ventures with local partners. In the manufacturing sector 190 licences were issued in 2019, compared to 133 in 2018, while transport and storage saw 35 licences, up from 29, and construction saw 193, up from 111.

Hosting the G20 Leaders' Summit in Riyadh, currently scheduled for November 2020, will place the Kingdom in the global spotlight, and provide a platform to showcase reforms and plans to international investors, and encourage them to participate in the country's transformation journey. While the meeting was still on the agenda as of late March 2020, the spread of Covid-19 has led to the cancellation or delay of numerous high-profile international events. Planners and attendees will therefore be monitoring the situation closely in the months ahead.

OUTLOOK: In its analysis of the industrial landscape, Vision 2030 and the NIDLP also looked at ways that investors could be attracted to develop or expand industrial activity at special economic zones (see analysis). At the same time, localisation strategies have been developed by home-grown industrial giants such as Saudi Aramco, SABIC and Ma'aden to enable the participation of local small and medium-sized enterprises in the supply chain of mega-projects. Greater involvement would also equip these growing businesses with knowledge and technology transfer when in partnership with international industrial firms. Although early 2020 brought concerns over the Covid-19 pandemic, which resulted in slowed economic activity across the globe and an associated drop in oil and other commodity prices, Saudi Arabia is keeping its sights on the decade ahead. The country's internal transformation vision is designed to create a multifaceted industrial economy that provides attractive jobs for citizens, and capitalises on opportunities that come with its geostrategic position and influence in the region.

Bandar Alkhorayef, Minister of Industry and Mineral Resources

Coordinated strategy

Bandar Alkhorayef, Minister of Industry and Mineral Resources, on enhancing local industrial activities through policy-making, technology and investment

How can advanced technologies facilitate the development of high-value-added industries?

ALKHORAYEF: A healthy local manufacturing industry is important for the economy, as it has large economic multipliers and drives other value-added sectors. The digital transformation is shifting the centre of competition in manufacturing from cost reduction to innovation and intellectual contribution, and we believe this will enhance the value of domestic manufacturing output and make the sector more sustainable in high-wage economies. Digital transformation technologies such as the internet of things, robotics, artificial intelligence and 3D printing are disrupting the manufacturing industry across the board, creating new operational models for existing factories and introducing new business opportunities for technology leaders, companies and entrepreneurs. Accordingly, factories are becoming more efficient, more reliable, safer and greener with better market responses and product customisation capabilities. Amid the current technological disruption, we believe that we have all the components to position the Kingdom as a global leader in industrial digital transformation. One of the Kingdom's key agents in this regard is its young and tech-savvy population. Moreover, the country's advanced communications and digital infrastructure is designed to be able to quickly deploy new solutions, while the Kingdom has strong financial capabilities to fund this transformation and provide the right incentives.

Despite a recent increase in tariffs, to what extent can industrial investors benefit from relatively low operational costs in Saudi Arabia?

ALKHORAYEF: Our industrial water and power tariffs remain competitive compared to other countries, and the Kingdom will continue to ensure that its energy prices are a competitive driver for investment in the future. There are several other value propositions that provide operational cost advantages to industrial investors, such as the availability of basic and intermediate raw materials; access to qualified human capital and research capabilities; export advantages through a number of trade agreements; access to industrial land and high-quality services at competitive prices; and access to competitive financing through the Saudi Industrial Development Fund and EXIM Bank.

The National Industrial Development and Logistics Programme (NIDLP) is one of Vision 2030's 13 Vision Realisation Programmes and was launched to support the integration of industrialisation efforts across multiple sectors, as well as implement and monitor value proposition efforts and other key enablers like special economic zones, advanced logistics networks and Industry 4.0 technologies.

In what ways will the new mining law benefit investors and the Kingdom's long-term economic goals?

ALKHORAYEF: The mining and mineral sector is basically untapped, and Vision 2030 is laying the foundation for the sector to pick up and contribute to diversification targets. Linking mining with industry under one ministry is a demonstration of the Kingdom's intention to develop the downstream industries related to mining and minerals. The most important element is indeed the new mining law of 2020. It has considered best practices and benchmarked leading mining countries to learn from their experiences. While creating the new law, we also considered different policies and licensing processes that are investor friendly, but also take into account the environment and the long-term contribution to the sector. The government is also investing in a sizeable geological survey to provide investors with access to geological information and databases that will help them make investment decisions with clarity and reduced risk. It is our intention to develop the mining sector in accordance with industry standards, and we plan to communicate effectively with potential investors while also promoting existing capabilities.

Industry, energy, mining and logistics are target sectors of the plan

Blueprint for success

The National Industrial Development and Logistics Programme lays the foundation for Saudi Arabia's economic vision

Saudi Arabia is not unfamiliar with the idea that if it wants to build a thriving society for generations to come it must not only make the most of its vast hydrocarbon resources, but also look beyond the oil and gas sector to build a multifaceted industrial economy. The launch of Saudi Vision 2030 in April 2016 galvanised the nation with a bold reimagining of how Saudi people could transform the way they live and work. In order to create a clear route to delivery, the government created 13 Vision Realisation Programmes (VRPs) with specific, measurable goals. In January 2019 the National Industrial Development and Logistics Programme (NIDLP) published a comprehensive plan that identified potential growth activities, 2020 commitments and aims for 2030, and a set of overarching enablers that would help drive progress across the industrial landscape. The NIDLP gives investors a clear reference point when assessing Saudi Arabia's priorities for the sector, and can help them identify opportunities in the local market. It also illustrates the country's willingness to think big, with the NIDLP underpinned by SR1.7trn ($453.2bn) in financing and a mandate to create 1.6m jobs. "The NIDLP is the largest among Vision 2030 programmes that are positioned to transform Saudi Arabia into an industrial and a global logistics hub in four promising growth sectors — mining, industry, logistics and energy – and focuses on embedding Industry 4.0," Sulaiman Almazroua, CEO of the NIDLP, told OBG. "The idea behind integrating these four sectors was to leverage the Kingdom's resources, domestic and regional demand for diversification, and GDP growth by stimulating private sector investments worth $453bn."

FOCUS AREAS: The strategy is to ensure that the four target sectors increase their contribution to GDP, provide more private sector job opportunities, boost exports, support local content, attract non-government investment and produce additional non-oil returns. The programme looked at the supply and demand factors for each sector, considering untapped resource potential on the supply side, and identifying import substitutions that could be made for products and services in high demand in the Kingdom. By maximising local content in this way, major job opportunities will be available for citizens and the country can improve its non-oil trade balance. Industry, specifically, is subject to the National Industrial Strategy (NIS) that has identified several target segments: equipment and machinery; renewable energy supplies; pharmaceuticals and medical supplies; automotives; oil and gas equipment; food processing and aquaculture; chemicals; and military manufacturing.

COMMITMENTS FOR 2020: The NIDLP articulates goals that it hopes to achieve by the end of 2020 and aspirations for 2030 in each of the four sectors. The 2020 commitments within the NIS include securing an agreement with a factory to develop vehicle assembly, and to make two primary investments in companies developing solar and wind energy to assemble necessary parts in the Kingdom. For aquaculture one commitment is to raise fish and shrimp production to 15 times the capacity seen in 2019, while increasing Saudiisation rates for citizen employment. For military industries the plan is to open the sector to local and foreign investors, ease the licensing process for manufacturers, build strategic partnerships with international original equipment manufacturers and restructure military aspects of the offset programme. The overall aim of the NIS is to stimulate production of both primary materials and finished products.

The 2020 commitments for the energy sector, focusing on oil alternatives, are to increase the contribution of renewable sources to the energy mix, encourage greater private sector contribution, reduce emissions from burning fuel by boosting gas production and upgrade distribution networks. In the mining sector the goals are to increase private sector investment, and enhance the service quality of the Deputy Ministry for Mineral Resources and the Saudi Geological Survey,

The programme is underpinned by **$453.2bn** in financing

The strategy is to ensure that target sectors increase their contribution to GDP, provide more private sector job opportunities, boost exports, support local content, attract non-government investment and produce additional non-oil returns.


The Kingdom is working to create globally competitive companies across various industrial segments

50%
of military production should be localised by 2030

while expediting the distribution of mining licences. The logistics sector has made a number of commitments to improve traffic flow and road safety. Other aims include streamlining Customs processes by digitalising systems at sea ports, cutting the number of mandatory import and export forms, and reducing the time it takes for imports to come through the receiving docks in order to grow into a major global logistics centre.

ASPIRATIONS FOR 2030: By 2030 the NIS hopes to see globally competitive Saudi companies across various industrial segments; increased capacity and production of renewable energy; greater expertise in battery technology; the development of a pharmaceutical, biopharmaceutical and medical supplies industry; greater local content; and the development of industrial clusters for food and automotive industries, including the manufacturing of cars. The objective for the chemicals industry is to localise the supply chain of basic and intermediate chemicals, prioritise 18 specialised chemicals groups, and double production capacity of plastic and packaging products. In aquaculture the goal is to increase its contribution to GDP sevenfold, while creating new jobs for Saudis and replacing imports with locally harvested seafood.

When it comes to military equipment, the NIDLP notes that Saudi Arabia is the third-largest importer of military equipment in the world. The aim for 2030 is to localise 50% of military production, thereby making it one of the country's key activities in terms of manufacturing and maintenance. The move would also help increase military readiness and transparency in the procurement supply chain. In addition, it is hoped that producing the majority of military equipment at home will increase equipment interoperability between different military and security branches, while enhancing the Kingdom's strategic autonomy in this area.

By 2030 the non-oil energy sector is to increase the production and use of natural gas, improve efficiency in the use and distribution of energy, and develop a renewable energy industry with a highly qualified workforce.

The NIDLP focus on the non-oil energy sector in the run up to 2030 is to increase the production and use of natural gas, improve efficiency in energy use and distribution, and develop a renewable energy industry with a highly qualified workforce. In the mining sector aspirations are to increase gold production by 10 times, and to join the ranks of the world's top-10 aluminium producers and top-three fertiliser producers through accelerating the exploration and extraction of minerals. The NIDLP estimates the country's mineral reserves to be worth up to SR5trn ($1.3trn) (see analysis). Meanwhile, a multi-agency approach is being used to craft a globally competitive logistics sector by 2030, with fast and efficient movement, tracking and clearance of goods; construction of freight and warehousing facilities; greater collaboration between national and international transport companies; and a fully integrated multi-modal transport network.

ENABLERS: Having established the key sectors that can play a prominent role in developing an industrial economy, the NIDLP goes a step further to address issues that may create challenges or prevent growth. In the document, solutions to such hurdles are referred to as enablers. Each sector is examined in detail in the report, with an appraisal of the current situation, and the identification of specific government agencies responsible for devising systems and strategies to capture opportunities and remove obstacles to development. The NIDLP also draws on best international practices to suggest ways to boost local content; support domestic research, development and innovation (RDI); create funding for enterprise; identify target markets for exports; develop education and training for better-equipped human resources; raise standards through regulation and improved governance; tap the opportunities presented by Industry 4.0 technologies, such as artificial intelligence, robotics and big data analytics; and use new strategies to attract foreign investment to the country's special economic zones.

Public bodies that back the enablers include the Local Content and Private Sector Development Unit (Namaa); the Saudi Industrial Development Fund, which is the primary financial engine of the NIDLP (see analysis); the National Industrial Clusters Development Programme; the Saudi Exports Development Authority; the National Committee for RDI; the King Abdulaziz City for Science and Technology; and the Saudi Authority for Industrial Cities and Technology Zones (MODON).

REALISATION: The NIDLP acknowledges that there are many ways in which industry could improve, stating that its impact on the economy has waned since 2012. The overriding message is that maintaining the status quo is not an option if the Kingdom is to capitalise on the advances it has made on many fronts and move to the next phase of its development. To this end, government policymakers began measuring the roadmap's progress one year after publication; by 2021 they will know how many of the 2020 commitments the NIDLP reached. At the same time, officials are working on new short-term targets to ensure the 2030 aspirations are delivered on schedule. While the NIDLP is just one of the VRPs to achieve Saudi Vision 2030, it is a leading blueprint for building the economy Saudi Arabia envisions will best support future generations in a rapidly changing world.

Ibrahim Almojel, CEO, Saudi Industrial Development Fund

Financing growth

Ibrahim Almojel, CEO, Saudi Industrial Development Fund (SIDF), on how diversified investments can boost development

What are the key priorities of the National Industrial Development and Logistics Programme (NIDLP)?

ALMOJEL: The NIDLP is one of the 13 Vision Realisation Programmes that support an ambitious economic diversification plan, aiming to transform the Kingdom into a leading industrial powerhouse and international logistics hub. The programme includes the development of export activities aimed at leveraging the Kingdom's natural resources and its location at the crossroads of three continents. It focuses on expanding four key sectors – industry, mining, energy and logistics – targeting the private sector with new incentives to promote growth. The NIDLP aims to create jobs and boost the combined contribution of the four sectors to one-third of GDP by 2030. To achieve this goal the government defined a new approach based on utilising its competitive advantages, increasing private sector participation, underlining clear socio-economic benefits and stimulating economic loans, with SIDF as the NIDLP's financial enabler. This system has evolved to support priority sectors – namely mining, energy, logistics and existing industries – and new promising regions.

In what ways is the Kingdom encouraging sustainable business and energy efficiency?

ALMOJEL: In line with the UN Sustainable Development Goals there have been global efforts to manage demand through the efficient use of energy and adoption of renewables, and Saudi Arabia is committed to reducing greenhouse gas emissions. The NIDLP includes a number of initiatives designed to encourage sustainable practices. SIDF introduced a financing programme for energy efficiency solutions in the manufacturing, agriculture and commercial sectors, with the option of connecting clients to third-party consultants. We also launched Mutjadeda, a programme to support the introduction of renewables in the country's energy mix by offering financing to independent power producers and manufacturers of solar and wind technology. Mutjadeda will facilitate the establishment and growth of local distributed generation projects by offering funding to project developers and facility owners.

To what degree can government incentives encourage the adoption of Industry 4.0 technologies?

ALMOJEL: The global supply chain is changing. Cheap labour is losing to automation, and scale is losing to customisation. These events are shifting global trade dynamics and are providing opportunities for countries like Saudi Arabia, which is rich in capital and strategically placed to support logistics networks. Saudi government entities are harnessing the power of advanced technologies to drive forward the Kingdom's ideas, but there is still room to accelerate and expand efforts. The Kingdom has the opportunity to play a leading role in a new era where automation and customisation are key.

The Industrial Digital Transformation Programme aims to employ innovative technologies and combine advisory and financing offerings to improve the digitalisation and automation of the manufacturing sector.

How are industry-focused small and medium-sized enterprises (SMEs) being supported?

ALMOJEL: The Covid-19 pandemic and the precautionary measures taken in order to prevent its spread have negatively impacted SMEs. As a result, many SMEs are suffering from a loss of revenue and disrupted cash flows. As part of a wider package of governmental support for Saudi businesses and employees, SIDF intends to offer an accelerated financial loan to support the operating expenses of local SMEs, as well producers of medical supplies. Furthermore, SIDF has restructured the instalments due in 2020 for small businesses. It will also consider restructuring the same for medium and large enterprises that are affected by the precautionary measures in order to help them deal with the current situation. The total economic impact of these initiatives is expected to reach approximately SR4bn ($1.1bn).

Saudi Arabia hosted MENA's biggest mining initial public offering to date

Buried treasure

Mining clusters support expansion, while new opportunities emerge for private firms

While public investment and institutions have taken the lead in the sector, the government is seeking to create a more diversified mining environment in which private companies and foreign investors play a greater role.

As part of the Kingdom's broader economic diversification strategy, billions of dollars in public and private investments have been allocated to develop the mining industry in recent years. The driving force behind the sector's expansion is the Saudi Arabian Mining Company (Ma'aden), which is majority owned by the Public Investment Fund (PIF) – the country's sovereign wealth fund – and listed on the Saudi Stock Exchange (Tadawul). The diversified business, which is active in the gold, phosphates, industrial minerals and copper concentrates segments, has emerged as one of the largest and fastest-growing companies of its type in the MENA region.

Under the National Industrial Development and Logistics Programme, the government has outlined a number of major targets for the expansion of Ma'aden and the mining sector as a whole. Two new industrial cities, a port and an expanded railway network have been built to facilitate these efforts. In addition, Ma'aden is seeking to boost capacity and production, with work under way on new phosphate and gold facilities. While public investment and government-related institutions have taken the lead in the sector, the authorities are seeking to create a more diversified mining environment in which private companies and foreign investors play a greater role.

INDUSTRY GIANT: The rapid growth of Ma'aden has highlighted what can be achieved through a combination of proactive government measures, partnerships with international companies and increased private sector investment. This approach forms part of Saudi Vision 2030, the country's bold economic diversification programme aimed at transitioning the country away from a dependence on oil. Ma'aden was founded by royal decree in 1997 and remained wholly state owned until July 2008 when it launched an initial public offering (IPO). Raising approximately SR9.3bn ($2.5bn), it was the biggest mining IPO in the MENA region to date. This set off a series of major investments, with the company commissioning eight new mines and 17 processing plants, all of which were operational by 2018. The total value of the company's assets increased dramatically during this time, rising from SR29bn ($7.7bn) in 2009 to SR97.7bn ($26bn) in 2019, while the value of its sales rose SR622m ($165.8m) to SR17.7bn ($4.7bn). Meanwhile, the company's gold sales grew from 45,000 oz in 2009 to 394,117 oz in 2019. As of December 2019 the company operated six gold, one bauxite and two phosphates mines, in addition to three mines producing low-grade bauxite, kaolin and magnesite.

The most recent extraction facility to come on-line was the Al Khabra phosphates mine, which opened in 2017 and forms a key part of the Wa'ad Al Shamal Industrial City.

The most recent extraction facility to come on-line was the Al Khabra phosphates mine, which opened in 2017. The mine is operated by Ma'aden's Wa'ad Al Shamal Phosphate Company – an $8bn joint venture (JV) between Ma'aden, Mosaic and SABIC – and is located in the Northern Borders region of the Kingdom, forming a key part of the Wa'ad Al Shamal Industrial City.

MINING CITIES: The construction of specialised cities to serve as nodes clustering industrial facilities, transport infrastructure and human resources constitutes a central part of the Kingdom's industrial development strategy. Completed in November 2018 Wa'ad Al Shamal Industrial City covers over 440 sq km and cost around SR22.5bn ($6bn). The project, which includes residential units, public amenities and new roads, was designed to provide a centre for the expansion of the Kingdom's phosphate mining activities and generate around 30,000 jobs for Saudi citizens.

The city is connected by a rail freight line to Ma'den's other mining city, Ras Al Khair Industrial City, which is located on the eastern coast 60 km north of Jubail. Initiated in 2016, the city is currently under development and managed by the Royal Commission for Jubail and Yanbu. The completed urban development will span 179 sq km and include an aluminium production complex, a water desalination and power plant, and a major port. In addition, the city will include a new railway network linking it with bauxite and phosphate mines. As of December 2019 the project had attracted investments of SR100bn ($26.7bn).

CHALLENGES & OPPORTUNITIES: While Ma'aden has experienced impressive growth in output and sales over the last decade, it nonetheless faces challenges, particularly in terms of the fluctuation of global commodity prices. Indeed, while overall sales increased by 25% to SR17.7bn ($4.7bn) in 2019, the international price of phosphate and aluminium fell by 18% and 15%, respectively. These sharp declines, coupled with significant capital expenditure in new operations, resulted in the company recording a net loss of SR1.5bn ($399.9m), compared to a net profit of SR2.3bn ($666.5m) the previous year.

Despite these challenges Ma'aden continues to expand its capacity and reach. In April 2019 the company announced an agreement to acquire an 85% stake in the Mauritius-based fertiliser distributor Meridian Group, marking its first overseas acquisition. Additionally, in June 2019 it was announced that the US-based aluminium producer Alcoa would divest its 25.1% share in Ma'aden Rolling Company (MRC), bringing the company under complete ownership of Ma'aden. MRC owns and operates a beverage can rolling facility in Ras Al Khair Industrial City, in addition to auto rolling assets. As part of the deal, MRC's $796m in outstanding debt to the PIF was transferred to Ma'aden. Furthermore, Ma'aden aims to double its production capacity of gold to 1m oz per year by 2025 through its wholly owned subsidiary Ma'aden Gold and Base Metals Company. The firm, which already has six gold mines in operation, plans to commence production by 2023 at two new extraction sites at Mansourah-Massarah and Ar Rjum.

NEW INVESTMENT: While majority state-owned Ma'adan is likely set to dominate the sector for the foreseeable future, private companies are playing an increasingly active role, particularly in the upstream segment. For example, Modern Chemicals and Services Company – a JV between the domestic firm Modern Industrial Investment Holding Group and the French multinational EPC Groupe – has supplied civil explosives to the mining and construction industries since 2009. The company is currently developing a 350,000-tonne-per-annum, low-density ammonium nitrate project to produce components for mining explosives. Furthermore, Modern Mining Holding Company, a subsidiary of Modern Industrial Investment Holding Group, formed a JV with the Amsterdam-based resource trading firm Trafigura in October 2018 to develop an integrated copper, lead and zinc smelting and refining facility. Both these projects will form part of Ras Al Khair Industrial City.

The government is aiming to release more concessions for mining and quarrying to private firms in order to unlock the Kingdom's estimated SR5trn ($1.3trn) in mineral deposits. One firm looking to expand operations is Saudi company Astra Mining. Since 2017 Astra Mining has produced lime and dolomite products at a plant in Al Kharj. The company has applied for licences to operate four quarries to extract lime, dolomite, magnesite and quartz, and plans to launch licence applications for feldspar, kaolin and pozzolan. "We currently buy limestone and dolomite from the market, but if we had our own mines our business would be transformed," Ali Mousa Al Jabrah, CEO of Astra Mining, told OBG.

As part of this effort, the Saudi Geological Survey has been tasked with conducting detailed surveys and creating an accessible database to help in exploration activity. In addition, a new mining law is currently under development and is set to be enacted around the middle of 2020. The new legislation is expected to provide foreign investors with greater access to the market. "We believe the mining sector in Saudi Arabia can be as significant as it is in Chile, Australia or Canada," Abdulkadir Farah, vice-president for business development at Modern Industrial Investment Holding Group, told OBG. "The new law presents exciting potential opportunities in the upstream segment."

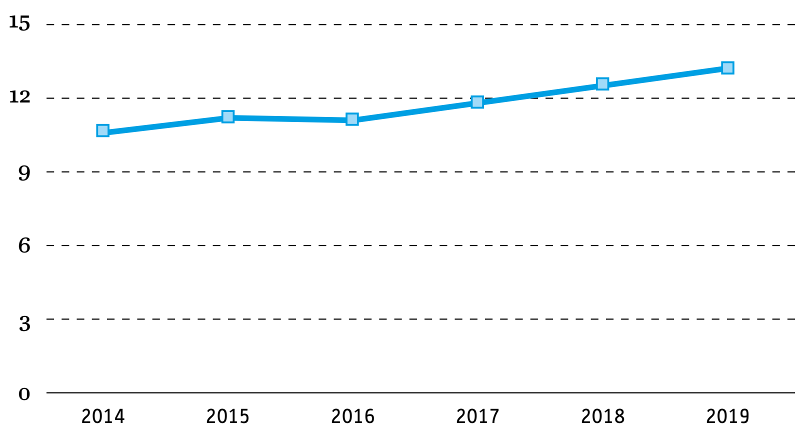
The private sector is set to see more mining and quarrying concessions

The Kingdom has an estimated

$1.3trn

worth of mineral deposits

Non-hydrocarbons mining & quarrying GDP*, 2014-19 (SR bn)



Source: GaStat

*current prices

Khalid Al Salem, Director-General, Saudi Authority for Industrial Cities and Technology Zones

Strong partnerships

Khalid Al Salem, Director-General, Saudi Authority for Industrial Cities and Technology Zones (MODON), on leveraging existing capabilities and new technologies to support growth

In what ways are modern technologies such as artificial intelligence improving productivity within manufacturing plants and smart cities?

AL SALEM: Recently, MODON launched the National Productivity Programme as an initiative within the National Industrial Development and Logistics Programme, in partnership with the Saudi Industrial Development Fund and the King Abdulaziz City for Science and Technology. The aim is to help industrial companies with digital transformation and the adoption of technologies in the context of Industry 4.0. The programme seeks to help factories achieve the highest rates of production efficiency by creating plans to implement the techniques of the Fourth Industrial Revolution (4IR). Such plans will be created for 100 existing factories, selected to be an example for other manufacturers to transform and keep pace with the 4IR. The first phase of the programme began in April 2019, working with 20 factories in cooperation with GE, while the second phase will be launched of 40 more factories in 2020.

What are the key factors attracting international investors to the Kingdom's industrial cities?

AL SALEM: By working within a defined strategy to make the most of the state's partnerships with the private sector, the government is offering a number of incentives such as technical, fiscal or administrative procedures through its industrial cities. This strategy has already attracted leading international companies in the industrial field, in addition to value-added investments from both international and local companies. These include two factories for Germany's Siemens, one to manufacture gas turbines and compressors, and the second for automation panels; an industrial plant for Egypt's Pharco Pharmaceuticals; an oil and gas manufacturing site for GE; a pump workshop for Japanese firm Ebara; a manufacturing centre for France's Schlumberger; and a chemical materials manufacturing site for Germany's Henkel. As of March 2020 the volume of investment within MODON's industrial cities was approximately SR367bn ($97.8bn).

How can local small and medium-sized enterprises (SMEs) be integrated into the Kingdom's large-scale industrial projects?

AL SALEM: The Kingdom has made great strides in enhancing the participation of SMEs and their impact on the growth of the national economy by increasing their contribution to GDP and their role as an integral component of the private sector.

MODON has strengthened its strategy to help the industry increase its local content by developing a number of different products and financial solutions for integration with its partners in the public and private sectors. These solutions include industrial land with developed infrastructure and services; investment land dedicated to developing facilities and services within industrial cities; ready-made factories ranging from 700 sq metres to 1500 sq metres for partners investing in the SME sector; business incubators to support entrepreneurs and owners of new projects; and logistical solutions distributed in principal areas throughout the Kingdom.

In cooperation with the Saudi Industrial Development Fund, MODON provides Land and Loan products, whereby investors for industrial land and financing as part of a unified industrial package. It also has a Factory and Loan product, which is intended to provide ready-made factories to investors with the possibility of obtaining financing for a project. In addition, MODON provides a Foundations product that enables investors to obtain up to SR4m ($1.1m) in financing through the Social Development Bank. MODON also holds workshops and collaborates with the Small and Medium Enterprises General Authority to support local entrepreneurs and SMEs.

Petrochemicals is the country's largest category of non-oil exports

Chemical reaction

Domestic consolidation and international partnerships provide support to the petrochemicals industry

Saudi Arabia is making efforts to consolidate and expand its petrochemicals industry through a series of new mergers and partnership deals. By far the biggest development in the sector was the finalisation of an agreement in March 2020 for the purchase by Saudi Aramco of a 70% stake in SABIC. The proceeds from the deal, which stand at $69bn, will go to the Kingdom's sovereign wealth fund, the Public Investment Fund (PIF). This comes in conjunction with the $25.6bn the PIF is set to receive from the launch of Saudi Aramco's initial public offering in November 2019. This combined $94.6bn windfall will enable the PIF to support a plethora of Vision 2030 initiatives, while Saudi Aramco and SABIC push on in tandem to further develop the country's petrochemicals industry, which is the largest source of non-oil exports.

HEAVYWEIGHT PLAYERS: Founded in 1976, SABIC has grown into one of the world's largest petrochemicals manufacturers, utilising the Kingdom's feedstock price advantage and availability of capital resources to become a global conglomerate employing approximately 33,000 people in 50 countries. Meanwhile, Saudi Aramco, one of the world's biggest crude oil exporters, has widened its operations to become an integrated energy business with interests in natural gas, renewables and petrochemicals, employing a global workforce of 70,000. The combined weight of these two multinationals, along with that of their subsidiaries and joint ventures (JVs), provide the backbone of the country's non-oil revenue. Indeed, in December 2018 the activities of the two companies accounted for 67.2% of non-oil revenue, with a combined value of SR13.7bn ($3.7bn) in that month alone.

TESTING TIMES: However, the two conglomerates' consolidation came at a testing time in the world's petrochemicals market. By December 2019 the contribution of petrochemicals to the Kingdom's non-oil exports had fallen to 56.9%, with their combined value declining by 20% to SR10.9bn ($2.9bn). This came amid the slowdown of the Chinese economy – whose rapid expansion played a decisive role in the rise of Saudi Aramco and SABIC – and increased competition in the global petrochemicals market, which exerted downward pressure on the prices of key products. As a result of these factors, SABIC experienced falls in both revenue and profit throughout 2019. Indeed, in the final quarter of 2019 the company's petrochemicals and speciality chemicals segment recorded a loss of SR341.3m ($91m), with this contributing to an overall loss by SABIC of SR1.5bn ($400m). For 2019 as a whole, the company made a profit of SR8.5bn ($2.3bn), a 73% decline from the SR31.9bn ($8.5bn) recorded in 2018, according to SABIC's 2019 financial statements. Further contraction is expected in 2020, as the global outbreak of Covid-19 shuttered factories around the world and dampened demand.

EXPANSION: In the face of challenging market conditions SABIC has sought to diversify its production base and expand operations. In 2018 SABIC acquired a 24.99% equity stake in Swiss chemical company Clariant. The two firms also signed a memorandum of understanding (MoU) to consider merging SABIC's future specialities business with Clariant's additives and high-value master batch divisions. However, the implementation of this merger was delayed in July 2019 due to unfavourable market conditions.

On the domestic level, SABIC merged two of its wholly owned subsidiaries, Saudi Petrochemical Company and Petrokemya, in October 2019, in a move to increase efficiency. In the same quarter SABIC announced a deal to increase its shareholding in the Saudi Arabian Fertiliser Company (SAFCO) to 50.1%, while SAFCO acquired the SABIC Agri-Nutrients Investment Company, which had been formed by SABIC in 2018 to consolidate all of its equity shares and assets in the segment. SABIC owns a 50% stake in both the National Chemical Fertiliser Company (Ibn Al Baytar) and Al Jubail Fertiliser Company (Al Bayroni), as well as

In March 2020 the purchase of a 70% stake in SABIC by Saudi Aramco was finalised, allowing the two companies to work together to further develop the Kingdom's petrochemicals industry.

In November 2019 the Saudi Arabian General Investment Authority signed memoranda of understanding with a combined value of $2bn with international chemicals companies for new projects in Jubail Industrial City.

33.33% of the shares of Gulf Petrochemical Industries Company. This followed an agreement in December 2018 by SABIC to increase its stake in the JV Ar Razi – the world's largest methanol complex – to 75% by purchasing 50% of the shares held by its partner, the Japan Saudi Arabia Methanol Company, while also agreeing to extend the partnership another 20 years.

Additionally, in 2019 SABIC and its JV partner, US energy giant ExxonMobil, broke ground on the Gulf Coast Growth Ventures project, a plastics manufacturing facility in San Patricio County, Texas. The complex is set to include specialised production units for ethylene, monoethylene glycol and polyethylene production. Operations at the plant are expected to begin in 2022.

CRUDE TO CHEMICALS: Prior to Saudi Aramco signalling its intent to acquire the majority stake in SABIC, the two companies had already been collaborating on a number of projects. Most notably, in October 2018 the two companies announced the final stage of preparations for the construction of a crude oil-to-chemicals facility in Yanbu. Upon becoming fully operational in 2025, the plant is expected to produce 9m tonnes per year of chemicals from 400,000 barrels per day

GLOBAL LINKS: Saudi Aramco first entered the chemicals market in 1998 and currently operates a number of JVs with international partners in the Kingdom and abroad. In Jubail, the Saudi Aramco Total Refining and Petrochemical Company refines heavy Arabian crude, but also produces the aromatics paraxylene and benzene. On the Red Sea its Petro Rabigh JV with Japan-headquartered Sumitomo Chemical produces petrochemicals that are used to make detergents, resins, auto interiors, glue, household appliances, toiletries and artificial fibres. Saudi Aramco's most ambitious project in the segment to date is the $20bn Sadara Chemical Company (Sadara) industrial facility in Jubail Industrial City, a JV with US company Dow Chemical. The original front-end engineering and design for the project was commissioned in 2007, and in 2011 Saudi Aramco and Dow Chemical announced the formal launch of a JV. The facility was designed to be the largest single-site integrated refining and petrochemicals complex in the world, with a 1.5m-tonne-per-year capacity mixed-feed cracker capable of using ethane and naphtha to produce a range of chemical products.

Coming on-line in stages, the mixed-feed cracker began production in 2016 and the last of the Sadara complex's 26 plants became operational in August 2017. This final unit produces toluene diisocyanate, a product used in the manufacture of foam for mattresses and automotive upholstery.

Currently, the site provides products for around 600 customers in 70 countries and employs 4100 members of staff, most of them Saudis. Efforts have also been made to cluster downstream industrial activities around the facility in order to develop local value chains. These include the establishment of PlasChem Park, a 12-sq-km industrial park built adjacent to the Sadara facility that provides a site specialising in chemical and conversion businesses. The project was formed through a collaboration between Sadara and the Royal Commission for Jubail and Yanbu.

Nevertheless, in a difficult year for the petrochemicals industry, Petro Rabigh had a loss of SR603m ($160.8m) in 2019 compared to a profit of SR658m ($175.4m) in 2018. Meanwhile, Sadara reported a loss of SR4.87bn ($1.3bn) in the first nine months of 2019, 158% higher than a loss of SR1.89bn ($503.9m) made during the same period of the previous year.

Despite these losses, a number of deals have been signed that are expected to support the continued expansion of chemicals capacity and production. In November 2019 Sadara signed a deal with US services firm Baker Hughes to pipe ethylene oxide and propylene oxide to its facility in PlasChem Park for a period of 20 years. In the same month the Saudi Arabian General Investment Authority – the Kingdom's investment licence provider – signed MoUs with a combined value of $2bn with the international chemicals companies BASF, Anglo Dutch Shell, Mistsui, SNF and AMG Advanced Metallurgical Group for the development of new projects in Jubail Industrial City.

Clusters facilitate the horizontal and vertical expansion of firms

Catalysed diversification

Industrial clusters are identified as the vehicle to bring benefits to strategic manufacturing segments

A key objective in Saudi Arabia's Vision 2030 national development strategy is the creation of a sustainable, competitive and diversified manufacturing ecosystem driven by private sector activity. The achievement of this objective is underpinned by the National Industrial Strategy (NIS), which outlines a programme to boost domestic manufacturing and exports by nurturing the development of strategic industries through the creation of specialised manufacturing clusters.

CLUSTERED DEVELOPMENT: A multi-agency approach is being taken to achieve these objectives. Targets have been established under the National Industrial Development and Logistics Programme (NIDLP) for each subsector of the selected industries, supported by studies of the most viable goods to produce in the Kingdom. Under the NIDLP, the strategy has been to generate momentum by launching projects aimed at stimulating the rapid development of specific industries. For example, the battery technology segment has been identified as a catalyst for the broader machinery and equipment industry.

A key government agency implementing this strategy is the National Industrial Cluster Development Programme (NICDP), which was established in 2008 under the supervision of the former Ministry of Commerce and Investment, and the former Ministry of Energy, Industry and Mineral Resources; responsibility for these areas were divided in 2019. The NICDP works alongside other agencies, such as the Saudi Authority for Industrial Cities and Technology Zones (MODON) and the Royal Commission for Yanbu and Jubail, to identify gaps in the manufacturing market, and has identified 40 components or products that could be manufactured in the country.

The formation of business clusters is a key strategy in achieving the Kingdom's diversification aims. These clusters facilitate the horizontal and vertical expansion of firms while increasing efficiency and competitiveness. This is done by concentrating corporate and entrepreneurial operations with necessary suppliers and associated institutions in a specific locale. Examples of this set-up include the clustering of automotive production alongside components manufacturing to enable just-in-time production techniques, or biomedical and pharmaceuticals firms near research institutions or major hospitals.

AUTOMOTIVE EXPANSION: The development of a domestic automotive industry cluster has been identified as a major objective by policymakers. There is high demand for vehicles in Saudi Arabia and the broader MENA region, but the NIDLP highlighted that the Kingdom is the only country among the top-20 in terms of demand for new vehicles to be without a local or regional production centre. Establishing a cluster for the industry would not only enable the country to better meet local demand and boost exports to the region, but also provide support for the country's upstream metals, plastics and chemicals industries.

As of early 2020 there are four international commercial truck manufacturers producing vehicles in Saudi Arabia, three of which have commercial operations in Jeddah, namely Volvo Trucks, MAN and Mercedes Benz. The most recent arrival to the market is Japan's Isuzu Motors, which has been producing commercial vehicles for export at its Dammam facility since 2012. In October 2019 the Saudi National Automobiles Manufacturing Company (SNAM) signed a licensing deal with the South Korean original equipment manufacturer SsangYong Motor for the domestic assembly of the firm's Rexton Sports and Rexton Sports Kahn sport utility vehicles. Under the deal SNAM aims to produce up to 30,000 units of the two models at its plant in Jubail by 2021. "Ensuring that the highest value is derived from transferring knowledge from South Korea to Saudi Arabia is a priority in order to offer long-term employment to specialised engineers and other professionals in the automotive sector," Fahd Aldohish, CEO of SNAM told OBG.

The Kingdom aims to generate momentum by launching projects to rapidly develop specific industries, such as battery technology, which has been identified as a catalyst for the broader machinery and equipment industry.

40

components or products have been identified for local manufacture

Research and development efforts are being consolidated to support clinical trials for new drugs and vaccines

Building on this, the NIDLP aims to create an automotive manufacturing cluster in the country that can produce both conventional cars and electric vehicles, while also developing the capacity to manufacture batteries. In August 2019 the country took its first steps towards creating an infrastructure network for electric vehicles with the installation of Schneider Electric charging points at some SASCO filling stations. Furthermore, the Public Investment Fund, the country's sovereign wealth fund, has made inroads into the development of electric vehicles in the US, claiming a $2bn stake in the electric vehicle start-up Tesla before shifting its investment focus to Lucid, a Silicon Valley-based firm specialising in electric vehicle battery production. Nevertheless, while the NIDLP remains committed to the creation of an automotive cluster in Saudi Arabia, international conditions present challenges, with the sale of new units falling from 81.8m in 2017 to 80.6m in 2018, and sales set to fall by a further 4% to 77.5m in 2019, according to credit ratings agency Fitch.

PHARMACEUTICALS: The NIDLP has also identified the pharmaceuticals industry as a sector with significant potential for growth. According to the NIDLP, SR30bn ($8bn) worth of pharmaceuticals are expected to be sold in the Kingdom by 2021, a quarter of the MENA total, and yet only 20% of demand is met by local production. In addition to high levels of demand, the Saudi market has a stable economy with access to finance, an existing regulatory structure and free trade agreements with most of the MENA region. Alongside an economic rationale for expanding manufacturing, the NIDLP recognises a strategic incentive, in that local production can help protect the country from any future supply shortages. Nevertheless, challenges remain to development, including delayed disbursements to local manufacturers by the authorities, lengthy registration and a multiplicity of agencies involved in localisation of the industry.

$8bn
in pharmaceuticals are expected to be sold by 2021

The country's pharmaceuticals industry is oriented towards the production of generics for the local market, and domestic players face strong competition from international firms in terms of developing higher-value products. Global pharmaceuticals firms tend to concentrate their resources on producing profitable patented medicines; however, this requires major inputs of capital and expertise in high-risk research, making it a difficult market to break into. Nevertheless, progress can be made if research and development (R&D) is consolidated, given that R&D is currently conducted in a patchwork manner by universities and medical centres, according to the NIDLP.

RESEARCH LINKS: To address this issue, the Research Products Development Company (RPDC) was created in 2015 in order to bridge the gap between patents and commercialisation. It leverages the existing research output of major industrial conglomerates such as SABIC and Saudi Aramco with educational establishments such as King Fahd University of Petroleum and Minerals, King Abdullah University of Science and Technology (KAUST), and King Abdulaziz City of Science and Technology. Among the most important projects supported by RPDC is the Saudi Vaccine and Biomanufacturing Centre, which was developed in conjunction with KAUST and the domestic vaccines and biopharmaceuticals manufacturer SaudiVax. Construction of the R&D cluster began in December 2018 and is earmarked for completion in 2020. The new facility will support clinical trials for emerging drugs and accelerate the development of vaccines. "The commercialisation of Saudi Arabia's intellectual property has not been in line with the Kingdom's aspiration. The entrepreneurship and tech start-up ecosystem is not yet adequately mature and well developed, thus we face major challenges," Abdulmohsen Almajnouni, CEO of RPDC, told OBG. "However, Vision 2030 recognises the need to support R&D, and our aim is to focus on solutions that can benefit the whole country."

An automotive cluster would address local demand and boost exports

The state's industrial fund saw its capital rise to $28bn in early 2019

New streams

Funding to industry is increased and extended to the nascent mining and mineral extraction sector

The Saudi Industrial Development Fund (SIDF) was formed in 1974 and has played a key role in supporting the Kingdom's industrial development, providing soft loans that helped the country's manufacturing pioneers through the hard first years in business and subsequently supported their growth. In January 2019 SIDF's focus was realigned more closely with Saudi Vision 2030, the national development blueprint, and the National Industrial Development and Logistics Programme (NIDLP). The fund is set to play a pivotal role in enabling the NIDLP to deliver on its goal of boosting investment in new industrial sectors to SR1.7trn ($453.2bn) by 2030.

MORE FUNDING: In order to facilitate this role, the government increased SIDF's capital by 60% to SR105bn ($28bn) in January 2019. A year later SIDF revealed its loans to industry in 2019 had increased by 32%, with the approval of SR12.5bn ($3.3bn) worth of loans in the 12-month period. In 2019, 77% of loans were granted for projects developed by small and medium-sized enterprises, while 41% were awarded for projects in promising regions and cities. The chairman of SIDF is Bandar Alkhorayef, who is also the minister of industry and mineral resources. "We are proud of SIDF's performance, which came in line with the ambitious plans of Vision 2030... transforming Saudi Arabia into a leading industrial powerhouse and a global logistics hub," he said at the announcement of SIDF's 2019 results in February 2020.

SIDF's 2018 annual report noted that it provided funding of SR9.4bn ($2.5bn) for 110 new industrial projects and 24 existing ones, with total investment reaching SR38.5bn ($10.3bn) that year. From its inception to the end of 2018, SIDF had provided 4350 loans worth SR157.4bn ($42bn), contributing to the establishment of 3218 new projects and the expansion of 1132 existing ones.

EXTRACTION: In mid-2019 SIDF amended its by-laws to allow it to lend to a key sector that had not previously fallen under its remit: mining and mineral extraction. The development fund announced it would provide loans of up to 75% of the project costs in the sector, including during the delineation phase of exploration activity, such as drilling and initial mining works, as well as supporting service companies helping the mining effort. Prior to this announcement, the NIDLP roadmap identified a lack of commercial credit to the high-risk, high-reward mineral exploration industry as a significant impediment to the development of the sector.

SIDF also introduced new products in 2019, including a working capital financing programme for new businesses for investors with tenures under 12 months, as well as acquisition finance. The latter provides financial backing for a number of items, including the acquisition of specific technology and manufacturing methods, intellectual property, suppliers and clients, and competitors. Acquisition finance is offered either up front or after the transaction, with a repayment period of up to seven years.

SERVICES: SIDF has also been working to improve its services by automating operations, reducing the time it takes to process applications by 60% in 2019 to four to five months, as well as focusing on customer satisfaction. "We are not a bank, but we are trying to benchmark our services to the standard provided by commercial banks. Thus, we have divided our credit department, with one section dealing with customer relations while another focuses on portfolio management. We have also created a customer satisfaction index," Noor Shabib, vice-president of strategic planning and business development at SIDF, told OBG. However, the development fund sees its function as very different to that of a commercial lender. "A bank will assess whether you can cover the collateral when deciding to give you a loan, but we are more interested in the economic impact of the project, as well as its viability," Shabib added.

In 2019, 77% of the $3.3bn in loans granted went to projects developed by small and medium-sized enterprises, while around 41% was awarded to projects in promising regions and cities.

In mid-2019 the Kingdom's industrial development fund announced that it would provide loans to cover up to 75% of project costs in the mining and mineral extraction sector.

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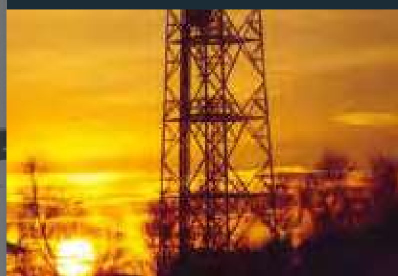
Security, Aerospace & Defence

Administrative restructuring to bring efficiency gains

Efforts under way to localise high-value manufacturing

Changing dynamics in the international arms trade

Increased emphasis on cybersecurity preparedness

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The aerospace industry has been identified as a major growth target

System ready

Administrative reform and focus on local manufacturing capacity

With one of the highest military spends worldwide, Saudi Arabia is in the midst of restructuring its defence sector and expanding its military industry to greater higher added value can be generated for the national economy. The sector has witnessed significant change over recent years, with major reforms under way across all subsectors of the industry. Recent trends have included the introduction of new government entities to lead the drive for localisation, a new defence contracting mechanism and a growing focus on areas such as cybersecurity, and the Kingdom's space programme and satellite industry. The shock of the 2019 attack on the country's Abqaiq and Khurais oil facilities brought a renewed focus to the defence sector, placing it at forefront the country's priorities. Meanwhile, the new impetus towards localising military expenditure represents a core ambition of the country's Vision 2030 development strategy and stands to bring enormous economic benefits in terms of employment and technology transfer.

DEFENCE FORCES: Saudi Arabia's defence forces include a number of branches operating under different ministries. The Ministry of Defence (MoD) is responsible for administering the largest military bodies, including the Royal Saudi Land Army (RSLA), the Royal Saudi Air Force (RSAF), the Royal Saudi Naval Forces (RSNF), the Royal Saudi Air Defence Forces (RSADF) and the Royal Saudi Strategic Missiles Force (RSSMF). Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud currently serves as the country's minister of defence. In addition to MoD forces, the Saudi Arabia National Guard (SANG) operates as a separate entity under its own ministry, while the Ministry of the Interior (MoI) administers the Kingdom's border guard. Furthermore, in 2017 a new body, the Presidency of the State Security, was established to administer the country's counterterrorism and domestic intelligence services.

Saudi Arabia's armed forces are not configured as an international expeditionary force, but instead trained to defend the country from regional and internal threats. The latest publicly available data from the International Institute of Strategic Studies estimates that the country's forces totalled 277,000 personnel in 2015. This included 75,000 in the RSLA, 20,000 in the RSAF, 13,500 in the RSNF, 2500 in the RSSMF and 100,000 members of SANG. As part of Vision 2030, the government is seeking to integrate the MoD's five armed forces under a joint operational command, with this deemed to be a key aspect of the organisation of effective armed forces. These efforts are being overseen by the a team within the MoD, under the leadership of Khaled Biyari, the assistant minister of defence since early 2018.

In September 2019 parts of the country's critical oil infrastructure were attacked in drone and missile strikes. It has been speculated that these incursions were linked to Iran or Houthi fighters in neighbouring Yemen. Both the Abqaiq crude processing facility and nearby Khurais oil field were hit in the assault. This brought a renewed commitment from Saudi Arabia's partners to help strengthen the country's air defence infrastructure. New systems will serve to protect against low-altitude objects with small radar signatures, the characteristics of drone swarms and cruise missiles.

MILITARY BUDGET: In December 2019 Saudi Arabia announced that $48.5bn, or 18% of its 2020 budget, would be allocated towards military spending. Saudi Arabia's official defence spending figures do not reflect off-budget purchases, and as such, actual spending is generally substantially higher. According to the latest available data from the Stockholm International Peace Research Institute (SIPRI), Saudi Arabia's military expenditure in 2018 was estimated at $67.6bn, or 24.6% of total government expenditure. This positioned the country as the

In line with the Kingdom's Vision 2030 development strategy, the government is seeking to integrate the Ministry of Defence's five armed forces under a joint operational command.

18%

of the 2020 budget was earmarked for military spending


Between 2014 and 2018 Saudi Arabia bought over 4000 armoured vehicles from a range of countries

Saudi Arabia is the world's third-largest military spender, behind only the US and China, and ranks first globally in terms of per capita spending.

world's third-largest military spender, behind only the US and China. Furthermore, this figure placed the Kingdom far ahead of any other country in the Middle East in terms of expenditure on defence and security, with Turkey spending $19bn in the same year, Israel spending $15.9bn and Iran spending $13.2bn. Within the GCC, spending by the UAE is not disclosed, but Kuwait, Oman and Bahrain spent $7.3bn, $6.7bn and $1.4bn.

BUDGET CONSOLIDATION: The amount budgeted for 2020 represents a 5% decline from the $51bn allocated in 2019. This places the sector second to education, which received 19% ($51.5bn) of the budget, while health received the third-largest share, at 16% ($44.5bn). This decrease forms part of a broader attempts at fiscal consolidation in Saudi Arabia. The 2014 fall in international oil prices, coupled with the introduction of Vision 2030 – which emphasises a shift away from a public investment-driven development model – brought a renewed focus on reducing unwarranted expenditure across all government ministries. In the defence sector this has encouraged a realignment of where money is allocated, with a greater emphasis on administrative efficiency and smart spending.

Saud Arabia's military spending has fluctuated considerably over recent years, with these shifts largely taking place in line with changing revenue from oil exports. According to the SIPRI Military Expenditure Database, the country saw a continuous annual increase in military expenditure between 2008 and 2015, growing by 76.7% over that period to reach $87.2bn. However, following the fall in international oil prices that began in 2014, military expenditure decreased by 28.4% in 2016, before rising 11.5% the following year in line with the recovery of international oil prices and falling again by 6.5% in 2018. In terms of GDP, military expenditure was equivalent to 8.8% in 2018, down from 10.3% in 2017 and below a peak of 13.3% in 2015. Nevertheless, this figure was still above the average for other major international military powers, with the top-15 countries in terms of military expenditure having an average level of spending of 4% of GDP in 2018. Furthermore, the country's per capita expenditure on the armed forces ranked the highest in the world in 2018 at around $2013 per person.

Between 2015 and 2019 the US and the UK were the Kingdom's leading markets in terms of arms imports, accounting for 73% and 13%, respectively.

The announcement of reduced military spending in the 2020 budget comes at a time in which the government is seeking to consolidate its fiscal position in anticipation a projected decline in state revenue. In December 2019 the government forecast that total revenue for 2020 would reach approximately $222bn, down from an estimated $244.5bn in 2019. However, the dramatic fall in international oil prices in early 2020, following the impact on demand brought about by the global Covid-19 outbreak, is likely to weigh further on this projection. Nevertheless, while increased pressure on funding is a likely result of the economic impact of the worldwide pandemic, military spending will likely remain a core priority of the Saudi government, given the high strategic importance of the sector.

ARMS IMPORTS: According to the SIPRI Arms Transfer Database, Saudi Arabia was the world's largest arms importer in 2015-19, accounting for 12% of global arms imports. This represented a 130% increase on the previous five years. During that period the US and the UK were the Kingdom's leading sources of imports, accounting for 73% and 13% of total arms imports, respectively. This was followed by France, which was responsible for 4.3% of imports and Spain for 1.7%. Canada and Germany each supplied 1.6%, while Italy, Switzerland and China supplied 1.3%, 1.1% and 0.9%. These dynamics reflect some notable shifts compared to the preceding 2010-14 period. Chief among them, the share of imports from the US increased dramatically,


In January 2019 an online portal was launched for drone licences

rising from 41%, while those from the UK fell steadily from 33%. At the same time, the share of other leading arms exporters declined, with France being responsible for 5.5% of imports in 2010-14, followed by Spain (5.1%), Germany (4%), Switzerland (2.1%) and Canada (2%). In a similar pattern, in 2010-14 imports from Turkey represented 2.3% while in 2015-19 they were 0.6%, while those from the Netherlands declined from 1.1% to 0.1% and those from Sweden fell from 2.2% to virtually zero. Conversely, arms imports from both Italy and China increased from 0.2% and 0.4% respectively in 2010-14.

The US remains the world's largest arms exporter, with its share of the global export trade rising by 36% between 2015 and 2019. Saudi Arabia remains the most important client for the US, representing 24.5% of US arms exports in 2015-19. The UK stood as the world's sixth-largest arms exporter in the same period, accounting for 3.7% of worldwide arms exports. Saudi Arabia was the largest importer of arms from the country in 2015-19, accounting for 40.9% of the UK's total arms exports. However sales each year declined significantly throughout that period from a particularly high point in 2015.

MAJOR DELIVERIES: Notable sales of military hardware from the US to Saudi Arabia included the delivery of 23 Patriot PAC-3 air and missile defence systems between 2014 and 2018 as part of a $1.7bn deal signed in 2011 with US firm Raytheon. Furthermore, in 2016 the US delivered 154 Boeing F-15SA combat aircraft, following the signing of a $29.4bn contract in 2011. In 2018 saw Saudi Arabia order seven THAAD missile interceptor systems from the US defence giant Lockheed Martin, as part of a $15bn deal approved in 2017. The THAAD system is fully interoperable with Raytheon's Patriot system, creating an integrated defence infrastructure.

Meanwhile, the UK delivered 72 Typhoon combat aircraft between 2009 and 2017 as part of a £4.4bn deal with the aerospace firm BAE Systems, inked in 2007. The contract is expected to be worth £20bn over the lifetime of the aircraft. In 2018 a memorandum of intent was signed indicating plans to purchase 48 more Typhoon under a potential £10bn deal. However, the deal has since been put on hold pending the approval of BAE-linked companies operating in Germany. Other important sales included 338 tanks from the US between 2014 and 2018, and over 4000 armoured vehicles across the same period. The latter were sourced from a range of international import markets including Austria, Canada, France, Georgia, South Africa and Turkey.

DOMESTIC INDUSTRY: As part of its Vision 2030 strategy, the Kingdom is seeking to significantly expand its domestic industrial base for defence hardware and localise over 50% of its military equipment spending by 2030. This marks an ambitious expansion on its 2019 level, when it stood at between 2% and 5%, according to government sources. In order to support this effort, the government established two new entities in 2017. The first is the General Authority for Military Industries (GAMI), a financially and administratively independent entity chaired by Crown Prince Mohammed bin Salman. GAMI's core responsibilities include ensuring localisation goals are met, promoting military spending efficiency, and developing the industry through centralised research and development (R&D). The body has identified 11 initial priority sectors for localisation, including defence electronics, guided munitions, missiles and launchers, and unmanned aerial vehicles. GAMI has also been tasked with developing a regulatory framework to support the localisation of investment, procurement and R&D, in addition to increasing transparency.

The Kingdom purchased a total of 338 tanks from US-based arms companies between 2014 and 2018

The second, Saudi Arabian Military Industries (SAMI), is a national holding company for domestic military manufacturing, which is 100% owned by the Public Investment Fund (PIF). SAMI is targeting the development of new and existing local industries with the aim of developing new technologies, manufacturing products and providing services to scale up the military industrial sector. It has four main units: aeronautics, land systems, weapons and missiles, and defence electronics. The government aims to grow SAMI to become one of the top-25 military industrial companies in the world by 2030. SAMI plans to achieve these objectives by acquiring existing Saudi defence firms and pursuing joint ventures with the industry's leading international original equipment manufacturers. In addition to SAMI, a range of domestic, privately owned companies are expected to contribute to localisation include GDC Middle East, The Helicopter Company and the Saudi Rotorcraft Support Company.

"In order to achieve the Vision 2030 target of localising 50% of military expenditure, three main components will be key," Muneer Bakhsh, CEO of GDC Middle East, a PIF aerospace company, told OBG. "These are ensuring the steady supply of raw

As part of Vision 2030, the Kingdom is seeking to significantly expand its domestic industrial base for defence hardware and localise over 50% of military expenditure.

Saudi Arabia launched a total of 16 satellites between 2000 and 2019

The National Cybersecurity Authority was established in October 2017 develop policies, mechanisms, standards and regulations to protect networks, systems, electronic data and national infrastructure.

materials, building a qualified workforce, and enabling the transfer of technology and knowledge."

CYBERSECURITY: In common with other rapidly developing countries, cybersecurity has become an area of growing focus for Saudi Arabia (see ICT chapter). The most high-profile cyberattack occurred in 2012, when the Shamoon virus shut down Saudi Aramco's computer systems. In January 2017 the Ministry of Labour was hit by a cyberattack, though no data was breached, and Sadara Chemical experienced network disruption. In addition, in October 2018 UK media reported that Russian hackers were believed to be behind an August 2017 explosion, targeting an emergency shutdown system that was supplied by French firm Schneider Electric. These digital attacks form part of a broader global trend, with the World Economic Forum (WEF) estimating that the cost of cybercrime could rise to $6trn by 2021. The rise of new disruptive technologies is providing fertile ground for cybercrime, with attacks on internet of things-enabled devices up 300% in the first half of 2019, according to the WEF.

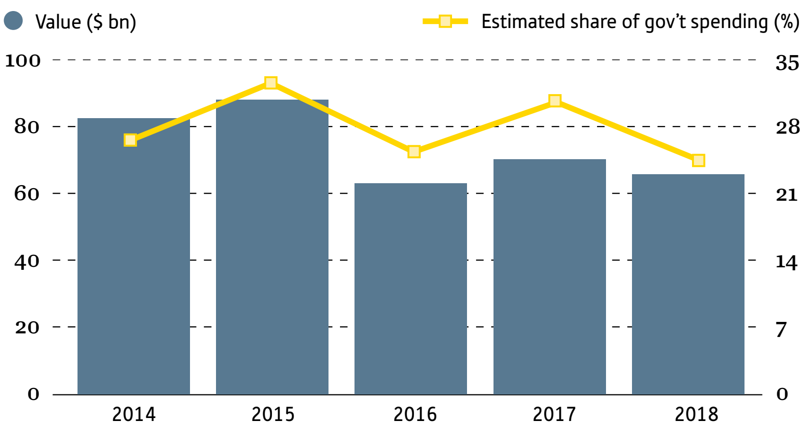
In order to address these challenges, the government announced the establishment of the National Cybersecurity Authority (NCA) in October 2017. The board of directors includes the president of state security, the chairman of general intelligence, the deputy minister of the interior and the assistant minister of defence. The mandate of the new body is to develop policies, mechanisms, standards and regulations to protect networks, systems and electronic data including national infrastructure. In October 2018 the NCA issued a core cybersecurity controls document outlining minimum standards for public and private sector entities. Concurrently, the Ministry of Communications and IT published a cybersecurity threat report in 2018 stating that the Kingdom had been exposed to terrorist cyber-warfare, which had aimed to disrupt vital services in the country. The report stated that in the fourth quarter of 2017, 48% of cyber-attacks had targeted government entities, with the energy sector in the crosshairs of 15% of attacks followed by telecoms with 11%.

NEW PARTNERSHIPS: In order to adequately address the challenges posed by cybersecurity, the government has recognised the need to attract both increased investment and international expertise. In September 2019 the recently founded Prince Mohammed bin Salman College of Cybersecurity, Artificial Intelligence and Advanced Technologies signed a memorandum of understanding with BAE Systems. The agreement aims to advance cybersecurity and artificial intelligence training for Saudi military personnel in addition to fostering technical cooperation. This follows an earlier partnership signed in July 2018 with US advisory firm IronNet Cybersecurity to develop educational programmes on different aspects of cyber-defence.

In addition, the Kingdom hosted the first Global Cybersecurity Forum in Riyadh in February 2020. With 1200 delegates and over 100 speakers, the conference brought together both private sector stakeholders and governments to discuss the development of greater capacity to manage and combat the challenges posed by cyber-attacks. It also sought to facilitate the discussion of the investment opportunities created within the growing international cybersecurity industry. To further develop its capabilities to withstand cyber-attacks, the Saudi defence sector is also fostering partnerships with domestic technology firms. For example, local ICT contractor International Systems Engineering is currently working with the armed forces to develop an ICT modernisation and cybersecurity roadmap for the entire defence sector.

AEROSPACE: As the country targets the development of advanced manufacturing, the aerospace sector is being viewed as a major area for growth. In 2018 Saudi Arabia began tapping into the lucrative composite materials market for aircraft manufacturing. As part of an aeronautics programme led by

Annual military expenditure*, 2014-18



Source: Stockholm International Peace Research Institute *constant prices the Saudi Technology Development and Investment Company, a new factory was established to manufacture aircraft components using the materials, which is expected to begin production in 2020. The new plant is a wholly owned Saudi venture that will be capable of making components for fixed-wing and rotary-wing civilian and military aircraft, as well as unmanned aerial vehicles. The project is being developed with technical support from King Abdulaziz City for Science and Technology (KACST).

In June 2019 Saudia Aerospace Engineering Industries (SAEI) joined the US aviation e-commerce firm Aeroxchange's AeroBuy platform, a major purchasing portal for the aviation industry. SAEI provides maintenance support to Saudi Arabian Airlines and its affiliates, and is one of the largest maintenance, repair and overhaul service providers in the Middle East. The move is expected to improve asset optimisation and boost supply chain transparency.

In February 2020 the Saudi international conglomerate Abdul Latif Jameel made an undisclosed investment in the US air taxi start-up Joby Aviation. While air taxi services remain in the early stages of commercialisation, they are expected to play a prominent role in the GCC. At the time the investment, Joby Aviation was the best-funded electric vertical take-off and landing start-up in the world.

DRONE REGULATION: The General Authority of Civil Aviation (GACA) is responsible for the country's civilian airports and airlines, and issues commercial licences to companies offering aviation services. It is also overseeing the expansion of the country's airport system, including King Abdulaziz International Airport in Jeddah and King Khalid International Airport in Riyadh. In January 2019 GACA launched an online portal for drone permit applications for commercial or personal use. However, in light of the 2019 attacks, it is unclear whether increasingly proliferating drone technology will remain under civilian or military regulation. This remains an outstanding regulatory issue worldwide in need of significant attention. Beyond military threats, civilian drones have brought significant disruption to major international airports such as the UK's Gatwick Airport in December 2018. Regulatory action on the issue will be important as companies in the industry look to strategically position themselves.

SPACE INDUSTRY: At the same time, Saudi Arabia is seeking to boost its space programme and satellite industry. In April 2019 it successfully launched its Arabsat 6A telecommunications satellite from Florida, marking the country's second launch of the year. This follows the phased launch of 16 Saudi satellites between 2000 and 2019. The country's first Saudi-owned satellite for communications, the SGS-1 which launched in February 2019, was developed by KACST in collaboration with Lockheed Martin. Through KACST's Space and Aeronautical Institute (SARI), the country aims to achieve regional leadership in the segment and support the development of a high-tech domestic R&D and industrial base. In 2018 the Saudi Space Commission was established to develop the local space industry. It is led by Prince Sultan bin Salman bin Abdulaziz Al Saud, a former astronaut, who flew on National Aeronautics and Space Administration's Space Shuttle Discovery in 1985 as the first Arab and Muslim in space. The Saudi Space Commission has been instrumental in expanding cooperation with international partners to facilitate technology transfer and improve capacity. In 2017 Saudi Arabia and Russia signed a space cooperation agreement and the issue received renewed attention following President Vladimir Putin's visit to Saudi Arabia in October 2019. The meeting is thought to have initiated discussions on the possibility of Russia training and launching Saudi astronauts to the International Space Station. This follows the Russian training and launch of the UAE's first astronaut in September 2019. According to Russian and Saudi press reporting, a proposal is also believed to be under discussion involving the use of Saudi Arabia as a possible satellite launch location using Russian capabilities. In December 2019 Saudi Arabia conducted initial space cooperation talks with Kazakhstan in addition to talks on satellite manufacturing and applications with South Korea.

In 2018 Saudi Arabia began tapping into the lucrative composite materials market for aircraft manufacturing

OUTLOOK: The realisation of Vision 2030 requires the development of new high-value-added industries, and the security, aerospace and defence sector stands to become a key element of this strategy. Central to the achievement of these diversification and localisation goals is the development of an advanced domestic industrial and R&D capacity that generates sustainable employment. Ongoing efforts to foster international partnerships and attract investment will prove vital in this endeavour. Moving forwards, key priorities will continue to be the advanced protection of both the country's airspace and cyberspace from new threats, while ensuring that defence spending delivers the highest returns.

The Kingdom is actively cooperating with a range of countries, including Russia, Kazakhstan and South Korea, to develop its domestic space industry and satellite programme.

The final assembly of imported arms must take place in Saudi Arabia

Forward march

A new framework for international contracts and local research funding supports greater localisation of the defence industry

As part of Vision 2030, the government aims to localise 50% of military spending by 2030. In the process it hopes to create around 100,000 direct and indirect jobs for Saudi nationals.

To facilitate the military localisation drive, the authorities launched an online licensing approval portal for defence contracts in 2019.

Efforts are under way to significantly expand domestic military and aerospace manufacturing capacity and foster a localised defence ecosystem. The country is pushing for greater localisation of its defence industry in order to reduce military hardware imports and stimulate the Kingdom's industrial base. While still in its preliminary stage, the localisation drive is expected to accelerate growth in sectors ranging from ICT to industrial equipment, with the aim of generating sustainable employment.

Although streamlining military spending costs stands as a core motivation in a time of declining state revenue as a result of falling international oil prices, Saudi Arabia also faces pressure to achieve greater self-sufficiency given recent limits on arms exports from key manufacturers. New purchases from the country's main sources of arms imports, the US and the UK, often take a considerable amount of time to be approved, impacting the country's ability to expand its defence capacity in line with its short-term security and development goals. Localisation is set to help reduce dependency on external powers, increase national sovereignty, and improve turnaround times for spare parts and logistics.

LOCALISATION PLANS: As of November 2019 the country's localisation rate in terms of defence expenditure was thought to be between 2% and 5%, according to government estimates. As part of Vision 2030, the government aims to localise 50% of military spending by 2030. In the process it plans to create around 100,000 direct and indirect jobs for Saudi nationals. Under the strategy, the Kingdom also plans to produce or assemble half of its defence equipment needs domestically.

Initial stages of localisation have included developing domestic industrial capacity in lower-value segments, to provide spare parts, armoured vehicles and basic ammunition. In 1984 Saudi Arabia enacted a defence offset policy to attract technology, skills and jobs to the Kingdom as part of deals with major international firms. However, upon its release in 2016, Vision 2030 acknowledged that the offset policy had not achieved the desired results, and the rate of overall localisation remained low. More recently, the country has required that the final assembly of imported arms to be undertaken in Saudi Arabia. This has impacted several major arms import projects, including the $29.4bn 2011 deal for 154 Boeing F-15SA combat aircraft, with 68 of the aircraft now set to be assembled in Saudi Arabia.

Building on these efforts, the Kingdom is targeting the localisation of higher-value-added sectors and more complex equipment, including military aircraft. It is also aiming to export locally manufactured arms both regionally and internationally. Saudi Arabia plans to achieve this through direct investments and strategic partnerships with leading companies in the sector. The aim of the latter is the implementation of technology- and knowledge-transfer programmes in order to build national expertise in manufacturing, maintenance, repair, and research and development (R&D). Ultimately, Vision 2030 foresees the development of an integrated national network of services and supporting industries Leading this initiative are two government bodies, the General Authority for Military Industries (GAMI) and Saudi Arabian Military Industries (SAMI), both of which were created in 2017. GAMI is the regulatory authority for localisation efforts and is tasked with creating policies to support the sector and facilitate the establishment of local defence supply chains. SAMI serves as a new defence manufacturing holding company to consolidate and expand existing local military industries. The government aims to grow SAMI to become one of the top-25 military industrial companies in the world by 2030 (see overview).

RECENT DEVELOPMENTS: In order to better facilitate the Kingdom's localisation drive, GAMI launched an online licensing approval portal in 2019. This covers licensing for military industries, military services, and the supply of military products and services. At the end of 2019 GAMI had issued licences to eight firms, expected investments of more than SR3bn ($799.8m). The year also saw the launch of GAMI's Industrial Participation Programme (IPP), which gives precedence to localisation objectives in the issuing of military contracts to help develop local capacity and supply chains. Under the IPP, suppliers seeking to secure deals with Saudi Arabia will need to demonstrate how they will support industrial localisation and technology transfer. Speaking to local media in December 2019, Ahmed bin Abdulaziz Al Ohali, governor of GAMI, said that international partners had adapted well to the initiative, providing increased support to the development of domestic industrial and R&D capacity. In the same month GAMI announced the signing of its first agreement under the IPP scheme in a deal with the local unit of US defence contractor Raytheon to localise deep maintenance and refurbishment of its Patriot missile defence system. Under the deal, Raytheon Saudi Arabia will partner with domestic private sector companies and local universities to develop capabilities in strategic military industries.

In 2018 SAMI established two joint ventures with international firms. The first was signed with the Spanish state-owned shipbuilding company Navantia and focuses on outfitting two AVANTE 2200 vessels. The joint venture, SAMI Navantia Naval Industries, is responsible for combat systems integration and installation; system engineering; system architecture; software development; hardware design and testing; verification; prototyping; simulation; and through-life support. It was announced that the contract would generate 6000 direct and indirect jobs, including 1100 direct jobs, 1800 in auxiliary industry and more than 3000 in the supply chain.

The second deal was signed in March 2018, with US aerospace giant Boeing agreeing to establish a joint venture to perform maintenance repair and overhaul tasks on both fixed-wing and rotary military Boeing aircraft. In addition, a number of new joint ventures are in the pipeline and are expected to be rolled out over the next few years. As of January 2020, SAMI had signed over 25 agreements with international partners aimed at supporting the country's military localisation strategy.

DOMESTIC FUNDING: In January 2020 the Ministry of Finance announced that part of the $29.4bn windfall raised through Saudi Aramco's December 2019 initial public offering would be allocated towards developing the domestic defence industry. Earlier, in November 2019, GAMI announced that it would increase the share of the military budget allocated to R&D from 0.2% to 4% over a 10-year period. The shift would bring scientific research funding in line with other major military powers, as well as facilitate the development of new weapons and security technologies, and support economic diversification.

The government is seeking to localise the production of higher-value equipment such as military aircraft

SCALING UP: While the localisation of military industries stands to unlock an estimated SR30bn ($8bn) and contribute SR90bn ($24bn) to non-oil GDP over the next decade, a number of hurdles will need to be overcome. Localisation of production may come at a short-term cost to efficiency and the pace of development, despite bringing longer-term strategic and economic gains. The local industry will need time to develop the necessary expertise and industrial capacity to compete with established international players. This dynamic will become particularly important as the Kingdom moves beyond its shorter-term objective of localising military spending towards establishing itself as a regional and global exporter of military goods and services.

Nevertheless, the country possesses significant human capital in terms of engineering and ICT that can be mobilised for the development of an advanced domestic military manufacturing industry. To support this effort, Walid Abukhaled, chief executive for strategy and business development at SAMI, stated that there is a need to collaborate with the Technical and Vocational Training Corporation to expand specialised defence and aerospace education for young Saudis. The new IPP framework is set to facilitate increased local production in addition to enabling technology transfer and improving human capital. However, it will require more than increased training to move beyond being an assembler of foreign technology to becoming a sectoral innovator in its own right. Both joint ventures and increased domestic R&D funding are set to support this objective, but it will also require efforts to create a more innovative business environment. "Saudi Arabia will be able to achieve its targets by involving the private sector in the military industry and by developing a strong regulatory environment governed by GAMI," Muneer Bakhsh, CEO of GDC Middle East, a Public Investment Fund aerospace company, told OBG.

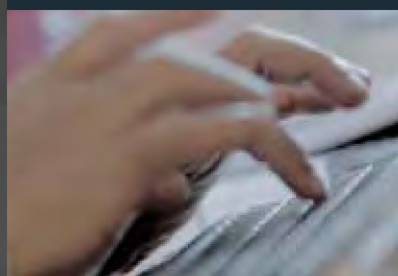
In 2019 the government launched the Industrial Participation Programme, which gives precedence to localisation goals in the issuing of military contracts to help develop local capacity and supply chains.

In January 2020 the Ministry of Finance announced that part of the $29.4bn windfall raised through Saudi Aramco's December 2019 initial public offering would be allocated towards developing the domestic defence industry.

ICT

Smart cities to drive growth in managed services
5G rollout facilitates the adoption of new technologies
E-government improves efficiency and service quality
Focus on cybersecurity to guard against online threats





Overall spending on ICT services is expected to reach $37bn in 2020

Well connected

5G and other innovative technologies encourage sector growth

Saudi Arabia's Vision 2030 – the Kingdom's long-term economic development and diversification programme – is seeking a digital transformation across society, government and the economy. The ICT sector is at the forefront of this change, and is poised to be a key element of diversifying the economy towards non-oil growth. In the last few years ICT has become much more prominent, and it has also become increasingly dynamic as the country ramps up investment in technology to become an international leader in the digital economy.

These changes are coming at a time when ICT globally is giving individuals unprecedented access to knowledge and the ability to connect to others virtually. This became particularly important after the outbreak of Covid-19 caused much of the world to use technology to work from home and connect to friends and family via video chat. Businesses are embracing social media and digital platforms for marketing, while Saudi citizens have become engaged digital users, with one of the highest rates of Twitter use in the world. Recent developments in the Kingdom include the implementation of a new ICT strategy; an expanded rollout of fixed broadband, fibre and 5G; and advances in technology, e-government and e-commerce.

STRUCTURE: A range of government entities are involved in ICT. Overseeing the sector is the Ministry of Communications and Information Technology (MCIT). The ministry is responsible for developing policies and supervising all ICT-related activities, including coordinating with government departments and agencies. It drafts laws and establishes development plans and programmes.

The Communications and Information Technology Commission (CITC) is the regulator for the sector. Its board includes the head of the MCIT, the governor of the CITC, and representatives of the Ministry of Finance, the Ministry of Trade and Investment, the King Abdulaziz City for Science and Technology, the Presidency of State Security and the private sector.

Yesser is the body responsible for digitising government operations and services. It was established in 2005 and its first action plan became effective in 2007. It aims to raise the public sector's productivity and efficiency, provide better services and increase return on investment. Meanwhile, the National Cybersecurity Authority, launched in October 2017, is the cybersecurity regulatory body. It has a mandate to develop policies, governance mechanisms, frameworks, standards and guidelines related to cybersecurity to protect networks, systems and electronic data. It includes representatives from state security, intelligence, the Ministry of Interior and the Ministry of Defence (see analysis).

VISION: The National Committee for Digital Transformation was established in July 2017 under Vision 2030. The 11-member ministerial committee's tasks include developing policies, strategies and implementation programmes related to digitalisation, as well as overseeing Yesser. Previously a steering committee, it was reformed and renamed in 2017 with new responsibilities added to its mandate. The committee is lead by the head of the MCIT and coordinates with multiple ministries that deal with digitisation, digitalisation and digital transformation.

Under the committee is the National Digital Transformation Unit (NDU), a centre of excellence established in 2017 with the mandate to facilitate the country's digital transformation. Its areas of focus include the digital economy, the alignment of the government's digital strategies, and the private sector's empowerment and participation in the digital economy. The unit reports directly to the head of the MCIT but is not part of the ministry. While not involved in policy execution, the NDU serves as a cross-cutting horizontal organisation, helping by consulting, governing and supporting the sector.

Businesses are embracing social media and digital platforms for marketing, while Saudi citizens have become engaged digital users, with one of the highest rates of Twitter use in the world.

The National Cybersecurity Authority has a mandate to develop policies, governance mechanisms, frameworks, standards and guidelines to protect networks, systems and electronic data.

By 2022 cybersecurity's market value will reach
$5.1bn

NEW AUTHORITIES: The establishment of new bodies is also helping to encourage the development of the sector and the adoption of technologies such as artificial intelligence (AI). In August 2019 the Saudi Data and AI Authority was created to enhance efficiency through AI and big data. It has responsibility for the National Centre for AI and the National Data Management Office, both of which were established by royal decree the same month.

In December 2019 it was announced that an e-commerce council will be launched, with a mandate to coordinate initiatives related to e-commerce. The council will be headed by the minister of commerce and investment, and include representatives from around 15 government entities. It also will have targeted subcommittees. The private sector will have a significant role in the council to ensure e-commerce development remains on track and is aligned with private sector objectives and goals.

STRATEGIES: Released in 2016, Vision 2030 set forth several strategic goals for ICT. These included expanding high-speed broadband coverage to 90% of households in densely populated cities and to 66% of households in other urban areas. It also targeted stronger partnerships with the private sector in order to develop new ICT infrastructure and the expansion of digital services to cut unnecessary bureaucracy. Vision 2030 emphasises that advanced industrial activities will require a sophisticated digital infrastructure and policies that will both enhance competitiveness and attract investors.

In the e-commerce space, Vision 2030 seeks to enhance the contribution of modern trade and e-commerce to 80% of the retail sector by 2020. This segment received an unexpected boost in the first half of 2020 as the spread of Covid-19 led to a surge of activity in online shopping and delivery services worldwide. Furthermore, the programme seeks to expand e-government services and strengthen the provision of online services within the government itself. This includes supporting the wider use of technologies in government, including cloud applications and data-sharing platforms. Vision 2030's corresponding National Transformation Programme (NTP) aims to increase the contribution of the digital economy to non-oil GDP from 2% to 3% by 2020.

The MCIT aims to make the Kingdom one of the world's leading countries in ICT by building a digital economy based on the Fourth Industrial Revolution and a digital government and society. In August 2019 the ministry launched a five-year digital development strategy for the sector. ICT Strategy 2019-23 is a roadmap for innovation in the digital economy, with targets including growing the IT sector by 50% and increasing the rate of Saudiisation in the sector to 50% by 2023, while creating opportunities for women and boosting foreign direct investment. The MCIT expects that ICT Strategy 2019-23 will increase the sector's contribution to the economy by SR50bn ($13.3bn) over the course of the programme.

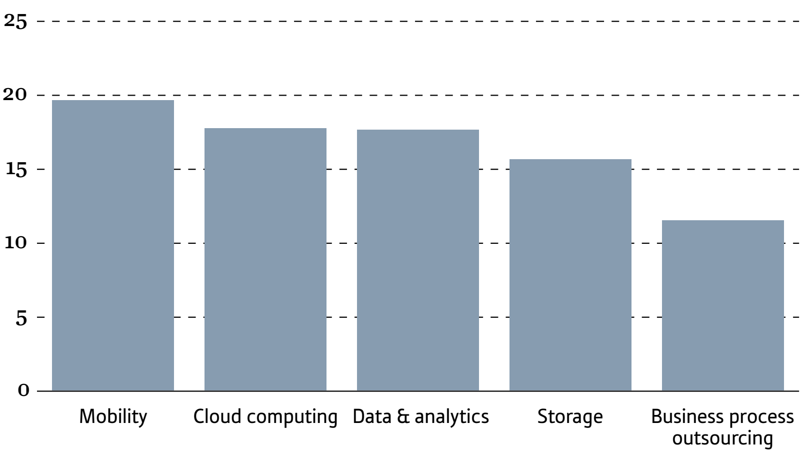
SPENDING: Efforts to develop ICT are beginning to pay off. Overall spending on the sector in Saudi Arabia is expected to reach $37bn in 2020, up 2.4% from 2019, according to market intelligence firm International Data Corporation. Drivers of spending include smart governance and projects worth in excess of $10bn, called giga-projects. Spending should see sustained expansion in the coming years. In March 2020 data and analytics firm GlobalData forecast ICT spending in the country would grow at a compound annual growth rate (CAGR) of 9.2% between 2019 and 2024, reaching $46.6bn, primarily driven by increased business spending on client computing and cloud computing services.

Cybersecurity represents one of the fastest-growing segments. By 2022 it is expected that cybersecurity's market value will reach $5.1bn owing to a CAGR of 15.3%. This comes as Global Market Insights reported in 2019 that the international cybersecurity market had an estimated value of over $120bn in 2019 and is projected to reach $300bn by 2024.

PERFORMANCE: ICT is witnessing notable change and expansion in the Kingdom, having achieved a number of metrics in 2019. The sector had a market size of SR107bn ($28.5bn) in 2019 and the 13th-highest average internet speed in the world in 2019, at speeds of 50.8 Mbps for mobile internet and 50.7 Mbps for fixed internet, according to the NDU's 2019 annual report. The NDU also found that Saudi Arabia had the third-largest 5G network in the world, a service maturity rate of 81% – compared to 71% in 2018 – and the second-most spectrum allocation among G20 countries. In terms of technology governance, Saudi Arabia ranked third among G20 nations, while Riyadh was ranked 30th by the UN in the most sustainable smart cities.

In the International Telecommunication Union's 2018 Global Cybersecurity Index, the country ranked 13th out of 175 countries and came in first among Arab states, with strong performance in the capacity building and cooperation pillars. "In an increasingly digitalised world, cybersecurity concerns have grown in the private and public sectors," Ali Al Asiri,

Forecast CAGR of selected IT segments, 2019-24F (%)



Source: GlobalData, Technology Intellience Center


The Kingdom's ICT market was valued at around $28.5bn in 2019

There were **41.3m** mobile phone subscriptions as of the end of 2018

director-general of Yesser, told OBG. "However, the Kingdom is well equipped to offset cyberthreats."

MOBILE & INTERNET SUBSCRIPTIONS: Saudi Arabia's mobile phone penetration rate is high. The latest available figures from the CITC indicate that at the end of 2018 Saudi Arabia had 41.3m mobile phone subscriptions, representing a penetration rate of 126.9%. These figures reflect ownership of multiple phones or SIM cards, as is common in the Gulf. The overall number of subscriptions decreased from 52.7m in 2014, with a 171.4% penetration. Most mobile phone contracts are pre-paid, representing 68.8% of subscriptions in late 2018. However, the number of post-paid subscriptions has been gradually rising, from 12.9% in 2014 to 31.2% in 2018.

The country had 3.1m fixed-line subscriptions at the end of 2018, of which 1.7m were residential, representing a household penetration rate of 31.8%. The remaining 1.4m were business lines. Fixed-line subscriptions have seen a steep drop in recent years as mobile phones became more popular; household penetration was 45% in 2014, with 2.5m residential and 1.1m business subscriptions.

Internet penetration for those 10-74 years of age measured 93.3% at the end of 2018. That year there were 29.2m mobile broadband subscriptions, declining slightly from 29.7m a year earlier. The mobile broadband penetration rate stood at 89.5%. There were 1.9m fixed broadband subscriptions, of which 819,000 were DSL connections, 780,000 were fibre to the x and 301,000 fixed wireless. This was a decline from the previous year, when broadband subscriptions totalled 2.5m.

BROADBAND ROLLOUT: Expanding broadband coverage is a key part of efforts to boost the non-oil economy. Broadband connections lay the foundations for greater digital activity and enable new areas of technological innovation. The country's broadband expansion targets both fixed broadband and mobile broadband. In the case of the former, there has been particular emphasis on the rollout of high-speed, fibre-optic cables that are better able to deliver data quickly across greater distances. Standard broadband – known as ADSL – uses existing copper phone lines to transfer data.

In 2017 the MCIT signed an agreement to expand broadband connections for homes through fibre optics. Two state firms were tasked with leading the rollout, with state-owned Saudi Telecom Company (STC) responsible for 2m locations, or 73% of the network, and Dawiyat Integrated Telecommunications & Information Technology Company, a subsidiary of Saudi Electricity Company, responsible for 744,500 locations, or 27% of the total. All connections are expected to be installed by the end of 2020. In late 2017 Dawiyat launched the first phase of its fibre-to-the-home (FTTH) broadband deployment in major cities. As of December 2019 the MCIT reported 3m homes had been provided fibre-optic connections. "The FTTH network enables the expansion of digital infrastructure and helps provide high-speed, fibre-optic broadband services," Ahmed Sindi, CEO of Dawiyat Integrated Telecommunications & Information Technology Company, told OBG. "Indeed, according to the NTP, FTTH coverage in densely populated urban areas should reach 80% by 2020, and we are on track to meet this objective." The firm is also working to develop fibre-optic network connections to neighbouring countries, with the aim of making Saudi Arabia an international connectivity link between the East and West.

REMOTE EXPANSION: The government's strategy for rural areas focuses on wireless mobile broadband, which offers fast connection speeds when compared to traditional dial-up connections. There has been a phased initiative for the deployment of services in remote villages and hamlets. Before the initiative, high-speed internet was available in less than 1% of remote areas. The first two phases were completed in July 2018, with 16% of households in such areas – or 700 villages and hamlets – receiving coverage. The MCIT signed an agreement with STC in November 2018 to implement the third phase of the initiative, which aims to cover 70% of rural homes in 3000 villages and hamlets by the end of 2020. As of the end of 2019 over 300,000 homes across the Kingdom had access to wireless broadband.

OPEN ACCESS AGREEMENT: In February 2020 the CITC launched an open-access agreement between the country's major telecoms providers, establishing a non-discriminatory network, thereby empowering carriers and service providers. The agreement guarantees the provision of broadband services through any subscriber-selected service provider independent of infrastructure ownership. It was signed by the country's six major telecommunications companies: STC, Mobily, Zain Saudi Arabia, Integrated Telecom Company, Dawiyat and GO Telecom. It aims to diversify users' options in choosing their service provider and raise service quality, while increasing competitiveness among providers. The agreement stands to help increase the overall number of broadband subscriptions. "This agreement will help to increase the pick-up rate of fibre broadband services," Amjad Osama Arab, executive vice-president of Dawiyat's Commercial Business Unit, told OBG. "It will also result in positive competition between the operators in terms of quality of services and prices for the end user, as infrastructure is now open to all operators regardless of who built it. The agreement was initially seen as a commercial challenge; however, under the CITC's leadership, we were able to successfully bring together all major players."

Sharing agreements also have benefits for providers. "Tower sharing through thorough site-sharing agreements can help maximise assets and resources, especially in times of increased market competition with pressure on costs and pricing," Sultan Al Deghaither, CEO of Zain Saudi Arabia, told OBG.

5G DEVELOPMENT: The CITC commercially launched a 5G mobile network in 2019, making Saudi Arabia one of the first countries in the world to introduce the technology. In October 2019 Zain launched commercial 5G services in the Kingdom and as of November 2019 coverage had expanded to 27 cities. The CITC reported in January 2020 that 5G had reached more than 5200 base towers in 30 cities. With one of the largest 5G networks in the world, the technology is set to become a core component of the drive to advance technological goals.

There are also efforts to integrate the GCC. In November 2019 Zain launched international 5G roaming between its mobile networks in Kuwait and Saudi Arabia, marking a first for the region. Under the service, users can tap download speeds as high as 500 Mbps for outbound and inbound roaming.

TAPPING THE GRID: In addition to introducing 5G technology, in January 2020 the CITC indicated it was opening the market to new mobile virtual network operators (MVNOs). It is expected that the move will bring more innovative and diverse bundles for customers, while likely enhancing employment

Developers are targeting

80%

fibre-to-the-home coverage in densely populated urban areas by 2020

In 2019 the Kingdom ranked among the top-10 developing countries in the UN Conference on Trade and Development's business-to-consumer e-commerce index.

opportunities and encouraging investment. MVNOs involve smaller companies buying access to existing networks at a wholesale price instead of building their own infrastructure. In 2019 there were two MVNO licensees in the country, and the CITC is set to issue two more licences by the third quarter of 2020. "There is a lot of competition in the telecoms sector, and lower consumer prices are being offered by utilising the economy of scale of MVNO services," Waleed Al Harkan, CEO of Lebara KSA, told OBG.

E-COMMERCE: In addition to developing traditional telecoms infrastructure, the country is witnessing significant growth in e-commerce. According to the NDU, as of early 2020 the e-retail market was worth approximately SR20.4bn ($5.4bn), a figure that includes physical goods but not tickets or digital services such as Netflix.

Saudi customers are increasingly interested in purchasing goods online. Indeed, in 2019 the Kingdom ranked among the top-10 developing countries in the UN Conference on Trade and Development's business-to-consumer e-commerce index. It also rose in the index overall, ranking 49th in 2019 compared to 52th in 2018 out of 152 countries.

Saudi Arabia was one of the first countries to establish an e-commerce law. Introduced in October 2019, the E-Commerce Law aims to protect consumers and provide the government with the necessary tools to ensure companies provide quality service for consumers. This, in turn, should help to improve customer trust in online transactions. "One of the biggest challenges for e-commerce has been building consumer trust," Mutaz Ghuni, Vision 2030 realisation director at the NDU, told OBG. "While online tickets and streaming services are popular, nearly half of Saudis have had an online retail transaction." There are several factors that may contribute to this; Ghuni suggests that due to the country's youthfulness – 70% of Saudis are under the age of 30 – many young citizens rely on parents. Furthermore, around two out of three Saudis prefer to use cash for delivery when cash and card are options, and this preference for cash can have a stifling effect on e-commerce. However, Ghuni noted these aspects are slowly changing as customers increasingly trust online transactions.

Along with the E-Commerce Law, a number of measures have been taken to expand the segment and encourage a shift towards digital payments. Recent initiatives included giving more delivery drivers point-of-sale machines. Banks have also allotted machines to larger merchants at subsidised rates. "In 2020 all merchants – including retailers such as malls – will be equipped with and offer digital payment solutions," Basem Alsallom, CEO of technical solutions provider SURE Global Tech, told OBG. "Digital maturity in Saudi Arabia is advanced compared to other fast-developing economies in the region, and the central bank is empowering this transformation from a cash-based society to a more digitally focused market."

Saudi Arabia is also working to expand the sharing economy. Popular segments include ride hailing, food delivery and home maintenance. As the digital economy grows, the government is looking to give more people access to part-time gig-economy jobs that will provide citizens with additional forms of income. While growth in some segments such as ride hailing may be slowed due to Covid-19, others – such as food delivery – stand to become even more important to daily life.

E-MONEY: Linked to the growth in e-commerce, the country is making strides towards becoming a cashless society. According to the NDU, 36% of transactions made in 2019 were non-cash payments. Mobile payment penetration rates have increased significantly over the past few years, with the payment method being used both offline and online. Available smartphone wallets including Apple Pay, Mada Pay, STC Pay and BayanPay. While credit and debit card penetration rates are comparatively low, the figures are improving. Card penetration grew by over 10% between mid-2018 and early 2020, according to the NDU. This was attributed to a decision in April 2018 to allow the use of debit cards, rather than just credit cards, in online transactions.

E-GOVERNMENT: There has been a high rate of digitisation in the government in recent years, both in terms of internal operations and external services. To support these developments, Yesser has been introducing a number of initiatives for e-government and managed services. The government launched an internal e-correspondence system, Morasalat, to replace paper-based operations across multiple government departments and agencies. Paper-based operations were dominant until recently, but as of 2019, 33 government entities were linked through the platform, with 13m e-transactions carried out, saving an estimated 39m working hours.

A whole-of-government online services portal, my.gov.sa, is also gradually being rolled out and will serve as a one-stop shop for citizens and residents. While still in its early stages, the portal aims to incorporate all government services. Other prominent platforms include Etimad and Absher. Etimad is an electronic financial interlinking platform operated by the Ministry of Finance that facilitates contracting, payment, tendering, procurement and financial rights. Absher, meanwhile, is an online platform and app that centralises the provision of government services and reduces the time it takes to access important services, such as document delivery and passport renewal. In 2019 over 26m operations were carried out on Absher, with the platform executing 26.2m processes, saving an estimated SR15bn ($4bn) for its 14m subscribers.

The NDU's annual report for 2019 reported a number of other areas of progress in e-government in 2019. At the Ministry of Justice, the push for a paperless court has accelerated, with 2019 seeing a 75% reduction in paper use and 179 courts using e-systems. In digital health, over 36m appointments at primary health care centres were made on the

Internet penetration for those 10-74 years of age was 93.3% in 2018

Mawid platform, and more than 11m people – or around 34.2% of the population – were registered in the Unified Electronic Medical Record system. The latter enabled a savings of SR752m ($200.5m) over the course of year. In education, over 36m certificates were stored on the Noor digital platform, which connects all educational institutions. In culture and tourism, over 250,000 e-visas were issued via the Tourist Visa Platform. Moreover, in December 2019 Majid bin Abdullah Al Qasabi, the minister of commerce, told local press that 85% of the ministry's services were offered electronically, including investment licences for foreign investors.

SERVICE DEVELOPMENT: The drive for digitisation initially began with the government encouraging citizens to use electronic channels to access government services. However, in recent years citizens have adapted and prefer to access government services online over visiting official offices in person.

More than 36m appointments at primary health care centres were made using the government's Mawid platform in 2019.

A number of measures have been taken to encourage a shift towards digital payments across multiple sectors

In 2018 Saudi Arabia ranked

52nd

out of 193 countries in the UN's e-government development index

E-government services were developed in stages. Following its launch, Yesser initially focused on raising awareness within the government and training civil servants in basic IT packages, including Microsoft Office and email. With a large number of older employees, efforts included changing mindsets and getting employees to embrace new process. In 2016 and 2017 Yesser targeted IT professionals in the government and provided professional certification training in information security, IT infrastructure library and change management. Since 2019 Yesser has helped train senior business leaders and government officials in digital government by sending participants to prestigious international institutions to take short executive training courses that consist of classes split across a year-long period. Yesser is also focused on designing and improving user experiences and products, including my.gov.sa.

Yesser produces a comprehensive internal government report on the state of digital transformation each year, ranking government entities based on their progress. The scale by which it ranks entities is divided into green, blue, yellow and red, with green being the most developed and red being the least. Yesser benchmarks against the UN's e-government development index. The index, which started in 2001, is released every two years and focuses on developments in infrastructure, human capital and online services. In the most recent index, Saudi Arabia ranked 52th out of 193 countries in 2018. This represented notable progress from its 2002 position of 105th, but down from its 2014 position of 36th. The drop has been attributed to a combination of factors, including the fact that Saudi Arabia's ICT strategies were under review in the period leading up to the release of Vision 2030. Other countries also advanced more aggressively during this time, and a new methodology for the index was introduced that ranked online services with new benchmarks and more detailed criteria. Results of the next index are expected to be released in July 2020.

In 2018 and 2019 hackathons were held targeting challenges related to health, agriculture, cybersecurity and the Hajj pilgrimage.

HACKATHONS: In order to advance tech development and develop the skills of citizens, Saudi Arabia has held a series of hackathons. As a way of coming up with innovative technology solutions, hackathons invite programmers and developers to create e-solutions to challenges within a specific area. In 2018 and 2019 hackathons were held targeting challenges related to health, agriculture, cybersecurity and the Hajj pilgrimage.

The Hajj Hackathon was held in Jeddah in 2018 and targeted issues including crowd management, public health, transport, traffic control, travel and accommodation, waste management and communication solutions. The event was organised by the Saudi Federation for Cybersecurity, Programming and Drones, and attracted major companies such as Google, Apple and Wikipedia. With 2950 participants from over 100 countries, the event broke the Guinness World Record for the most participants in a hackathon. The winners were an all-female team that developed a mobile app that translated Arabic-language signs for international pilgrims without requiring an internet connection.

HAJJ & UMRAH: Following the Hajj Hackathon, the Kingdom has been testing greater use of technology during the Hajj and Umrah to make the experience faster, safer and more efficient. In 2019 the Ministry of Hajj and Umrah conducted trials using AI and the internet of things to give pilgrims access to medical care, as well as monitor the crowd through personal trackers and mobile phones. The pilot scheme saw the issuance of wearable smart cards to 25,000 pilgrims that stored their identity, medical and contact information. The cards track locations and are scanned as people move between sites. A corresponding app enables pilgrims to see which are the most crowded areas and transportation schedules, while allowing the authorities to model location data. The ability to track locations in real time also helps service providers assist pilgrims as soon as they receive a request.

In 2019 the Ministry of Health conducted another trial during the Hajj whereby a robot took a patient's temperature and checked their pulse. It is able to interact with a doctor off-site who can give a remote diagnosis. The Kingdom had plans to expand the annual pilgrimage from 8m to 30m visitations per year by 2030, though this goal may be delayed in the short term due to Covid-19. Even so, ensuring the well-being of pilgrims through greater investment in and use of emerging technologies such as AI and IoT will be essential to ensuring success.

OUTLOOK: While the ICT sector is growing, further expansion will be needed going forwards to meet demand for digital services. To that end, citizens, businesses and the government are actively pursuing greater adoption and capacity development, and this trend is anticipated to continue in light of the youthful population and expanding non-oil economy.

Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer, Chairman, Zain Saudi Arabia

Digital ecosystem

Prince Naif bin Sultan bin Mohammed bin Saud Al Kabeer, Chairman, Zain Saudi Arabia, on leveraging 5G technology to provide better services and develop local content

What is being done to ensure that Saudi Arabia's ICT sector remains competitive?

PRINCE NAIF: Saudi Arabia's ICT sector is the largest in the Middle East, and its contribution to the national economy is projected to reach SR50bn ($13.3bn) by 2025. In 2018 alone the country's digital operators outperformed the local stock market by $18bn, thanks to a major digital development strategy. This growth would not have been possible without the competitive services offered by telecoms providers, progressive regulation by the Communications and Information Technology Commission (CITC), and the vision of the Ministry of Communications and Information Technology (MCIT).

Knowing that companies that do not ride the wave of innovation will not only stay still, but fall behind, most operators in Saudi Arabia are bringing digital services to the forefront of operations. As such, Zain Saudi Arabia launched its 5G network in October 2019 – the largest rollout in Europe, the Middle East and Africa, and the third-largest launch worldwide.

Amid pressure to roll out the latest technologies, how can infrastructure sharing maximise assets?

PRINCE NAIF: The shift in traditional telecoms services and falling profit margins for operators have made infrastructure sharing an attractive model. Tower sharing is used in North America and Europe, as it allows operators to reduce costs in this area. In a highly competitive and customer-centric industry, saving money allows operators to spend more on enhancing existing infrastructure, driving service innovation and improving customer experience, while offering competitive prices.

To what extent are IT-managed services like cloud computing and edge computing representing new revenue steams for traditional telecoms firms?

PRINCE NAIF: Providing local and international connectivity is a traditional service that is the foundation and enabler to what we foresee as the evolution of telecoms companies. Fast, secure and reliable connectivity combined with new applications presents opportunities for growth. These applications for consumers or/and businesses will reside in data centres that provide cloud services with the required elasticity.

As application requirements evolve and customer density increases, the role of edge computing will enable us to deliver services required by customers and businesses, part of the future model for the ICT sector called Telco 2030. Zain has embraced this global shift and now offers newer models, generates diversified sources of revenue – including through business-to-business services – enhances customer engagement and drives innovation. We have recently expanded the Zain Business portfolio to include cloud computing in partnership with Alibaba Cloud.

How can 5G be leveraged to achieve the digital transformation goals of Saudi Vision 2030?

PRINCE NAIF: The 5G network is part of a broader national digital strategy as outlined in Vision 2030, designed to improve digital infrastructure and create new business models. The launch of various Vision Realisation Programmes enables the ICT sector to play a vital role in the national economy and increase its contribution to GDP, thus achieving sustainability in technology development, as well as enhancing the Kingdom's competitiveness and entrepreneurial position regionally and globally. To this end, under the MCIT and the CITC, the ICT sector is projected to create 20,000 new jobs by 2030. The 5G network is not only enhancing mobile broadband services with its high speed, increased capacity and low latency, it is also enabling new applications and unlocking opportunities across a range of sectors such as advanced industry, education and the development smart cities based on the internet of things. 5G, in combination with cloud computing, edge computing and artificial intelligence, will enable Vision 2030 to achieve its digital transformation goals.

Artificial intelligence is forecast to contribute $135.2bn to GDP in 2030

Regulated success

Oversight and organisational rehaul aim at jump-starting technological innovation and economic diversification

In December 2019 the Council of Arab Ministers of Communications and Information Technology named Riyadh as the Arab world's first-ever digital capital for 2020.

Saudi Arabia introduced key changes in recent years related to ICT, including the creation of new oversight authorities and regulatory frameworks. These reforms are expected to help further develop and support growth in the sector as the country shifts towards a knowledge-based economy. As a sign of the importance that the Kingdom places on technology, and in recognition of the country's role in the adoption and promotion of innovation to enhance socio-economic development throughout the region, in December 2019 the Council of Arab Ministers of Communications and Information Technology named Riyadh the Arab world's first digital capital for 2020.

CYBERSECURITY BODY: In October 2017 the National Cybersecurity Authority (NCA) was established to consolidate the cybersecurity portfolio, which had previously been the remit of a number of bodies. The authority seeks to expedite technological innovation by building national and professional capabilities in the fields of cybersecurity and programming. As a sign of its importance, the NCA is supervised directly by the king and members of the board include representatives of state security, intelligence, the Ministry of Interior and the Ministry of Defence. In February 2020 the NCA launched an anti-cyberbullying initiative, as well as one aimed at empowering women.

NEW TECHNOLOGY AUTHORITY: More recently, efforts to increase the use of artificial intelligence (AI) came to a head with the launch of the Saudi Data and AI Authority (SDAIA) in 2019. SDAIA will have oversight over the National Centre for AI and the National Data Management Office, both of which will bring renewed focus to and coordination on the field of AI.

Saudi Arabia has demonstrated its commitment to the development of AI in recent years. While government entities have served as early consumers of the technology, businesses are also increasingly investing in and utilising AI. The technology mimics human thinking and creates systems that can be improved through experience and data. It can be used to advance development in a wide range of sectors such as robotics, education, precision medicine, autonomous vehicles and data mining. A September 2018 report by the McKenzie Global Institute estimated that AI will add $13trn to the global economy between 2018 and 2030, while a report released the same year by PwC estimated that AI could deliver $320bn to the Middle East in 2030, with Saudi Arabia accounting for $135.2bn of these gains. This would represent 12.4% of GDP by 2030.

The Kingdom is positioning itself to become a leader in the field and is focused on education to achieve this. Through the Misk Academy, over 9000 schoolchildren were trained in digital programming and AI. Looking into the future, Riyadh is due to host the Global AI Summit in September 2020. The summit is the leading international forum on the topic, bringing together stakeholders from around the world.

The regulatory framework for cloud services was revised in March 2019 to enhance the statutory protection for service providers while reducing the compliance burden.

REGULATORY FRAMEWORKS: Several ICT frameworks were revamped in 2019 to align policy more closely with the changing needs of the sector. That year the telecoms regulator, the Communication and Information Technology Commission (CITC), proposed a new Cybersecurity Regulatory Framework primarily targeted at telecommunications companies. The CITC's programme for cloud services was revised in March 2019 to enhance the statutory protection afforded to cloud service providers while reducing the compliance burden placed on them. The aim was to create an environment more conducive for digital innovation and attract investment from international companies in the sector. Meanwhile, a National Internet of Things (IoT) Strategy was implemented to enable the development of IoT applications on a large scale and help position Saudi Arabia as a leader in the field.

E-COMMERCE LAW: Following Cabinet approval for the formation of a new e-commerce body in 2018, the E-Commerce Council was established in January 2019. Following this move, the country adopted a new

E-Commerce Law. Published in July 2019 and effective in October of that year, the law oversees transactions conducted online and works to increase transparency, ensure consumer protection and enhance trust in online transactions. This is especially important after the outbreak of Covid-19 in early 2020 caused many individuals to turn to online shopping to meet their basic needs. In January 2020 the Ministry of Commerce and Investment issued implementing regulations, expanding upon the general guidelines set out in the law. The regulations apply to both consumers and service providers. It also places limits on data retention by e-service providers and regulates e-advertising.

INNOVATING REGULATION: It is not only ministries that are working to adapt to changing times. In November 2019 the Saudi Arabian Monetary Authority (SAMA) – the central bank – launched the Regulatory Sandbox Framework, enabling companies to test new digital financial solutions in controlled conditions. The sandbox assesses the impact of new technologies and serves to boost financial technology (fintech) firms and the wider financial sector by creating more opportunities for alternative finance businesses. The move follows similar regulatory trials in the UK and elsewhere.

Fintech companies, including those focused on mobile solutions and lending, can apply for special permission to operate under new business models within the Kingdom's sandbox. This is particularly noteworthy given that the financial sector is heavily regulated. While existing regulations offer important protections, they can stifle innovation, making new developments difficult for fintech firms. The sandbox is a way to create a safe environment for companies to innovate, try new things, and play with different rules and regulations to test their product, under monitored conditions. It typically takes between six months to a year for companies to graduate from the sandbox. Over 20 fintech start-ups were incubated in the sandbox in 2019. Examples include those that provide digital wallets, lending solutions and payment aggregators.

FINTECH LICENCES: Another area of digital regulation the Kingdom is assessing is electronic money institution licences that waive the need for fintech companies to be tied to banks. Such licences give fintech firms more flexibility and SAMA the ability to regulate without having to involve a bank. Such an agreement is common practice in Europe, but has yet to catch on in the Middle East. In March 2020 SAMA announced it had issued four licences to STC Pay, Geidea, Halalah and BayanPay.

As Saudi Arabia advances its ICT regulatory ecosystem and creates new bodies to encourage expansion, a major focus will be keeping pace with evolving developments and increasing demand for services. Indeed, as of mid-2019 e-payments accounted for 36.2% of all payments, above the 28% target set by Vision 2030. The recent changes will facilitate the central role ICT plays in wider efforts to diversify the economy away from hydrocarbons and create growth in non-oil sectors.

In 2019 more than
20
financial technology start-ups were incubated in the regulatory sandbox

The Deem cloud platform facilitates data sharing in the government

In the cloud

Data centres emerge in the push for localisation, as large-scale projects drive next-generation innovation

Saudi Arabia ranked 38th out of 141 countries in the ICT adoption pillar of the World Economic Forum's 2019 global competitive index, up from 54th place in the 2018 edition.

Managed services such as cloud computing have seen significant growth in Saudi Arabia in recent years. This was reflected in the Kingdom's jump of 16 places in the ICT adoption pillar of the World Economic Forum's 2019 global competitiveness index, with the country ranking 38th out of 141 countries, up from 54th in 2018. Both the public and private sector have a strong interest in managed services, as they can allow businesses and departments to outsource operations and reduce in-house operational costs. In turn, businesses and agencies are able to concentrate on the most important operations and growth prospects, rather than investing in in-house services, thus improving efficiency.

Demand for managed services will remain high as promising large-scale projects develop and require support for managing data. Additionally, the growth of the internet of things (IoT) is poised to serve emerging smart cities as the country sees growth in cloud services, new data centres and data localisation.

TOWERS: There are indications that major mobile operators are seeking to sell portions of their telecoms infrastructure, allowing other players to operate the assets in exchange for capital. Such a move would provide funds needed for investment in new technologies such as IoT, artificial intelligence (AI), cloud services and big data – innovative solutions that will be needed to compete in an evolving market. In 2019 Saudi Telecom Company (STC) transferred over 14,000 towers to its subsidiary, TAWAL, the largest such move in the MENA region at the time. However, in December of that year Zain terminated an agreement with IHS Holding to transfer 8100 mobile towers after it was rejected by the Communications and Information Technology Commission, which ruled the holding firm did not meet the regulatory requirements for the sale of the towers.

Data centres are at the heart of the National Transformation Programme, with plans to build health care, municipal and e-government data centres.

CLOUD COMPUTING: Cloud services such as data storage, data maintenance, and remote access to applications such as Microsoft's Office 365 cloud-based subscription services and Google Docs, Sheets and Slides are in high demand. It is not only large international firms that are active in the segment, but local telecoms companies as well. In October 2019 Zain partnered with Whale Cloud, a subsidiary of China's Alibaba Group, to launch a public cloud platform in the Kingdom. Under the three-year deal, Whale Cloud will assist Zain in establishing, operating and managing the service, with an overall aim of enhancing cloud computing in Saudi Arabia. STC and Integrated Telecom Company have also launched their own cloud offerings.

The government is similarly getting involved. Its Deem platform enables the better integration of government entities and flexibility in sharing data and information. The platform supports the goals outlined in the National Transformation Programme (NTP), which set a target of launching a governmental cloud computing service by 2020 to facilitate administrative integration.

DATA CENTRES: Cloud services received a boost in recent years with the inauguration of data centres. There are plans for future expansion, with STC aiming to build 12 new facilities by 2022. In February 2020 Oracle launched a new cloud centre in Jeddah and has plans to launch another in the country within a year. The company cited the Kingdom as having one of the fastest-growing cloud adoption rates in the region, and expects the new centres will boost usage further. Data centres are also part of the NTP, with plans to build health care, municipal and e-government centres. "Increasing data centre capacity is key to developing new services and technologies such as cloud computing," Ahmed Sindi, CEO of Dawiyat Integrated Telecommunications & Information Technology Company, told OBG. "In fact, Saudi Arabia is building the largest data centre in the Middle East, and retaining data locally is crucial to deterring potential cyberthreats."

LOCALISATION & CONSOLIDATION: Saudi Arabia is pushing for data centres and user data to be kept and stored in the country to increase security and ensure data ownership. "The market for data centres is substantial, especially with regards to hosting services," Faisal Al Faisal, CEO of Integrated Networks Company, told OBG. "One of the challenges, however, has been localising information and sensitive data in-country." Oracle's data centres will work towards this end, helping to keep data in Saudi Arabia and secure. Depending on data sensitivity and classification, there will be a need for further data localisation as managed services develop. As such, it is expected that greater data centre capacity will be needed in the short to medium term.

In addition to a push for localisation, the NTP seeks to consolidate data centres into a unified centre for the municipalities. The aim is to replace older devices with higher-performance ones and introduce efficient procedures managed by dedicated teams.

At the same time, the e-government programme Yesser has been pushing to roll out government-wide data centre consolidation. This would reduce the number of data centres by shutting unused and underutilised ones. The initiative has been in the works for years and Yesser was in discussions with related ministries and other agencies about the project as of early 2020.

IOT: As data centres expand and information becomes localised, there will be greater demand for IoT to provide solutions for cybersecurity, smart infrastructure and smart cities, as well as to an array of traditional sectors such as energy and agriculture. This comes at a time when IoT spending in the Middle East is rapidly expanding, expected to more than double, from $8.5bn in 2019 to $17.6bn in 2023, according to market intelligence firm International Data Corporation.

The number of IoT devices – which communicate with cloud services – has been rapidly expanding. Research and advisory firm Gartner estimated that across the globe 127 new devices connect to the internet every second. IoT devices have become common in industries including manufacturing, energy and aviation, and will have a significant impact on the world economy by putting ever greater volumes of data within reach.

Cloud services such as data storage and maintenance are in demand

The Kingdom has one of the fastest-growing cloud adoption rates in the region, fuelling data centre expansion

German industrial giant Siemens is seeking to drive IoT growth in Saudi Arabia through its MindSphere platform, a cloud-based, open IoT operating system that allows businesses to connect their products, plants, systems and machines. The platform will also enable the analysis of industrial data collected for businesses.

GIGA-PROJECTS: Projects worth over $10bn, known as giga-projects, are set to have a notable impact on demand for managed services. "The use of IT managed services – especially cloud computing – is growing rapidly," Amjad Hafez, CEO of ICT provider NourNet, told OBG. "It is expected that demand will remain high as giga-projects will be in need of such services and that all enterprises will use technology as the main tool for operation expense optimisation." Giga-projects include the 334-sq-km entertainment city of Qiddiya, with final completion slated for 2035. Other projects include the Red Sea Project, a tourism development encompassing 160 sq km of coastline with beach-front hotels and residences, and NEOM, a planned smart city and tourist destination on the border with Egypt and Jordan whose first phase is not due for completion until 2025.

Much of the technology required for NEOM still needs to be developed, making it an important driver of innovation in the years ahead. "Large-scale projects such as NEOM and the Red Sea Project require high levels of digitalisation," Najib Al Naim, CEO of Schneider Electric Saudi Arabia, told OBG. "This need presents an opportunity for innovation and growth for international and local electrical equipment manufacturers."

As Saudi Arabia works to build an economy based on technology and knowledge as laid out in Vision 2030, managed services such as cloud computing, data centres and IoT will be central to these efforts. Private cloud facilities will be required for projects such as NEOM with its emphasis on AI, robotics and smart city technologies. The rollout of these innovative technologies will enhance the efficiency and performance of both the public and private sectors over the long term.

As Saudi Arabia works to build an economy based on technology and knowledge, managed services including cloud computing, data centres and the internet of things will be central to diversification and development.

In 2018 over 160,000 cyberattacks hit Saudi-based servers each day

Secure access

The authorities work to enhance cybersecurity and resilience in the face of evolving online threats

The Kingdom ranked
13th
out of 175 countries on a 2018 global cybersecurity index

Cybersecurity is a priority for Saudi Arabia, a country that is making significant investment in boosting its capacity and is rapidly advancing as a global leader in the space. The Kingdom was the top-ranked Arab country in the International Telecommunication Union's 2018 global cybersecurity index, and ranked 13th overall out of 175 countries. Increased focus on cybersecurity has also driven growth in the wider ICT sector, as players and investors become more secure, and new technologies and services come on-line to service stakeholders.

The steady expansion in cybersecurity capacity is closely linked to overall economic development, especially as the country moves towards smart cities, artificial intelligence and the internet of things (IoT). While these new technologies will bring innovation and efficiency, they can also present a challenge in terms of cyber-resilience. As technology increasingly permeates all areas of the economy, notable sources of potential vulnerability include key national road and utility projects, and it will be necessary for businesses to continue to focus on protecting their core operations against cyberthreats.

THREATS: The renewed focus on cybersecurity follows a number of incidents in recent years that saw cyber-vulnerabilities exploited. In 2018 Saudi Arabia reported that over 160,000 cyberattacks hit its servers each day, making the Kingdom the recipient of the largest number of such attacks in the Middle East. Major attacks included those tied to the particularly destructive Shamoon malware, which hit major institutions such as Saudi Aramco, the General Authority of Civil Aviation and the Ministry of Labour between 2012 and 2017 (see Security, Aerospace & Defence chapter).

The rise of cloud computing has also brought about the need for additional layers of cybersecurity. "Cloud computing in Saudi Arabia is in high demand, and this is good news for vendors and IT professionals," Khalid Al Shangiti, CEO of technology infrastructure solutions provider Ebttikar, told OBG. "However, the more data that is stored in the cloud, the more secure the Kingdom's cyberspace needs to be as threats from third parties emerge."

COSTS: The cost of data breaches is high, with Saudi Arabia ranking second in data breach costs, according to IBM's "2019 Cost of Data Breach Report", which analysed breaches from 507 organisations in 16 countries. The average cost of a breach in Saudi Arabia was $6m, behind only to the US, where breaches cost an average of $8.2m. The report found that the Middle East had the highest average number of breached records, at 38,300 per incident, compared to the global average of 25,500.

CYBERSECURITY AUTHORITY: The National Cybersecurity Authority (NCA) was founded in 2017 in order to advance the country's efforts to guard against these threats. Tasked with regulating and overseeing cybersecurity preparedness, the NCA develops policies, frameworks and guidelines that protect networks, systems and electronic data. It also periodically assesses and measures regulatory compliance among government agencies and private sector entities. In October 2018 the NCA issued minimum standards to reduce the risk of cyberthreats for government agencies. Official bodies were instructed to upgrade their cybersecurity protection measures, including those regarding external cybersecurity, cloud computing, industrial control systems and consolidation.

TRAINING : As the country pushes to build greater cyber-resilience, it will be necessary to boost training and awareness of the dangers posed by cyberattacks. To that end, in February 2020 the NCA signed an agreement with the Human Resources Development Fund to work together to provide the Saudi workforce with the skills and knowledge necessary to find a job in the field of cybersecurity. Online courses will be developed by the NCA and posted on the fund's Doroob online platform, which aims to train Saudis for jobs in the private sector.

A memorandum of understanding was also signed in February 2020 between the NCA and King Abdullah University of Science and Technology, aiming to bolster cooperation in cybersecurity training. The the two parties will develop educational programmes in order to increase the number of qualified cybersecurity professionals living in Saudi Arabia, as well as boost information sharing. The agreement also targets the development of new technologies to help enhance cybersecurity protections for critical infrastructure.

GLOBAL CYBERSECURITY FORUM: As an indication of the importance the country is placing on cybersecurity, Riyadh hosted the first Global Cybersecurity Forum in February 2020. The event brought together 1200 delegates and 100 speakers, and provided an opportunity to discuss challenges, solutions, and the role of the public and private sectors in building a secure digital society. The forum aimed to enhance cooperation to ensure the world's collective cybersecurity and was held under the patronage of King Salman bin Abdulaziz Al Saud.

SMART CITIES: The move towards smart cities will result in greater reliance on technology for daily living, and as such, new types of cyber-vulnerabilities are expected to emerge. Al Widyan, a 700-ha planned smart city on the outskirts of Riyadh, is one such project, and aims to implement smart city management systems, traffic and mobility solutions, and building and utilities management.

The $500bn NEOM city development in the northwest is another ambitious smart-city project and a key part of Vision 2030. It is being designed as a high-tech, renewable energy-driven mega-city spread over 26,500 sq km on the Red Sea coast. The project – the first phase of which is not due for completion until 2025 – will use advanced technology to integrate secure systems to help address inherent cybersecurity vulnerabilities in software or control systems that are used to operate the volume of connected devices. "Everyone who visits, invests or trades with NEOM can be confident that their interactions with, and through, NEOM's digital infrastructure will be at the highest level of security," Mike Loginov, chief information security officer at NEOM, told industry media in March 2020. Such security precautions will remain of vital importance for the country's future city developments.

SOCIAL DEVELOPMENT: The Kingdom has also been looking at broader social issues related to cybersecurity. The NCA announced two initiatives in February 2020 focused on protecting children online and increasing the number of women employed in cybersecurity, indicating that these issues would be areas of focus in the future. The first initiative seeks to develop best practices, policies and programmes to safeguard children in the digital space. It was created in response to the growing number of cyberthreats children face online and will build global partnerships to develop protective measures for young internet users. The second initiative will encourage women to work in cybersecurity and support them in pursuing leadership roles.

With an increasing number of people and devices connected to the internet, cybersecurity will continue to be a top priority as the country's digital economy advances at pace. The number of people with access to the internet in Saudi Arabia increased from 15m in 2012 to 23m in 2018, underscoring the need to ensure secure access. IoT will bring inherent challenges given the volume of devices connected, while other issues such as hacktivism – or the disruption of services rather than the theft of information – may also emerge. Given that cyberattacks were identified by the World Economic Forum as one of the top-10 risks in terms of likelihood in its "Global Risk Report 2020", cybersecurity will remain a critical area of shared global concern that will necessitate continuous investment and innovation.

The number of people with access to the internet in Saudi Arabia rose from 15m in 2012 to 23m in 2018, underscoring the need to ensure secure access.

Transport

Developing infrastructure to meet Vision 2030 goals

Planning for increased air travel in the long term

Reforms aimed at streamlining port procedures

Progress made on local and regional rail integration


SAR
الشركة السعودية للخطوط الحديدية
4004
4004
SarSaudiRailway

Saudi Arabia is home to six commercial and three industrial ports

Smooth moves

The Kingdom leverages its strategic position to substantially expand road, rail and port infrastructure

The transport and logistics sector in Saudi Arabia has been targeted for key milestones, in accordance with Vision 2030, the Kingdom's ambitious development plan to diversify the economy, grow the non-oil sector and leverage the country's traditional position as a crossroads for international trade. While the Covid-19 pandemic is expected to have a profound impact on the broader economy, as well as the trade and transport sectors particularly, long-term development plans have, and continue to, guide important developments in the sector in terms of growth-enabling infrastructure.

All international flights to and from the Kingdom were suspended on March 15,2020, while on March 16 restrictions were put in place regarding attending work, shopping and public gatherings, with exceptions for medical or security staff, pharmacies or grocery stores. Visitors are also being prevented from entering the capital Riyadh and the holy cities of Makkah and Medina as of April 1, while officials have cancelled the Umrah, which was scheduled to take place in July and August.

Looking ahead, once normal travel resumes, passengers arriving in Jeddah will fly into the newly opened Terminal 1 at King Abdulaziz International Airport (KAIA). From there, high-speed trains will transport passengers to Jeddah and between the holy cities of Makkah and Medina. This is in addition to upgrades at Jeddah Islamic Port (JIP), a six-line metro system in Riyadh and double-digit growth in internal air passenger numbers, which prompted four Saudi airlines to order aircraft for their fleet. The government's vision is for both domestic and international transport to play a key role in the diversification and modernisation of the economy.

STRUCTURE & OVERSIGHT: Established in 1953, the Ministry of Transport (MoT) is tasked with overseeing all aspects of transport in the Kingdom, including roads, rail and marine ports. In October 2019 Saleh bin Nasser Al Jasser was appointed as the new minister of transport to steer the department through the next phase of development in accordance with broader Vision 2030 diversification goals.

Recent years have seen a streamlining of the governing structure, with the General Authority of Civil Aviation (GACA) and the Saudi Railway Company (SAR) coming under the umbrella of the MoT, alongside the Saudi Ports Authority (SPA) and the Public Transport Authority. A multi-agency approach has been adopted, and the MoT has been working closely with Saudi Customs and other agencies to achieve results. Another key government agency working across sectors is the National Project Management, Operation and Maintenance Organisation (Mashroat), which was created in August 2017 to serve as a centralised pool of knowledge and expertise to assist with the delivery of major infrastructure developments.

VISION REALISATION: Vision 2030 was launched in 2016 with specific performance indicators for individual ministries declared under various Vision Realisation Programmes (VRPs). The most relevant to the transport sector are the National Transformation Programme (NTP), which was established to guide development of the required infrastructure to meet Vision 2030 goals; and the National Industrial Development and Logistics Programme (NIDLP), which is focused on four keys sectors – industry, mining, energy and logistics – to transform the Kingdom into a leading industrial power and global logistics platform. Government planners acknowledged that given the scale, ambition and complexity of Vision 2030, progress towards objectives would be regularly reviewed, assessed, reappraised and organised under a succession of interim plans.

In 2018 the Council of Economic and Development Affairs reformed the VRPs and the objectives of the NTP and NIDLP were adapted. Under the revised NTP,

The National Industrial Development and Logistics Programme focuses on four keys sectors – industry, mining, energy and logistics – to help transform Saudi Arabia into a leading industrial power and global logistics platform.

The transport, storage and communications sector was the fourth-fastest growing economic sector in 2019

Improvements in logistics are aimed at increasing the value of exports to

$266.6bn

by 2030

a number of transport initiatives were launched with a focus on improving road safety, urban road networks, traffic-management systems and public transport networks. A specific target was set to reduce the number of road accident fatalities from 26 per 100,000 people in 2016 to 20 by end-2020.

Regarding the revised NIDLP, the logistics component focuses on creating an export platform, developing regional distribution, and establishing an efficient internal logistics network to enable the development of industry and supply chains. According to the NIDLP, in the decade to 2018 Saudi Arabia spent more than SR400bn ($106.6bn) on the transport and logistics sector, developing new road infrastructure, ports, railways and airports. Vision 2030 objectives are mapped onto the NIDLP with specific relevance for the MoT. These include creating logistics hubs and enhancing existing facilities; boosting local, regional and international connectivity; and developing trade and transport networks. The overarching target is to increase the value of Saudi Arabia's annual exports to SR1trn ($266.6bn) by 2030 and optimise the Kingdom's strategic location at the crossroads of global trade.

GLOBAL RANKINGS: Additional NIDLP targets included improving Saudi Arabia's ranking on the World Bank's Logistics Performance Index (LPI) from 55th out of 163 countries in 2016 to 25th place. At that time, the relatively lower scores for Customs handling, logistics quality and timeliness weighed on Saudi Arabia's overall rank. While it placed 58th on the 2018 LPI, a number of recent changes will likely see its place move up on the 2020 index. Indeed, Saudi Arabia was recognised as the most improved economy in the World Bank's "Doing Business 2020" report, due to wide-ranging reforms in eight areas, including trade across borders (see analysis). "With regards to the LPI, Saudi Arabia has made tremendous efforts in recent years to boost efficiency and smooth processes," Mohammed Al Bayati, CEO at supply chain solutions provider Naqel Express, told OBG. "One of the most prominent achievements was the issuance of the new Customs clearance guide, which authorises firms to issue clearance licences."

The World Economic Forum's "Global Competitiveness Report 2019" ranked Saudi Arabia 34th out of 141 countries on the quality of its overall transport infrastructure pillar, with the country showing improvements on six out of eight indicators that year. According to the report, the kingdom placed first globally in road connectivity, as well as 21st in liner shipping connectivity. Other notable rankings include airport connectivity (24th), the quality of road infrastructure (26th), efficiency of train services (26th), efficiency of air transport services (34th) and efficiency of seaport services (40th).

The World Economic Forum ranked Saudi Arabia first out of 141 countries in road connectivity and 26th for the quality of its road infrastructure in 2019.

PERFORMANCE: While the transport sector plays a vital role in enabling other industries, it makes a significant contribution to the economy on its own. According to the General Authority for Statistics (GaStat), the transport, storage and communications (TSC) sector contributed 6.1% to total GDP in 2019. Excluding the energy sector, GDP grew by 3.3% that year, spurred by a SR163.6bn ($43.6bn), or 5.6%, expansion in TSC, making it the fourth-fastest-growing economic sector. TSC activities were outperformed only by finance, insurance and business services (8%), community, social and personal services (6.9%), and wholesale and retail trade/restaurants and hotels (6.3%).

Transport and storage businesses are also key employers. According to GaStat, in the third quarter of 2019 the sector employed 262,995 people, making it the fifth-largest employer after construction, wholesale and retail trade, manufacturing, and accommodation and food service activities. That year, there were 75,300 Saudi transport workers, of which 65,700 were male and 9600 were female, and 187,695 non-Saudi workers, of which 186,951 were male and 744 were female.

The issue of female mobility also ties in with Vision 2030 goals to give women more opportunities in the labour market. In June 2018 the ban on female drivers was lifted, and in the first year local media reported that some 120,000 women had applied for licences. This, combined with improved overall economic conditions in 2019, had a positive knock-on effect for the auto industry, with new car sales increasing by 60% in 2019.

ROAD NETWORK: The importance placed on building new motorway linkages to connect major cities across the Kingdom's vast areas means the road network has had to undergo significant upgrades and expansion. According to the most recent figures from GaStat, there were 67,027 km of main paved roads and 145,132 km of rural roads in 2018. This is a rise from 61,376 km and 140,870 km, respectively in 2013. In 2018 engineers constructed 1720 km of new paved roads, including 50 km of motorway, while road repairs were conducted on 231 km.

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Globally, the road network remains one of the best connected. This is due in part to the skill of road builders in overcoming significant topographical challenges, such as the country's mountainous terrain and huge expanses of sandy desert. In mid-2019 a dual-carriage motorway was opened to directly connect Oman and Saudi Arabia across the Rub Al Khali desert. Also known as the Empty Quarter, the Rub Al Khali desert spans 650,000 sq km, and is roughly the size of France. The highway shaves 800 km off the 1638-km journey to Oman, which is home to important ports on the Arabian Sea. The project involved 600 workers clearing some 130m cu metres of sand. Before the road opened, goods traded between Oman and Saudi Arabia were shipped through the Strait of Hormuz into ports located on the Kingdom's eastern coast.

BRIDGES & CAUSEWAYS: Saudi Arabia's road network included 99 tunnels and 5194 bridges, of which the most heavily trafficked is the 25-km King Fahd Causeway linking the Saudi city of Al Khobar to Bahrain via Um Al Naasan island. In 2018 the causeway was used by 5.7m vehicles crossing into Bahrain and 5.1m vehicles travelling into Saudi Arabia. In January 2020 the King Fahd Causeway Authority reported that 133,000 travellers used the bridge, the highest daily total since it opened in 1986.

A number of measures have been taken to ease congestion on the causeway, including the 2017 introduction of a one-stop crossing for passport control and Customs. In addition, in October 2019 the authority announced an $8.9m consultancy agreement with a consortium including KPMG, US multinational engineering firm AECOM and UK global law firm CMS. The consortium will work to develop financial, legal and engineering aspects of a second crossing between Saudi Arabia and Bahrain, the King Hamad Causeway. The new causeway is expected to cost $3.5bn and will be financed on a public-private

The road network comprised 67,027 km of paved routes in 2018

In the third quarter of 2019 the transport and storage sector was the fifth-largest employer in the Kingdom

partnership basis, in line with broader government privatisation goals. The following month, Mashroat announced a memorandum of understanding to work with the authority to provide technical support and enhance the level of efficiency in the management of facilities and assets.

A second mega-project is under consideration on the other side of the country, with plans to build a 7- to 9-km bridge connecting the Saudi coastal city of Tabuk to Egypt's Sinai Peninsula and the resort town Sharm El Sheikh. The bridge will open trade routes into Africa, including an overland route to Cairo and Alexandria that would bypass the Suez Canal and achieve more than $200bn in annual trade revenue. The project, first announced by King Salman bin Abdulaziz Al Saud in 2016, would also include passenger and freight rail services, providing a key alternative route for Hajj and Umrah pilgrims.

RAIL: In January 2020 a two-day Railway Forum in Riyadh emphasised the importance of the 5000-km rail network and potential investment opportunities (see analysis). The forum was organised by SAR, which was founded by the Public Investment Fund (PIF) in 2006 to build the 2750-km North-South rail lines connecting mining areas in the north to Ras Al Khair Industrial Port and Riyadh. In May 2019 the Council of Ministers announced that SAR would be assuming responsibility for all rail operations. Previously, projects and operations were split between SAR and another state-owned entity, the Saudi Railways Organisation (SRO). In 2016 SAR took charge of all new rail construction projects, including the 950-km Saudi Landbridge Project linking Riyadh with Jeddah. This left the SRO responsible for passenger and freight routes from Riyadh to Dammam; the 450-km Haramain High-Speed Rail (HHSR) line, which provides a direct connection between Jeddah, KAIA, and the two holy cities of Makkah and Medina; and for planning the 2177-km Saudi portion

In mid-2019 a dual-carriage motorway was opened to directly connect Oman and Saudi Arabia across the Rub Al Khali desert, shaving 800 km off the journey between the two countries.

Saudi Arabia has 27 airports, split between six international hubs, and eight regional and 13 domestic facilities

of the GCC railway, which is designed to eventually connect countries across the peninsula. However, SRO's operations and assets will be transferred to the SAR in a merger that is expected to take between two and three years to complete.

In September 2019 a fire destroyed the upper floors of the iconic Jeddah HHSR station, which was designed by the architect Norman Foster. The fire delayed services until mid-December 2019 as a new 1.5-km branch was built to circumvent the station during its reconstruction, allowing trains to run between Medina and Makkah. That same month, a new 5-km branch line, including a 4-km tunnel, was completed to KAIA, which will serve as the main station for Jeddah until the original is rebuilt.

AIR: Saudi Arabia is home to 27 airports, spit between six international, eight regional and 13 domestic facilities. KAIA is the busiest airport in Saudi Arabia. According to GACA, KAIA handled 36% of the 94.4m passengers entering the country in 2018. This was followed by King Khalid International Airport (KKIA) in Riyadh, which accounted for 28%, Dammam's King Fahd International Airport (KFIA, 10%) and Medina's Prince Mohammed Bin Abdulaziz International Airport (PMAI, 8.5%).

In the first quarter of 2020 airlines at KAIA were gradually moving their services to the newly opened Terminal 1. The 800,000-sq-metre facility had a soft opening in March 2018, but officially came on-line in September 2019. There are 46 contact gates, and 30,000 sq metres of shops and food outlets. Terminal 1 has an initial capacity of 30m passengers per year, with subsequent planned expansions set to see this rise to 43m by 2025 and 80m by 2035.

Coming fully on-line in September 2019, King Abdulaziz International Airport 's new Terminal 1 has 46 contact gates, 30,000 sq metres of shops and food outlets, and an initial capacity of 30m passengers per year.

According to KAIA's website, the airport handled 41.2m passengers in 2018. Of this figure, 23.1m passed through the South Terminal, 10.5m passed through the North Terminal and 7.3m were processed via the dedicated Hajj Terminal. At that point, just 385,729 passengers had used the new Terminal 1. While Covid-19 is disrupting pilgrimage plans in 2020, the government is set on increasing Hajj and Umrah foreign arrivals from under 7m in 2017 to around 30m by 2030. "In response to the pandemic, we are coordinating with the authorities to establish Covid-19 prevention measures at KAIA to ensure the safe return of pilgrims," Adnan Al Saggaf, CEO of Ports Projects Management and Development Company, told OBG. "In the longer term, we are also collaborating with the government as we work to meet growing passenger numbers in line with Vision 2030." Echoing similar statements, Ismael Alkoshy, the managing director of Prince Sultan Aviation Academy, told OBG that expansion projects and increased capacity at KAIA were helping prepare the region to absorb future passenger demand.

PRIVATISATION PUSH: The authorities are keen to increase private sector involvement in transport. The first airport privatisation deal was struck in 2011, when the GACA finalised a deal with Turkish group TAV Airports, with partners Al Rahji Bank and construction company Saudi Oger, to build a new terminal at PMAI under a build-operate-transfer (BOT) financing model. The facility is now operated by Tibah Airports, which signed a 25-year agreement to build a 8m-passenger-capacity terminal, in June 2012. The airport reportedly receives 80% of its annual passengers over a 40-day period during the Hajj, and in 2018 it handled 8.3m travellers.

Under the NIDLP, the role of GACA is expected to change, with a reduction in its operational duties and a greater emphasis on regulatory functions. The plan is to allow the private sector to play an increasingly prominent role as airport owners and operators. A vehicle to assist the process was created in 2008 when the Saudi Civil Aviation Holding Company (SAVC) was formed. SAVC is wholly owned by GACA, and its function is to ready targeted assets

In 2019 the number of domestic travellers expanded by 13.5%

for privatisation by focusing on operational and financial efficiencies. SAVC has overseen the creation of the Riyadh Airports Company (RAC), which manages and operates KKIA, and the Dammam Airports Company, which does the same at KFIA.

In October 2019 RAC announced it had its busiest day on record, handling 100,000 passengers at KKIA. RAC also reported a 2% annual increase in passenger traffic during the 2019 Hajj and back-to-school seasons, during which 2m passengers used the airport. By the end of the third quarter of 2019 the airport had handled 20m travellers, a 4.8% increase year-on-year. This follows 2018, which saw passenger numbers up 5.5%, to over 26m. GACA is spending SR2.5bn ($666.5m) on revamping Terminals 3 and 4, to bring capacity up to 11m passengers. In February 2019 the authority reported that the work was 11.7% completed. The refurbished terminals will have 14 travel gates and 80 check-in counters.

DOMESTIC FLIGHTS: Recent growth in domestic passenger traffic is serving as the main driver of airport upgrades. In 2019 the Kingdom recorded a 13.5% increase in domestic travellers, compared to 4.5% for international passengers. This follows a trend from the previous year, with GACA data showing growth in domestic passenger numbers outpacing international traveller numbers in Riyadh and Jeddah. At KKIA, domestic traveller numbers rose by 12.6% in 2018 to 15.7m people, while international passengers numbers grew by 8% to 12.3m. At KAIA, the number of domestic fliers was up 15.4%, to 13.1m people, while international travellers rose by 4.9%, to 22.7m passengers.

E-VISA: As aviation and tourism are two of the key sectors targeted by Vision 2030, a new e-visa system for citizens of 49 countries was launched in September 2019. The e-visa makes it easier for tourists to visit the Kingdom, which could help drive up international traveller numbers. The multiple-entry visa costs SR440 ($117) and is valid for one year allowing for a maximum cumulative 90 days in-country. The introduction of e-visas is part of Vision 2030's objective to see tourism contribute 10% to GDP by 2030, up from 3% in 2016, by attracting 100m tourist visits per year (see Tourism & Entertainment chapter). It is also worth noting that overall growth in international passengers has continued despite the recent departure of significant numbers of expatriate workers. Jadwa Investment estimates that from the start of 2017 to the third quarter of 2019 nearly 2m expatriates exited the local labour market.

AIR FREIGHT: In addition to transporting passengers, the air network plays an important role in the movement of goods. However, according to GaStat data, in 2018 there was a fall in the tonnage of goods handled by airports. In 2018 the total amount of air cargo handled by the top-five airports fell by more than 8.8% to 856,317 tonnes. More detailed data comparing the top-13 Saudi airports showed the decline was due to a fall in international freight volumes, which dropped by 7.9%, from 853,367 tonnes

A 90-day, multi-entry e-visa programme for citizens of 49 countries was launched in September 2019

to 788,391 tonnes, while domestic freight loads only increased marginally from 87,897 tonnes to 88,968 tonnes. Prince Naif Bin Abdulaziz International Airport in Al Qassim bucked the trend, with domestic air freight up from 627 tonnes to 17,412 tonnes, and international cargo up from zero to 2587 tonnes.

AIRLINES: There are five airlines based in Saudi Arabia. State-owned Saudia has been the national carrier since 1945. The airline is based in Jeddah but has another equally comparable hub in Riyadh. In 2007 Saudia's first competitor came along with the launch of the privately owned Flynas, which started as a low-cost carrier. For nearly a decade, Saudia and Flynas operated a duopoly in domestic aviation; however, two new airlines came on-line in October 2016, providing a competitive challenge. SaudiGulf Airlines is headquartered in Dammam, where it caters to the upper end of the market, providing domestic and regional international flights. Nesma, a sister of a private Egyptian airline, is based in Hail, where it operates mostly domestic flights, as well as services to Cairo. In 2017 Saudia launched its own low-cost airline, flyadeal, to compete domestically.

Although the full-year figures are distorted by the fact that new airlines started operations each autumn, the overall number of passengers carried by the five airlines increased by 14% from 61.8m in 2017 to 70.6m in 2018. However, privately owned airlines as a whole saw their share of the market fall from 22.6% to 19.5% that year as newcomer flyadeal gained considerable market share, climbing from 359,683 passengers to over 5m. While SaudiGulf boosted its traveller numbers from 984,608 to 1.58m, both Nesma and Flynas saw passenger numbers fall, with Nesma down from 1.6m to 1.3m, and Flynas down from 11.5m to 10.8m. Both airlines operated fewer flights in 2018.

NEW AIRCRAFT: Despite the sometimes volatile market dynamics, both privately and publicly owned

Saudi airlines carried

70.6m

passengers in 2018

Throughput at commercial and industrial ports reached 289m tonnes in 2019, up from 267m tonnes in 2018

Saudi airlines have been buying up new aircraft. In November 2018 SaudiGulf announced a $2.1bn deal to purchase 20 Airbus A320neo and A321neo aircraft with a firm order for 10 and an option for the others. The carrier, which started with four Airbus A320s, has planned to add between six and eight new aircraft annually from 2019 to 2021.

In January 2018 Flynas added a new Boeing 767 wide-body aircraft to its service between Jeddah, Medina and Baghdad. At that point the airline had a fleet of 30 aircraft. At the Dubai Airshow in 2019, Flynas signed a firm order for Airbus A321 XLRs, which it said increased the number of firm orders for aircraft to 90, with a combined price tag of $10bn.

Meanwhile, at the Paris Air Show in June 2019, Saudia signed an order for 100 aircraft with Airbus at an undisclosed price. Of these, flyadeal was to receive 30 Airbus 320neo planes with an option for a further 20. Deliveries of the first aircraft are due to commence in 2021. In 2020 Saudia was operating a fleet of 147 Boeing and Airbus aircraft.

NEW HELICOPTER COMPANY: In 2018 the PIF announced it was launching The Helicopter Company (THC) as the first national commercial helicopter operator in Saudi Arabia. THC will cater to the luxury end of the tourism market by offering private trips to remote locations around the Kingdom, as well as urban transport and air ambulance services. THC was formed with initial capital of SR565m ($150.6m), and in July 2019 the company received its airworthiness operations certificate from GACA in Riyadh. THC began commercial operations the following September, using an AgustaWestland AW139 medium-sized, twin-engined helicopter that can be configured to seat up to 15 people. In November 2019 THC participated in the Dubai Airshow as a means of achieving better brand recognition.

In 2019 Jeddah Islamic Port handled 37.3% of all passenger traffic arriving at Red Sea ports, followed by Jazan Port (35.6%), Dhiba Port (26.3%) and Yanbu Commercial Port (<0.1%).

PORTS: Saudi Arabia is home to nine ports, of which six are commercial and three are industrial. In 1996 the port sector was privatised and commercial terminal operators were appointed, although the SPA remains the overseer of all port activity.

SPA data shows that in 2019 the combined throughput at all Saudi ports reached 289m tonnes, up from 267m tonnes in 2018 and 234m tonnes in 2015. JIP is the busiest commercial port, while the two King Fahad Industrial Ports – one at Yanbu on the Red Sea and the other in Jubail on the Gulf – remain the busiest industrial ports due to their importance to the petroleum industry. In 2019 the industrial ports at Yanbu and Jubail processed more than 115m tonnes and 60m tonnes of cargo, respectively. JIP, meanwhile, handled 55m tonnes that year.

In December 2019 the SPA awarded two, 30-year BOT concessions to the local terminal operator Red Sea Gateway Terminal (RSGT) and UAE logistics firm DP World to manage and develop JIP's north and south container terminals, respectively. RSGT will expand the capacity of the north terminal from 3m twenty-foot equivalent units (TEUs) to 5m TEUs in the short term, while the agreement with DP World stipulates it will invest $500m to modernise its part of the port, including infrastructure to enable it to cater for ultra-large container carriers. The south terminal's annual capacity will expand from 2.4m TEUs to 3.6m TEUs, providing 1400 jobs. "The expansion of JIP is being driven by the growing demand for vessels and maritime freight," Mohammed Mudarres, CEO of Saudi Industrial Services Company, told OBG. "Its strategic location on the Red Sea and the economic growth of the Makkah region are highlighting its importance to the local maritime sector."

In 2019 JIP discharged 2.22m TEUs of containers and loaded 2.21m TEUs, for a combined total of 4.43m TEUs. The total length of JIP stands at 12.3 km. It has 62 berths, of which 32 are used for general cargo, 19 for container shipments, six for passengers, three for grain and two for livestock. In 2019 JIP handled 37.3% of all passenger traffic arriving at Red Sea ports. This was followed by Jazan Port (35.6%), Dhiba Port (26.3%) and Yanbu Commercial Port (<0.1%). While Saudi Arabia's Red Sea ports do not cater to cruise liners, in May 2019 local media reported cruise operators hope this may change. At present, once passing the Suez Canal, cruise liners can only call at the Port of Aqaba in Jordan.

The $640m Ras Al Khair Industrial Port serves the mining and industrial areas in the north. In line with NIDLP goals, in November 2018 the Waad Al Shamal project was inaugurated. Spread over 440 sq km, the development aims to leverage the over 50m tonnes of phosphate reserves in the Northern Region to make Saudi Arabia the second-largest producer of the mineral worldwide. "For a long time, goods have transited through neighbouring ports such as Dubai," Khaled Dhafer, chairman of local company KDL Logistics, told OBG. "However, we now believe that Saudi Arabia's Gulf ports offer a competitive value proposition, and can attract freight transporters in order to increase overall port activity."

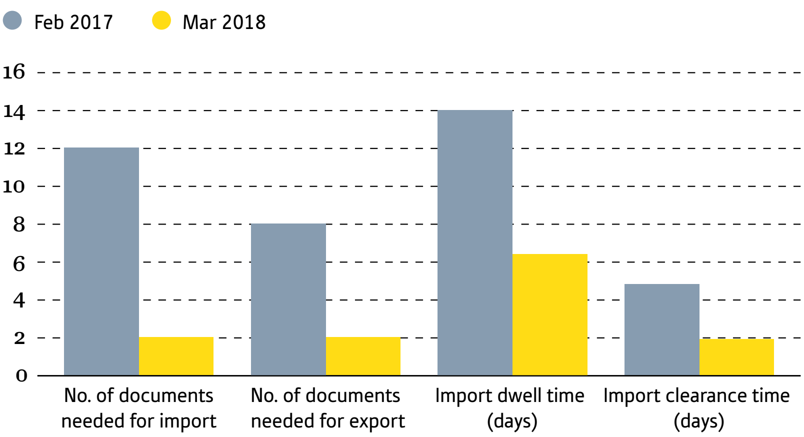
The national road network includes 99 tunnels and 5194 bridges

The 176-km, $23bn Riyadh Metro is expected to come on-line in the second half of 2020, serving 85 stations via six train lines, and fed by a 1900-km network of buses with 3000 stops.

URBAN TRANSPORT: A headline development in public transport is the Riyadh Metro, which is expected to come on-line in the second half of 2020. Once fully operational, the 176-km, $23bn metro will serve 85 stations via six train lines, and will be fed by a 1900-km network of buses with 3000 stops.

The project is overseen by the Royal Commission for Riyadh City (formerly the Riyadh Development Authority), which is tasked with the urban, economic, social and cultural development of the capital. Three international consortia have been responsible for the development of the metro network's six lines. The first package, consisting of lines 1 and 2 and valued at $9.45bn, was awarded to the BACS consortium, made up of Bechtel, Siemens, Almabani General Contractors and the Consolidated Contractors Company. The package includes the construction of 38 km of track and 22 stations for line 1, the majority of which will be below ground, as well as 25 km and 13 stations for line 2, some of which will be elevated.

Digitalisation improvements at ports, Feb 2017 vs Mar 2018



Source: NIDLP Delivery Plan

The rolling stock for these lines will be supplied by Siemens and consist of 74 Inspiro driverless trains with a capacity of 21,000 passengers per hour.

The second package, comprising line 3 and valued at around $5.9bn, was awarded to the ArRiyadh New Mobility consortium, which is made up of Hitachi Rail STS, Bombardier, Salini-Impreglio, Larsen & Toubro, and Nesma. Line 3 will be 40.7-km long and include 22 stations, with rolling stock consisting of 47 driverless Bombardier Innovia Metro 300 trains.

The third and final package, valued at $7.82bn, consists of lines 4, 5 and 6, and was awarded to the FAST consortium, led by Spanish construction firm FCC. The group includes Samsung, Alstom, Strukton, Freyssinet Saudi Arabia, Typsa and Setec. The three lines will consist of 29.8 km of elevated track, 8.2 km at surface and 26.6 km below surface, totalling 64.6 km, as well as 25 stations. Rolling stock will be provided by Alstom and will comprise 69 two-car Metropolis driverless trains. Although the network has been built by three consortia, the trains will have a common technical design.

In line with greater privatisation goals, two 12-year operation and maintenance (O&M) contracts were awarded for the network. The Flow Consortium of Alstom, Hitachi Rail STS and Ferrovie dello Stato Italiane, was awarded lines 3, 4, 5 and 6; while the Capital Metro Company, a joint venture between Saudi Public Transport Company and RATP Dev, was awarded lines 1 and 2. The contracts stipulate a minimum Saudiisation rate of 45%, and a 55% target for local content procurement of supplies and services. The delivery of the metro looks set to transform commuting in the capital city, where just 2% of the city's 7m people use public transport.

Jeddah has also drawn up a master plan for public transport. The Metro Jeddah Company, which was formed in 2013, has created a blueprint for the city which includes four metro lines, three light rail transportation lines, a coastal tram system stretching along Jeddah corniche, two bus rapid transit routes, a commuter rail line around the city's eastern periphery and a seabus network along the coastline. Consultancy contracts were awarded from 2014 to 2018 for the network, but as of April 2020 development had yet to commence.

OUTLOOK: Although the Covid-19 pandemic has cast a shadow of uncertainty over parts of the global transport sector – particularly aviation – beyond those immediate issues, Saudi Arabia's transport sector is positioned to play an increasingly important role in the economy in the years ahead. Improving the Kingdom's logistics and transport infrastructure is a central goal of the NIDLP, with early wins in speeding up the movement of cargo through its seaports demonstrating a coordinated, multi-agency effort to make significant improvements. With new roads and bridges to Bahrain and Egypt planned, Saudi Arabia is also demonstrating its intention to leverage its location to serve as a transport hub, connecting countries and continents in the region.

Saad bin Abdulaziz Al Khalb, President, Saudi Ports Authority

Port of call

Saad bin Abdulaziz Al Khalb, President, Saudi Ports Authority (SPA), on maximising the value and efficiency of maritime assets in order to increase non-oil exports

How can existing port infrastructure help to position Saudi Arabia as a regional trade hub?

AL KHALB: The Kingdom's strategic location connecting the three continents of Europe, Africa and Asia is one of Saudi ports' strongest assets. The services and initiatives powered by the SPA have improved the shipping sector's performance and efficiency across the board.

Streamlining procedures and providing flexible and competitive services to global logistics players is at the forefront of our efforts. To this end, the SPA has made strides in management methods, operational performance levels and the development of infrastructure at the core of its operational assets. By providing higher levels of efficiency, modern equipment, large areas for storage, and strong transport and distribution processes, Saudi ports are well equipped to meet shipping's current and future needs. It is worth mentioning that the Kingdom has the largest ports network in the Middle East, with 10 ports and 240 berths, account for the private King Abdullah Port. Our ports constitute at least 70% of the volume of Saudi non-oil trade, and 13% of world trade passes through the Red Sea.

To what extent can greater privatisation of government-owned ports increase the quality and efficiency of service provision?

AL KHALB: In order to keep pace with economic trends and to continue to develop ports according to the government's integrated advancement plans, a royal decree was issued in 1997 that assigned the operations contracts at the ports to the private sector. In the years since we have seen the positive outcomes of this decision, which significantly improved operational efficiency and capacity. An example of this is the signing of investment agreements and partnerships that led to an evolution in equipment, machinery and the beneficiary satisfaction rate.

The SPA has taken significant steps towards privatisation and aims to redevelop current contracts to include more flexible and competitive conditions. By increasing private participation in the sector to 70%, we aim to reduce shipping costs and the time containers stay at ports to three days by 2020.

In what ways are Saudi ports equipped to handle a potential long-term rise in non-oil exports?

AL KHALB: Saudi Arabia is considered the top oil exporter in the world, and our country has the largest and most diversified economy in the Middle East. We produce numerous industrial products for export, so maritime in general and ports in particular have received unprecedented attention from the authorities. Indeed, our sector has a key role to play in Vision 2030, the government's diversification and modernisation strategy.

Saudi ports are central players in the authorities' efforts to raise the share of non-oil GDP from 16% to 50%. Efficiency in our ports incentivises this expansion, and we have implemented many measures to this end. These include clearing containers within 24 hours and reducing the storage fees exemption at all ports to five instead of 10 days. In October 2019 we introduced trucking management services at King Abdulaziz Port in Dammam on the FASAH trade system, an e-government platform that acts as an integrated data exchange and e-services portal. The platform has been introduced in 30 ports to simplify and ease the transfer of information, as well as reduce lead times, paperwork and costs.

The SPA has worked to facilitate the export of Saudi products. The authority has reduced incoming handling fees at Jubail Commercial Port and implemented an exemption period for demurrage storage fees for these containers to allow exporters to receive them directly from the port. These efforts will help decrease costs by 53% from current levels.

Bashar Al Malik, CEO, Saudi Railway Company

Network expansion

Bashar Al Malik, CEO, Saudi Railway Company (SAR), on leveraging private sector investment and boosting integration

What is being done to consolidate the transport sector and expand current infrastructure?

AL MALIK: The whole railway industry is currently undergoing restructuring. In the past there were different entities overseeing railway projects and operating railway lines, leading to some degree of conflict. However, this situation was resolved in 2017 when SAR became the sole owner of all railway infrastructure in the Kingdom. In addition, a merger is taking place between SAR and the Saudi Railway Organisation. Since 2007 huge investments have been taking place to expand the country's railway network. As a result, the 450-km network has grown to exceed 5000 km in length today. Furthermore, we have expanded coverage to the central, eastern and western parts of the Kingdom, all the way up to the Jordanian northern borders.

Where does Saudi Arabia currently stand in terms of the development of new railway lines?

AL MALIK: The Riyadh-Dammam line – which was built in the early 1950s – was, until recently, the only railway line that existed in the region. It connects King Abdulaziz Port in Dammam on the Gulf coast to the Riyadh dry port in the capital. The line has since been extended to connect with mineral mines in the eastern and northern regions of the country.

A very important addition to our railway network will be the line between Ras Al Khair and Dammam. Upon completion it will connect the North-South railway line with the existing Riyadh-Dammam line and provide increased accessibility to the Kingdom's seaports. In addition, it will ensure that the petrochemicals industry in Jubail is served through the railway network. This will totally change the logistics performance of this part of the country. The execution of the railway is ongoing and overall progress has so far exceeded 70%. In addition, the completion of the Haramain High-Speed Rail link that connects Makkah, Medina and Jeddah has levelled up the transportation of passengers – notably pilgrims – by providing the fastest train service in the region and the 10th fastest worldwide.

How will the Saudi Landbridge project strengthen regional integration and boost trade in the GCC?

AL MALIK: Saudi Arabia has an excellent transportation system that serves not only Saudi Arabia but the region as a whole. An important element of this is the Saudi Landbridge project, which will create an east-west corridor connecting the Red Sea with the Saudi Arabian Gulf, providing the whole Kingdom with access to rail and GCC countries with a rail connection to the Red Sea. This will help reduce the amount of traffic going through the Gulf of Aden, thereby ensuring that greater efficiency, reliability and lower costs can be achieved. This will help boost regional integration and better enable GCC countries to take part in global trade.

To what extent does the participation of the private sector help to improve efficiency?

AL MALIK: Moving forwards there is no doubt that the private sector will play an important role in the railway sector, not only in terms of the expansion of the network but also operating and maintaining it. Having the private sector involved will improve efficiency, along with the reliability of the network and related services.

Several opportunities are being floated to the local and international private sector to participate in the railway industry's expansion and operation. For instance, the Saudi Landbridge project has already started the consulting and initial design phase with the private sector. There are some railway lines that the private sector is extremely interested in getting involved in. However, there are other parts where it is not as feasible. As is the case globally, railway projects require significant capital investment, but the returns on those investments can be low, meaning governments will have to step in and provide some sort of support and guarantees to the private sector.

Shipping agents can upload manifest documents 72 hours before arrival

Competitive advantage

Reforms to improve speed and ease the transport of goods

A raft of reforms and digital transformation initiatives in Saudi Arabia have earned the country a place among the top-10 most improved global business climates in 2019, according to the World Bank's "Doing Business 2020" report. The country's new rank of 62nd out of 190 countries on the report's ease of doing business rankings marked an improvement of 30 spots on the previous year. This was attributed to reforms in eight areas of business life, including trade across borders, which took into account upgrades at Jeddah Islamic Port (JIP), the introduction of an electronic single window that enables risk-based inspections, and the launch of a new online certification platform for imports.

SALEEM-SABER: A key change has involved the registration, certification and shipment of products to Saudi Arabia. The Saudi Standards, Metrology and Quality Organisation (SASO), which is responsible for maintaining standards for imported consumer goods, used to require businesses to obtain a certificate of conformity (CoC) for each shipment, including certificates of origin and other legal documents. In January 2019 SASO launched an online certification and conformity assessment system, replacing previous CoC requirements. The Saber system can be used by importers within the country to make certification processes much quicker and reduce bottlenecks. Included in the service is the new Saudi Product Safety Programme (Saleem), which issues two types of certificates: the three-year product CoC, which is issued after tests and verification procedures to assess technical standards are completed; and a shipment CoC, which is issued for each shipment. The Saleem-Saber system has been made mandatory for certain products, but can be used on a voluntary basis by import agents.

FASAH: Another component of e-government reforms is the country's single-window system (Fasah), an electronic data interchange platform that supports clearance by integrating more than 25 entities in the import-export process. This includes Customs, the Saudi Ports Authority, the General Authority of Civil Aviation and SASO, among others. The online system can be used by importers and exporters, shipping agents, port operators, clearing agents or brokers, and the public sector. Fasah services include manifest submission, declaration creation and submission, the single-payment portal and the Masar GPS tracking system, which allows cargo and container shipments to be tracked in real time as they pass government checkpoints.

IMPROVED CLEARANCE: On the import side, digitalisation means many processes can be completed before a ship arrives. Shipping agents are able to upload manifest documents 72 hours before arrival, while Customs brokers can file declarations with ships still at sea. These documents can be examined by external entities dealing with counterfeit items, specialised goods, restricted goods, exemptions and valuations in the 48 hours before the ship docks. At this stage, those shipments selected for manual inspection can be identified. At the ports, containers are x-rayed, stored and inspected for 24 hours before being collected for their onward journey by land. These processes are repeated in reverse when cargo for export arrives at ports by land and is loaded on to ships.

Under the previous system, imports required 12 documents: a broker authorisation, a Customs declaration, a commercial register, a commercial permit, a packing list, an exit gate permit, a CoC, proof of payment, the certificate of origin, a delivery order, an invoice and a bill of lading. Under the new system, the only required documents are the invoice and bill of ladling. Meanwhile, on the export side, the number of documents was reduced from eight to two: a manifest and an invoice.

To speed up clearance, ports have also increased the hours during which Customs operations take place, trained some staff to work in x-ray analytics rooms, and reduced the number of manual inspections. "The latest investments in innovation and technology have enhanced the productivity at JIP," Mohammad Alshaikh,

The single-window system integrates over

25

entities involved in the import-export process

Improved Customs clearance procedures have reduced the number of documents required for imported and exported goods from 12 and eight, respectively, to two.

Saudi Arabia will soon be home to three bonded and re-export zones

95%
of Customs declarations are now submitted electronically

CEO of marine cargo handling firm DP World, told OBG. "It is key that all the entities work together to avoid duplications in the logistics sector. All the dry and maritime ports have to be aligned to achieve the common milestones and not overlap with each other."

EARLY WINS: Improvements and reforms have already made an impact, according to a National Industrial Development and Logistics Programme progress report published in January 2019. Between February 2017 and March 2018 the average import dwell time was cut from two weeks to 6.4 days, while import clearance times were reduced from 4.9 to 1.9 days. Digitalisation meant that by March 2018, 47% of declarations had been made before vessels arrived, compared to 11% in February 2017, while 95% of declarations were submitted electronically, up from 25%.

BONDED ZONES: Bonded and re-export zones are dedicated areas for manufacturing and logistics operators to benefit from special Customs regulatory schemes. In March 2020 there were two bonded re-export zones operating in the Kingdom at Jeddah and Dammam, owned by local logistics firm LogiPoint and the Saudi Development and Re-Export Services Company, respectively. The LogiPoint Bonded Re-Export zone occupies a 1m-sq-metre site at JIP, while the Dammam Bonded and Re-Export Zone is situated on a 350,000-sq-metre site within the King Abdulaziz Port complex.

Bonded zones handle trans-shipment containers and provide labelling, packaging and branding services. These sites allow local goods to be handled for export without a declared final destination and permit foreign investors to store goods without the need for commercial registration. Bonded corridors allow goods to be transported between air, sea and land transit hubs. In the second half of 2020 there are plans for a third facility to open at King Abdullah Economic City in Rabigh some 160 km north of Jeddah.

Saudi Arabia is also in the process of adopting of an authorised economic operator (AEO) programme, which was one of the components of the World Trade Organisation's Kyoto Convention for trade facilitation. The AEO programme is a compliance and approval system that is designed to help businesses in the supply chain – including couriers, shipping and clearing agents, exporters and importers – to receive preferential treatment at ports with a reduced risk of inspections and the use of virtual Customs warehouses.

BUSINESS RESPONSE: The government's reforms have been welcomed in the wider business community, and will help to make the Kingdom a more attractive prospect for international investors. "There have been big advancements in Customs clearance services," Mohkam Bahakim, CEO of local logistics services provider Bahakim Group, told OBG. "Companies used to spend between 10 to 15 days on services that can now be delivered in few hours. The new regulations and legal framework are attracting foreign manufacturing companies to Saudi Arabia." In an increasingly competitive global market, Saudi Arabia's new digital services would give the logistics sector in the country an advantage.

Saudi Arabia's rail network spans 5000 km with 1500 km of new lines

Full throttle

Moving ahead with local and regional rail network integration

The Kingdom's rail network has made major strides in recent years, opening up new passenger stations and lines for residents and pilgrims, while also moving tonnes of freight off the road and onto track. Investment in rail infrastructure is set to continue with Saudi Arabia's contribution to the Gulf Railway, also called the GCC Railway, and the $7bn Saudi Landbridge Project (SLP), which connects the country's two largest cities of Jeddah and Riyadh, both set to come on-line in the 2020s. As such, the rail sector is expected to play a leading role in realising the Vision 2030 aim of turning the Kingdom into a leading global logistics hub consistent with the country's economic diversification goals.

MASTER PLAN: Launched in 2010 by the Saudi Railways Organisation (SRO), implementation of the 30-year Saudi Railway Master Plan (SRMP) is being delivered in three phases from 2010 to 2040. The overarching goal of the SRMP is to use the public-private partnership framework to integrate rail into a safe and efficient multi-modal network that would facilitate passenger and freight services, with aims of connecting to neighbouring countries. This includes the creation of a 9900-km network with an initial investment of SR365bn ($97.4bn).

First-phase projects, running from 2010 to 2025, have been allocated a combined budget of SR63bn ($16.8bn) and include the construction and upgrade 5500 km of track. Recently completed or ongoing plans are focused on an upgrade to the two existing freight and cargo lines between Dammam and Riyadh; completion of the SLP, including a 950-km line between Riyadh and Jeddah and a 115-km line between Dammam and Jubail; completion of the Haramain High-Speed Rail (HHSR) line, which provides a direct connection between Jeddah and the two holy cities of Makkah and Medina; the North-South railway line between Riyadh and the Northern Borders region, with connections to Ras Al Khair Industrial Port, Jubail Commercial Port and Waad Al Shamal industrial city; and linkages to the GCC Railway network. International connections include a line from the UAE border through Hofuf, Jubail and Ras Al Khair, and on to the Kuwait border with a branch line connecting Bahrain.

Looking ahead, the SRMP's second-phase projects to be completed between 2026 and 2033 will see 3000 km of track built at a cost of SR209bn ($55.7bn), while the third-phase plans will see 1400 km of track constructed from 2034 to 2040 at a cost of SR93bn ($24.8bn). The plan also suggested the gradual privatisation of services, while maintaining a separation between the regulatory and operational spheres of railway companies.

PROGRESS REPORT: As of January 2020 Saudi Arabia's rail network spanned 5000 km, including 1500 km of new lines. Of the four first-phase projects planned, two have been completed, with the North-South Railway line's passenger and goods services fully operational as of October 2018 and the HHSR line opening in 2017. As of July 2019 upgrades to the Dammam-Riyadh dual lines and the construction of the SLP were at the design stage.

Concurrently, the state rail service administration is being reformed. In February 2019 the Council of Ministers announced plans to abolish the SRO, effectively making the Saudi Railway Company (SAR) the sole national railway agency. This has meant transferring ownership of SRO's rail projects and assets, which include the Dammam-Riyadh line and the HHSR, to SAR (see overview).

RAIL FREIGHT: In terms of economic diversification goals, rail freight services are a significant development, allowing for the transport of minerals and oil from often remote areas. In the country's northern mining areas, key freight services include 1526 km of railways that carry more than 10m tonnes of minerals per annum – the equivalent of 800,000 truck

The 30-year Saudi Railway Master Plan is being delivered in three phases, stretching from 2010 to 2040. Projects under the first phase, from 2010 to 2025, have a combined budget of $16.8bn.

The Saudi Railway Master Plan aims to see construction and upgrades to 9900 km of rail lines by 2040

loads – as well as the 556-km freight line from King Adulaziz Port in Dammam to the Riyadh Dry Port. The latter network carries 350,000 twenty-foot equivalent units (TEUs) of container cargo per year and provides 486 km of subsidiary lines connecting military, industrial and agricultural areas with the Kingdom's commercial ports. As the first rail link between the Red Sea and the Gulf, when the SLP is completed it is expected to carry 700,000 TEUs of container cargo and 8m tonnes of freight per year.

PASSENGER LINES: On the passenger side of operations, the current 449-km Dammam-Riyadh line includes stops at oil-processing facilities at Abqaiq and the town of Hofuf. The latter is set to become a rail crossroads when the GCC Railway line running down Saudi Arabia's eastern coast is completed. From Riyadh, the North-South line continues to the town of Al Qurayyat, which is located about 40 km from the border with Jordan.

On the east coast, the HHSR runs 450 km with stops at Makkah, Jeddah, King Abdulaziz International Airport, King Abdullah Economic City at Rabigh and Medina. The airport serves as the main station for Jeddah while work is completed on the city's central station to repair damage from a fire that occurred in September 2019 (see overview).

In Makkah itself, construction work is ongoing to expand the Al Mashaaer Al Mugaddassah Metro Line. The first sections of the 18.1-km line have been operating since 2011, but are planned to be expanded with four new metro lines and 88 stations over a 180-km network. In January 2020 the Makkah Mass Rail Transit Company invited tenders for line D of the expanded metro service.

The GCC Railway will better connect the peninsula, allowing passengers, containers and other freight traffic to strategically bypass shipping choke points at the Bab Al Mandab Strait and the Strait of Hormuz.

GCC RAILWAY: GCC member states have been planning an integrated rail network to better connect the peninsula in this regard. It was indicated in 2018 that the GCC Railway could be operating in some parts of the network from 2021 and on, with Kuwait and Bahrain joining from 2023. A rail component is also planned for the new $3.5bn, 25-km King Hamad Causeway to Bahrain. Construction on the new causeway project expected to commence in 2021 (see overview).

The GCC Railway will see 2116 km of rail built along the Gulf, from Muscat, Oman to the Kuwaiti-Iraqi border, with Saudi Arabia to host 663 km of new line running from the border with the UAE, through the Al Batha area of Riyadh, to the border with Kuwait at Al Khafji. Key industrial cities and ports located on the line include Dammam's King Abdulaziz Port, Jubail Commercial Port and Ras Al Khair Industrial Port, with links to the SLP. This will create a rail link across the Arabian Peninsula for passengers, containers and other freight traffic, strategically bypassing shipping choke points at the Bab Al Mandab Strait and the Strait of Hormuz.

Work is already beginning on the network in neighbouring GCC countries. In August 2018 it was reported that Kuwait had begun construction on the first phase of its network, a 111-km line from Kuwait City to Nuwaiseb on the Saudi border. In January 2019 it was reported in industry media that Saudi Arabia was planning to launch tenders for its portion of the railway in the near future. In March 2019 several contracts were awarded for package A of the 1200-km second stage of Etihad Rail's network, including a 139-km stretch of track connecting Al Ghuwaifat at the Saudi border with the industrial port of Ruwais in Abu Dhabi. Stage two was approved by the UAE Ministry of Finance and Abu Dhabi Department of Finance in 2018.

INVESTMENT OPPORTUNITIES: In January 2020 SAR brought together leading experts, rail businesses and other stakeholders for The Rail Forum in Riyadh. The two-day event was an opportunity to showcase achievements, highlight opportunities and discuss new technologies. Officials flagged a number of investment opportunities, which tied in with the aims of the National Industrial Development and Logistics Programme (NIDLP). These included the possibility of establishing a rail wagon manufacturing facility in the Kingdom to support and localise its growing rail sector; an opportunity to open a wheel manufacturing plant for locomotives and wagons that could cater for regional demand; the idea of a plant for packing and winding traction motors to serve SAR's existing fleet of 400 traction motors; and the development and operation of intermodal rail yards. The NIDLP also highlights plans to build 20 additional passenger railway stations to support the 9900 km of lines due to be constructed and upgraded by 2040 as part of the SRMP. Officials also have floated the idea that some of the new special economic zones being developed under the NIDLP could be serviced by rail lines and facilities.

Saudi Arabia is committed to investing in the rail sector, and authorities have recognised it can play a vital role in helping the country to realise its ambitions of becoming a global intermodal logistics hub.

Ramee Grand Hotel & Spa occupies a bustling corner of Seef Area in the Kingdom of Bahrain. Only 10 minutes from King Fahd Causeway, close to the business district, a two-minute walk from the nearest shopping mall, and a short distance from many of the country's tourist attractions, this 5-star hotel is ideally located for business and leisure travelers alike looking for a luxurious stay away from home.

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Real Estate & Construction

Government initiatives target affordable housing stock

Significant expansion of the domestic mortgage market

Growing entertainment options support retail segment

Various giga-projects are sustaining building activity

Urban infrastructure and transport projects continue

The real estate sector contributed 9.4% of non-oil GDP in 2019

Home sweet home

Government efforts to boost affordable housing, as well as rising retail and office supply, benefit young, working Saudis

In 2017 the government set the objective of increasing the share of homeownership among Saudi citizens from 47% in 2016 to 60% in 2020.

Saudi Arabia's residential housing segment underwent significant expansion in 2019 following several years of muted growth. The government has been the primary driver of this recent uptick in activity, launching a number of regulatory reforms and financing initiatives to increase the availability of affordable housing. Current trends in the segment include an expanding mortgage market, more first-time buyers and the development of large-scale housing projects. On the commercial side, major entertainment projects are driving growth, with positive trends expected in the coming years. The real estate market as a whole has also seen growing involvement from the private sector.

STRUCTURE & OVERSIGHT: Overseeing the sector is the General Real Estate Authority (GREA). The body was previously known as the State Property Department and possessed a more limited mandate, but underwent conversion in late 2018. The current role of GREA includes overseeing the management of state property assets, devising real estate policies and promoting business development with the private sector. The Ministry of Housing (MoH) serves to stimulate real estate supply through a planning, organising and facilitating role. The MoH owns significant quantities of land and works to develop both public and private sector assets by engaging with private developers. Other prominent players in the sector include the Public Investment Fund (PIF) – the Kingdom's sovereign wealth fund – which oversees state funding for major construction projects in the country, including housing.

The Real Estate Development Fund (REDF) is a government lending initiative that reports to the MoH. In recent years it has created several affordable housing products to increase the homeownership rate of citizens. Meanwhile, the Saudi Real Estate Refinance Company (SRC) was established by the PIF in 2017 to help develop the country's housing finance market in line with the objectives of Vision 2030. It has been tasked with increasing liquidity in the mortgage market, and providing capital and risk management solutions to lenders to enable them to offer more finance options.

GOVERNMENT STRATEGY: The country has a target to increase homeownership to 70% by 2030 as part of the Vision 2030 strategy. To support the government in achieving the objectives laid out in Vision 2030, the Council of Economic Affairs and Development formulated 13 Vision Realisation Programmes (VRPs). Launched in 2017 the Housing VRP included a number of targets to be met by 2020. These included rapidly expanding the supply of affordable housing units and increasing the share of homeownership among Saudi citizens from 47% in 2016 to 60%. As part of the VRP, the government set itself the objective of raising total outstanding mortgage loans from SR290bn ($77.3bn) in 2017 to SR502bn ($133.8bn) and reducing average residential unit prices from 10 times the average annual income in 2015 to five times. It also aimed to raise the annual growth of the real estate sector to 7%.

PERFORMANCE: After a period of muted growth since 2014, performance was observed across the sector in 2019, with expansion in the residential, hospitality and retail segments. According to the General Authority for Statistics (GaStat), the real estate sector contributed SR210bn ($56bn) to the economy in 2019, representing 7.06% of total GDP and 9.4% of non-oil GDP at current prices, while in real terms the sector grew by 3.4%. This expansion was broadly in line with overall growth in the non-oil economy, which grew by 3.3% in 2019 – its fastest rate since 2014.

Furthermore, 2019 saw the real estate price Index turn positive after four years of declining prices. According to the latest index by GaStat, prices saw a 0.5% increase between the fourth quarter of 2018 and the same period of 2019. The residential sector saw a 0.7% increase, represented by 0.7% growth for residential plots and 2.5% for apartments. The commercial sector, for its part, saw a decline of 0.1% that included negative growth of 0.1% for commercial plots

The real estate price index turned positive in 2019 after four years of declining property prices, with a 0.5% increase between the fourth quarter of 2018 and the same period of 2019.

and 1.9% for galleries and shops. In a positive sign for commercial real estate, the wholesale and retail trade, restaurants and hotels segment drove a significant portion of the increase in non-oil GDP in 2019, expanding by a collective by 6.27%. However, momentum across the sector is expected to slow due to lower economic activity in the wake of the Covid-19 outbreak in 2020.

In 2019, 92% of the value of total real estate transactions were in the administrative regions of Riyadh, Makkah, Medina and the Eastern Region. Residential properties represented 65% of the value of all real estate transactions, while the commercial segment represented 31%. Agricultural lands represented the remaining 4%. In Riyadh's northern districts, rapid urban development of both residential and commercial space is continuing to take place. Global real estate firm Century 21 estimates the city is expanding northward by around 1km every five years. As of November 2019 there were 17 real estate investment trusts (REITs) listed on the Saudi Stock Exchange (Tadawul), with a total capital value of $3.7bn. This represented a 61% increase from $2.3bn in the first quarter of 2018, when the market consisted of 12 REITs.

The availability of land for development has been increasing throughout the country. In 2017 a white land tax was introduced to push landowners to develop unused plots for residential use. The tax imposes a 2.5% annual levy on undeveloped urban plots. This has helped drive growth, as owners who were holding land are now incentivised to build on or sell their plots. As of December 2018 tax payment orders for 400m sq metres of undeveloped land had been issued by the MoH, and SR450m ($120m) of collected white land tax payments had already been used to finance housing projects in a number of cities. "The white land tax is good news for the sector, and we have already seen early results of the policy," Abdulaziz Al Babtain, CEO of Himmah Group, told OBG. "However, more incentives should be put in place to increase new developments."

RESIDENTIAL: Overall, residential housing supply in Riyadh and Jeddah remained largely unchanged in 2019, reaching 1.24m and 836,000 units, respectively, at the end of 2019, according to data from real estate consultancy Knight Frank. Nevertheless, this housing stock is estimated – by the same source – to reach 1.34m and 872,000 by the end of 2022. Meanwhile, stock in Dammam reached 325,000 units and is expected to rise to 348,000 over the same period.

Authorities are emphasising the need to close the gap between supply and demand of housing units, especially in major cities. The country is facing a shortfall of between 100,000 and 200,000 homes each year, with particularly high demand among the growing Saudi population. In 2018 nationals numbered approximately 20.8m out of a total population of 33.4m, a figure that is set to rise to 40m by 2030, signalling a pattern of consistent housing demand over the next decade. In Riyadh the volume and value of residential transactions rose by 5% and 36% in 2019, respectively. Jeddah saw increases of 9% and 1%, while Dammam saw a decline of 1% in the volume of transactions and a 4% rise in their value. Riyadh saw average sales prices of SR3775 ($1006) per sq metre for villas in the fourth quarter of 2019 and SR3264 ($870) per sq metre for apartments, representing an increase of 6.6% and 3.6%. In Jeddah prices reached SR5547 ($1479) per sq metre for villas and SR3786 ($1009) per sq metre for apartments, while in Dammam prices reached SR3508 ($935) and SR2905 ($774) per sq metre. According to figures from Century 21, average construction costs for villas in Saudi Arabia in 2019 ranged from SR1700 ($453) per sq metre for a low-asset class unit to SR6500 ($1733) per sq metre for a first-class unit in a residential compound. Meanwhile, the cost of building an apartment ranged from SR1800 ($480) to SR4300 ($1146) per sq metre.


The commercial segment represented 31% of the value of all real estate transactions made during 2019

In 2017 the government introduced a 2.5% white tax on undeveloped urban plots of land as part of an effort to incentivise landowners to build on or sell their holdings.

MORTGAGE GROWTH: Saudi Arabia's mortgage market witnessed rapid expansion in 2019. According to data from the Saudi Arabian Monetary Authority (SAMA), the country's central bank, 179,217 residential mortgages were offered to individuals that year, with a total value – excluding interest – of SR79bn ($21.1bn). Of this total, 95% were provided by banks and 5% by financing companies. This represented a dramatic increase from previous years, with 2018 seeing 50,496 mortgages worth SR29.5bn ($7.9bn). Furthermore, 80.6% of funding went towards villas in 2019, 12.4% to apartments and 7% to residential lands. Commercial mortgages also increased from SR255bn ($68bn) in 2018 to SR317bn ($84.5bn) in 2019. This included SR215bn ($57.3bn) in retail mortgages and SR102bn ($27.2bn) in corporate mortgages. In 2019, 93.7% of commercial mortgages were provided by banks and 6.3% by financing companies.

AFFORDABLE HOUSING: Since 2017 the MoH has been rolling out a number of initiatives to increase the availability of affordable housing and improve accessibility to financing options. As of 2018-19 around 1.6m Saudi nationals were on waiting lists for government housing programmes. Many Saudis are unable to afford what has been on offer in the market, particularly in

179,217
residential mortgages were offered in 2019

To stimulate mortgage lending, the country's central bank increased the maximum loan-to-value ratio for first-time buyers from 70% to 85% in 2017 and then to 90% in 2018.

light of high mortgage interest rates and long waiting lists for government-backed interest-free loans. As part of an effort to address this issue, the Sakani programme was launched by the MoH in 2017 with the aim of increasing the rate of homeownership through the provision of affordable housing. It allocates financing and residential products, including mortgage loans, free land parcels, completed residential units and units under development. The programme is supported by the REDF which, as of 2019, had deposited a total of SR9.5bn ($2.5bn) into Sakani. The initiative has resulted in the successful delivery of large-scale housing schemes, handing over 270,000 units in 2017 and 313,000 units in 2018. In 2019 a total of 200,000 citizens were eligible for Sakani housing products, with this figure projected to rise to 300,000 in 2020.

HOUSING FINANCE: A number of measures have been implemented since 2017 that helped the mortgage market become more accessible and reduce the cost of borrowing for first-time homebuyers. To stimulate mortgage lending, SAMA increased the maximum loan-to-value ratio for first-time buyers from 70% to 85% in 2017 and then to 90% in 2018. In the same year, SAMA also waived administrative fees for mortgage holders switching between lenders and when switching from a floating to a fixed loan rate.

In 2017 the REDF launched a mortgage guarantee programme for citizens on the country's housing wait list. Those on the list can nominate a relative who meets lending conditions to act as a guarantor of the mortgage. The REDF has also focused on increasing access to funds for self-construction projects and when buying from off-plan developers, which were previously not supported by banks due to higher risk. In 2018 the SRC began offering long-term, fixed-rate residential mortgages of 15-20 years. New mortgage measures have helped reduce the amount of time it takes to close a mortgage, in addition to increasing the speed and ability to reclaim a home following a default, helping to boost the appetite among banks to lend.

Additionally, residential renters and first-time homebuyers seeking a property valued up to SR850,000 ($226,600) have been made exempt from a 5% value-added tax on new commercial and residential property sales that was imposed in 2018. Of particular importance to female citizens, a decision was passed in February 2019 to allow Saudi women access to property loans from the REDF. The sector has also received support from a MoH initiative launched in October 2019 to assist the renovation of ageing housing stock. The initiative provides financing for residential units over 15 years old and is expected to be particularly important for the central districts of Riyadh.

CHANGING DEMAND: The country is witnessing a gradual but significant change in average household size which stands to become an important future driver of demand. This particularly pertains to a change in the profile of property buyers in light of the Kingdom's young and growing population. In 2010 the average household size in Saudi Arabia was estimated at 5.6 people, which fell to 5.25 in 2016 and 5.15 in 2019. This reflects the increasing number of young citizens moving out of their parents' homes. This can be explained by social, cultural and labour market changes that offer the possibility to live separately from extended families. Increasing numbers of Saudis, including women, are entering the workforce, giving them the funds to get on the property ladder. This is supported by the decline in expatriate labour and growing Saudiisation of the workforce, with more nationals filling positions, particularly in the private sector. Higher joint incomes among newly married couples have also provided greater economic resources for property investment.

While the market has been traditionally dominated by low-rise rows of houses and villas, an expected trend over the next several years is greater development of apartment blocks and smaller land plots. With lower prices for land and utilities, these developments offer greater affordability for younger families who are first-time buyers. Changing realities are also leading to vertical living becoming more acceptable; apartments help to address the problem of uncontrolled urban sprawl in Riyadh, for example. Increased demand for economically sized homes is already being seen. While land plots of 600-1000 sq metres were previously the most in-demand, Dar Al Arkan, the country's largest publicly traded real estate developer, has observed that 300-sq-metre plots are now in high demand.

RETAIL: The retail segment also has a positive outlook with a strong pipeline of large projects. This is particularly the case for Riyadh, where new malls and mall extensions are under development. Retail stock in Riyadh stood at 2.76m sq metres of gross leasable area (GLA) in the fourth quarter of 2019, and is expected to reach 3.42m in 2022. A substantial increase in supply is scheduled to enter the market in the coming years, particularly grade-A stock in northern Riyadh, which is likely to continue to impact existing grade-B stock.

Retail stock in Jeddah and Dammam stood at 1.86m and 1.11m sq metres of GLA, respectively, in the final quarter of 2019. By the end of 2022 stock is expected to increase to 2.75m in Jeddah and 1.53m in Dammam. Growth is being driven to a large degree by the food and beverage segment, including boutique restaurants. Riyadh's vacancy rate stood at 16% in late 2019. While vacancy rates in super-regional malls (which are between 90,000 and 150,000 sq metres) and regional malls (between 30,000 and 90,000 sq metres) remained relatively stable in 2018 and 2019, the market has seen an increase in vacancy rates at community malls and grade-B retail centres, particularly as tenants shift towards prime locations in northern parts of the city. Meanwhile, vacancy rates improved in both Jeddah and Dammam between 2018 and 2019, shifting from 13% to 10% and from 8% to 6%, respectively.

HOTEL: Riyadh's total quality hotel supply reached 16,384 rooms in 2019, according to Knight Frank. After a slowdown in 2018, the segment underwent strong growth, with occupancy rates rising by 5% in 2019. Supply is expected to reach approximately 21,100 rooms by the end of 2022. As of December 2019 Jeddah's total quality hotel supply numbered 10,997 rooms, while Dammam's supply stood at 7805 rooms. Occupancy rates rose by 3.1% and 7.5% in 2019. By the end of 2022 supply is expected to reach some 14,200 rooms in Jeddah and 11,500 rooms in Dammam. However, occupancy rates are set to be negatively impacted in 2020 as a result of the global travel restrictions rolled out due to the Covid-19 pandemic.

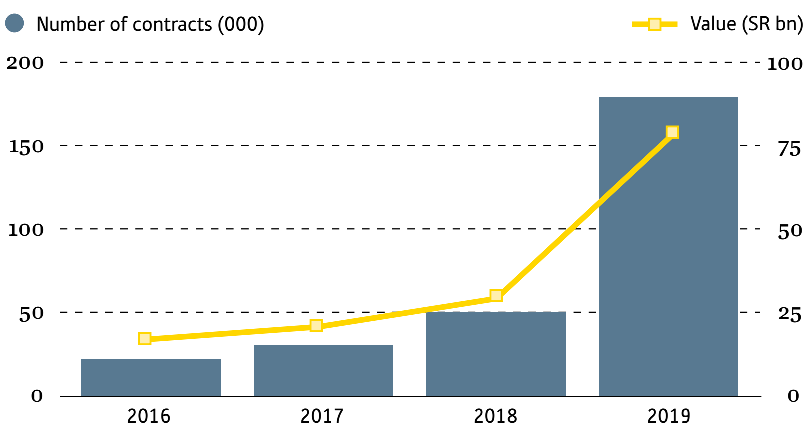
OFFICE: The country's office supply is forecast to grow significantly in the coming years, though this has brought concerns of oversupply. Office stock in Riyadh reached 3.99m sq metres of GLA in late 2019 and is expected to grow to 5.14m sq metres of GLA by 2022. Vacancy rates were 6% for grade-A stock and 28% for grade-B stock, improving from 9.8% and 29.8% compared to a year earlier. Grade-A and grade-B rents in Riyadh fell by 2% and 6%, respectively, in 2019. "While it is difficult to reach high occupancy in dedicated office spaces because of oversupply, we are witnessing growing interest from international companies willing to establish regional head offices in Riyadh," Ali Al Rakban, CEO of real estate developer AQALAT, told OBG.

Jeddah's office stock reached 1.21m sq metres of GLA in the last quarter of 2019 while stock in Dammam reached 1.12m. This is expected to rise to 1.7m and 1.46m respectively by 2022. Both cities experienced challenging market conditions in 2019, seeing falling rents and occupancy rates. In Dammam this was due to a slowdown in the oil sector, while Jeddah saw the relocation of key occupiers. Jeddah saw 14% vacancy rates for grade-A stock and 25% for grade-B stock, while Dammam saw 28% for grade-A and 33% for grade-B.

OUTLOOK: With a young population and an increasing number of Saudis entering the workplace, the demand for housing and offices is expected to remain high. As housing preferences evolve, with a move away from extended family homes to those based around nuclear families, appetite for smaller affordable units to set to increase further. This will boost construction of residential units and drive continued demand for mortgages.

Office stock in Riyadh reached 3.99m sq metres of gross leasable area in late 2019, and is expected to grow to 5.14m sq metres by 2022. Vacancy rates were 6% for grade-A stock and 28% for grade-B stock.

Residential mortgages, 2016-19



Source: SAMA

Malls are increasingly incorporating leisure and entertainment options

Entertainment time

An expanded leisure offering supports real estate development

Economic and social reforms under the Vision 2030 strategy are driving commercial real estate investment and helping to chart a new course for the sector. Demand for entertainment options is playing a major role in growing multifaceted retail offerings, while the country's efforts to establish itself as a global business centre and major tourist destination bode well for the hotel segment. Although the disruptions caused by Covid-19 resulted in the temporary closure of many public places in March and April 2020 – including malls and cinemas – the progressive opening of the entertainment sector in the Kingdom in recent years has laid the foundation for long-term growth, and fuelled an ambitious construction pipeline. Investment confidence in the real estate sector is high, though concerns remain in terms of oversupply and high rental rates.

DRIVING DEMAND: A major driving force of commercial real estate activity is the array of new entertainment options being rolled out at increasing speed across the country. The General Entertainment Authority reported the creation of 500 new companies in the segment during 2018, with 19m people attending entertainment events in the same year. Further ambitious expansion plans for the sector are well under way, which are expected to continue supporting commercial builds.

The government aims to increase household spending on entertainment services from 2.9% of GDP in 2016 to 6% by 2030. It also aims to increase the proportion of individuals exercising at least once per week from 13% to 40%, with this set to drive demand for more sports and exercise facilities. The Kingdom's entertainment drive is bringing related demand for restaurants, hotels, shopping facilities and the development of unused land.

Malls are now not only for shopping, but have become increasingly focused on providing leisure activities. Indeed, it is estimated that around 20% of units in malls in 2019 provided entertainment services. New dedicated entertainment districts within cities – such as the Boulevard and Winter Wonderland in Riyadh – are also fuelling land development. In addition, the Saudi Commission for Tourism and National Heritage launched its Saudi Seasons initiative in 2019, a programme of 11 annual festivals to highlight the cultural offerings of the country's different cities and regions (see Tourism & Entertainment chapter). The programme had a strong start, with hotels recording the highest occupancy rate since 2007 during the inaugural Riyadh Season in November 2019. However, the initiative has been impacted by restrictions brought in to counter the spread of the global Covid-19 pandemic, with the 2020 programme postponed in March of that year.

CINEMAS: As part of its effort to expand the entertainment sector, the government lifted the 30-year ban on cinemas in December 2017. Since this reform, there has been a proliferation of cinemas, with nine facilities in Riyadh alone as of January 2020. With current demand strongly outweighing supply, a significant volume of new cinema developments are on the way. Cinemas are expected to bring increased retail footfall as well, given that many of the facilities that are currently operational or under development form part of shopping malls. In December 2019 the US-headquartered cinema chain AMC Theatres announced that they expect to have 12-20 cinemas open by the end of 2020, with the aim of reaching 50 over the next three to four years. Furthermore, according to projections from real estate consultancy firm CBRE, the number of cinemas in Saudi Arabia is expected to rise to 350 by 2030.

NEW MALLS: It is anticipated that the market will provide ongoing demand for new shopping centres, with a greater focus on entertainment. Indeed, according to real estate services provider Century 21, around 423,680 sq metres of gross leasable area (GLA) came on-line in 2019 in Riyadh alone as the result of new openings and extensions. Anticipated openings include The Avenues, a SR13bn ($3.5bn) project that is set to offer 400,000 sq metres of GLA upon completion in 2022-23. It is expected to be the largest leisure and

19m

people attended entertainment events in 2018

Since the 30-year ban on cinemas was lifted in December 2017, there has been a proliferation of new facilities, with nine cinemas in Riyadh alone as of early 2020.


More entertainment options, coupled with a new tourist visa, are set to aid growth in the commercial segment

commercial destination in the Kingdom, with 1300 stores, and five multipurpose towers housing hotels, conference facilities, apartments, offices and other amenities. In addition, the Mall of Saudi, which is earmarked for completion in early 2024, is set to offer 300,000 sq metres of GLA and host a 40,000-sq-metre indoor ski slope and snow park.

Positive signs for future retail growth include more Saudis – particularly women – entering the labour force. Century 21 foresees an increase in female-led business activity in the form of retail-related enterprises. Furthermore, while the consumption volume of the expatriate class has decreased since the introduction of new expatriate taxes to boost Saudi employment in the private sector and the introduction of value-added tax in January 2018, positive purchasing patterns are expected from the national population, who will have more spending power as Saudiisation and female employment increases. However, as e-commerce grows, brick-and-mortar retail will need to continue to diversify its offering through entertainment and leisure facilities to maintain revenue streams.

TOURISM: The country's increasingly diverse offering of entertainment facilities, coupled with the launch of a new tourist visa in late 2019, is expected to further support the country's commercial real estate sector. The country is also beginning to serve as a host for major international entertainment and sporting events, including the Formula E Championship, WWE matches and the European Tour golf tournament.

Demand for hotels and other tourist services in Makkah and Medina is expected to grow the real estate sector in the two holy cities as the government works to increase the benefits that stem from religious pilgrimages. As part of Vision 2030, the country aims to boost the region's capacity to welcome Umrah visitors from 8m per year in 2016 to over 30m by 2030.

PLANNED DEVELOPMENTS: A number of major developments were announced in 2019 that are set to bolster the hospitality and entertainment industries, and stimulate real estate demand. In November 2019 the foundation stone was laid for Al Diriyah Gate, a mixed-use development that is part of restoring the historical district of Diriyah. It will be made into a cultural and lifestyle tourism destination comprising 20 luxury hotels, over 100 cafes and restaurants, five public squares, a 15,000-seat arena and a Formula E Championship racetrack. Furthermore, the development of King Salman Park was announced in March 2019, which will be located in the centre of Riyadh on the grounds of the old airport. Spanning more than 13 sq km, it is set to be the largest city park in the world upon completion in 2024-25. It will include mixed-use developments surrounding the central open areas that incorporate a national theatre, an opera house, art academies, museums and galleries.

In addition, various mega- and giga-projects planned under Vision 2030 are well under way – including NEOM, the Red Sea Project and Qiddiya – and are expected to offer a substantial boost to the real estate market in future years. The first phase of the $8bn Qiddiya project is scheduled for completion in 2023, with the final stage set for 2035. It is slated to be three times the size of Florida's Walt Disney World Resort and attract around 14.5m visitors per year.

FINANCIAL DISTRICT: As part of its objective to become the leading business centre in the region, Saudi Arabia has been significantly expanding its office space. At the heart of these efforts is the development of the King Abdullah Financial District (KAFD), an ambitious mega-project under construction in northern Riyadh that is set to rival the Dubai International Financial Centre. Originally envisioned in 2007, much of the site is now under development and constitutes one of the largest real estate projects in the world. While its scheduled timeline for completion remains uncertain, developers are expected to complete the first stage in 2020, although setbacks are anticipated in the wake of the Covid-19 pandemic as business across sectors slows.

KAFD will be a mixed-use site composed of residential units, hotels, restaurants and a cinema that supplement the area's approximately 1m sq metres of office space. This will significantly increase the capital's stock of grade-A offices. The site's developers have been targeting large Saudi companies as the first to move in, in addition to financial institutions and banks, and major government entities. At the centre of the development will stand a 385-metre-tall skyscraper that is slated to be the new headquarters of the Public Investment Fund, the Kingdom's sovereign wealth fund.

Riyadh's unique selling point is its much larger domestic market compared other GCC countries, and its leading position as a major energy centre. This, in addition to a growing portfolio of private sector businesses, medical services, entertainment and tourism, is set to build an ecosystem to support KAFD. Time will be needed to measure the development's success, but momentum will likely build once more Saudi institutions establish headquarters at the site, creating a cluster that will help attract regional and international firms.

The King Abdullah Financial District will be a mixed-use site composed of residential units, hotels, restaurants and a cinema that supplement the area's approximately 1m sq metres of office space.

After three years of contraction the sector grew by 4.6% in 2019

Strong foundations

The sector bounced back in 2019, with infrastructure works, housing developments and large-scale projects ramping up

The construction sector is expected to see significant growth over the next decade, led by Vision 2030 programmes. Construction activities gained pace during 2019, with a number of infrastructure plans either announced or initiated. In addition, some major projects are nearing completion, such as the Riyadh Metro, while the Kingdom's emerging giga-projects are driving optimism in the sector and related industries. Although the longer-term outlook remains positive, the Covid-19 crisis is set to cause a slowdown across the economy in 2020.

STRUCTURE & OVERSIGHT: Formed in 2017, Saudi Contractors Authority is the primary institution responsible for regulating the Kingdom's construction sector. Its remit includes drafting rules for the industry, addressing labour issues, increasing mergers and acquisitions activity, and publishing industry data and supply statistics on behalf of the government.

Large local conglomerates with a strong government shareholder presence have historically dominated the construction and real estate development sectors in Saudi Arabia. The country's major developers include Saudi Binladin Group, Al Akaria, Dar Al Arkan, Jabal Omar, Makkah Construction and Development, and Kingdom Real Estate Development. However, the Public Investment Fund (PIF), the Kingdom's sovereign wealth fund, is the largest project developer in the country, with state-owned oil giant Saudi Aramco also initiating a large number of projects. In recent years Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud has moved to open the sector up to more competition, a welcome development in the eyes of many players. "Competition in the construction sector is very low due to the high influence of the public sector. The industry has to be liberalised to encourage the private sector," Khalid Al Amoudi, CEO and chairman of Saudi Red Bricks Company, told OBG. As a sign of these changes, recent reforms to foreign ownership laws have meant that foreign companies are now allowed to own 100% of projects in most industries, including construction.

While the government is the main source of the vast majority of project tenders in the country, the private sector is playing an increasingly important role in construction activity. According to the most recent data, the private sector commissioned approximately half of the projects in the Kingdom in 2017 and spent over SR100bn ($26.7bn) on construction that year. Public sector contracts are typically governed by the Government Tenders and Procurement Law, while the content and quality of private sector construction contracts can vary widely due to a lack of standardisation.

STRATEGIES: The government is prioritising construction of transport networks, hospitals, schools, affordable housing, hydrocarbons infrastructure, technology networks, entertainment facilities and hotels. Increasing the supply of housing is a major focus and will likely remain so over the next decade. The government is aiming to achieve 70% home ownership by 2030, up from 47% in 2016. This will require a consistent supply of housing, with millions of affordable new homes for young Saudis (see Real Estate overview).

Localisation of the sector is another theme the government is working towards. The Housing Vision Realisation Programme, launched in 2017, aims to boost the local content of housing materials and services to 63.5% by 2030, up from 54% in 2017. The push for localisation is already explicit in the country's Government Tenders and Procurement Law, which states that priority will be given to locally manufactured goods, products and services. As with all major sectors, the government is seeking to create more jobs for citizens. Under its 2018-20 development programme, the PIF expected to create around 260,000 new construction jobs.

ECONOMIC CONTRIBUTION: The construction sector contributed some SR163bn ($43.5bn) to the national economy in 2019, representing 5.5% of total GDP and 7.3% of non-oil GDP at current prices, according to data released by the General Authority for Statistics. The sector recorded growth of 4.6% in real terms in 2019,

The theme of localisation is explicit in the Government Tenders and Procurement Law, which mandates that priority be given to locally manufactured goods, products and services.

The construction sector contributed $43.5bn to the national economy in 2019, representing 5.5% of total GDP and 7.3% of non-oil GDP at current prices.

The total value of construction contracts awarded in 2019 reached $52.6bn, up 95% on the 2018 figure

The 2020 budget allocated

$14.9bn

to infrastructure and transport

outperforming the overall non-oil GDP growth rate of 3.3%. This represented a substantial improvement from previous years, when the sector contracted by 3.2% in 2016, 3.3% in 2017 and 3.5% in 2018.

PERFORMANCE: From 2015 to 2018 there were numerous material changes that brought disruption to the sector. These included reductions in government spending, the introduction of value-added tax, new expatriate taxes and an exodus of foreign workers. The year 2019 saw consolidation with no major changes in fiscal policy, providing a period of stability. However, while the sector broke the trend of negative growth in 2019, the impact of Covid-19 may see 2020 post another contraction. Some SR56bn ($14.9bn) was allocated to infrastructure and transport in the 2020 budget, representing 5.5% of the total, and private participation is expected to add to this investment.

In addition to the commencement of numerous mega-projects, growth in 2019 was assisted by the continued roll-out of large-scale residential housing projects by the Ministry of Housing and the Real Estate Development Fund, with more than 300,000 families benefitting from the programme that year. New infrastructure works, including road upgrades, landscaping and office buildings, were also launched in preparation for the Kingdom hosting the G20 Leaders' Summit in Riyadh in November 2020. As of early April the summit was still scheduled to take place, although Covid-19 resulted in the delay or cancellations of numerous high-profile international events in the first half of 2020, thus the situation is being monitored closely by stakeholders. Prior to the outbreak, it was estimated that the sector would record a compound annual growth rate of 6% from 2019 to 2024.

Jabal Omar – a multi-use property covering 2m sq metres near Makkah's Grand Mosque – is one of the Kingdom's largest construction projects and is due for completion in 2022.

NEW CONTRACTS: A large number of construction projects are both under way and in the pipeline. The total value of construction contracts awarded in 2019 reached $52.6bn, the highest amount since 2015 and up 95% on the 2018 figure. This represented a substantial increase from the recent low of $20bn in contracts in 2016. However, 2019 figures were not as high as the record year of 2013, which saw $78.1bn worth of contracts awarded. Between the first and third quarters of 2019, the largest portion of projects were allocated to the oil and gas sector. In the last quarter of 2019 this was overtaken by the real estate sector, which received 34% of contracts ($3.2bn), leaving oil and gas with 22% ($2bn). Most of the new non-oil projects have been concentrated in Riyadh in recent years.

Since 2010 the volume of awarded contracts has tended to fluctuate in line with changes in state spending. In previous years several planned construction projects were generally cancelled or postponed when the government experienced significant fiscal pressure. With early 2020 seeing the global spread of Covid-19, construction firms reported that new contracts had ground to a halt – a situation that can be expected to continue during the course of the crisis.

However, despite recent developments, in a March 2020 briefing note, local company Jadwa Investment said that it anticipates continued growth in the construction sector in 2020 as a result of progress on mega-projects and housing development goals. Looking further ahead, project management firm Linesight noted in its "2020 Middle East Market Review" that Saudi Arabia plans to spend $1.1trn on infrastructure projects alone in the next 20 years.

ONGOING PROJECTS: Jabal Omar in Makkah is one of the country's largest construction projects. It is being undertaken by Jabal Omar Development Company, which is among the biggest publicly listed real estate companies in Saudi Arabia. As a multi-use property covering a total built up area of 2m sq metres near Makkah's Grand Mosque, the development is set to transform Makkah's city centre. Due for completion in 2022, it will expand capacity for the anticipated growth in demand from pilgrimage visitors, which the government aims to increase from 8m to 30m per year by 2030. It will consist of 40 towers situated on 16 structural bases, and luxury hotel, residential and retail developments. The project's architectural style is inspired by traditional Arab and Islamic design.

A major 7m-sq-metre smart city development on the outskirts of Riyadh, known as Al Widyan, is also under way. The project, which was unveiled in August 2018, aims to create a new mixed-use district comprising leisure, retail, education, health care, office and residential spaces. Located in the north-west corner of the city, the site is 15 minutes away from King Khalid International Airport. It will be developed over a period of seven years by Al Widyan Company, held by the Al Akaria Saudi Real Estate Company. Binyah Constructions was awarded a $292m infrastructure contract for the project in September 2018, while Orange was awarded the master plan design contract in February 2019.

GAS: As the Kingdom seeks to diversify its energy mix and free up more oil for export, the government is investing in natural gas projects, such as the new $590m gas pipeline. In February 2020 Saudi Aramco stated that it planned to double the number of projects that

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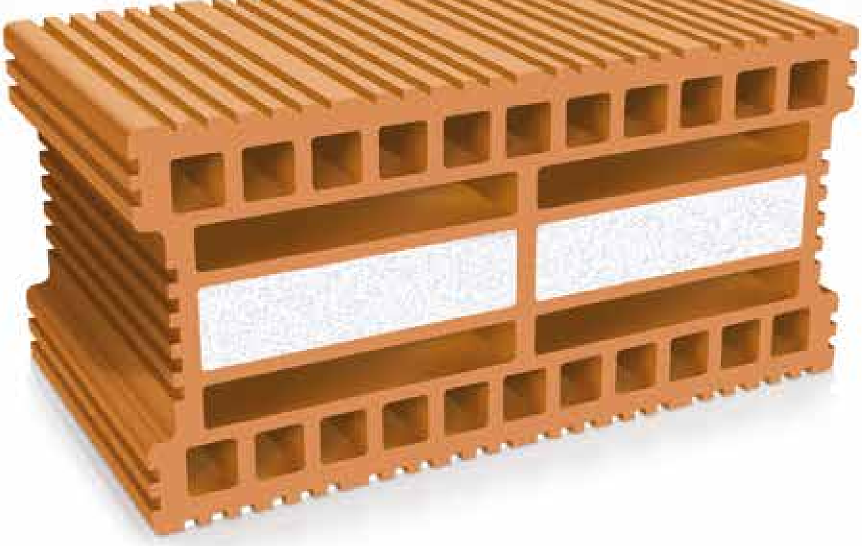

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Riyadh's six-line metro was scheduled to open in the latter half of 2020

Sustainability was a theme of the Saudi Build 2018 exhibition, and in January 2020 leaders from the sector highlighted the need for sustainable building designs and construction materials, which will help reduce energy use.

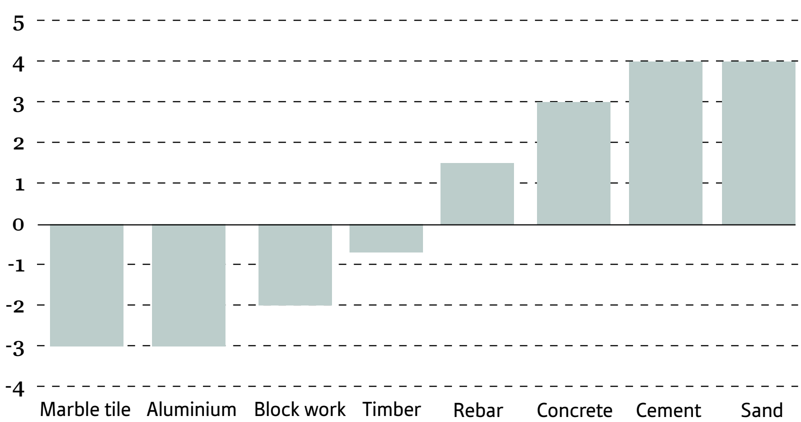
it is managing, including gas processing facilities, from some 200 to 418 by 2022 (see Energy chapter).

TRANSPORT: Saudi Arabia has been expanding transport infrastructure in recent years in line with growing urbanisation, with metro, bus and rapid transport projects under way, in addition to road upgrades.

Prior to the Covid-19 pandemic, Riyadh's new six-line metro as well as the city's 22-line Rapid Bus Transit System were expected to open in the second half of 2020. This follows the $6.7bn high-speed rail link that opened between Makkah and Medina in 2018, which was built by two consortiums involving Saudi, French, Chinese and Spanish companies (see Transport chapter).

Despite fluctuations in public revenue and budgeted government spending, infrastructure development has remained robust. Road development projects are the primary recipients of infrastructure funding across the broader GCC region, with Saudi Arabia ranking among the top-12 global markets for infrastructure investment, according to a report by Orient Planet.

Construction material price movements, Q3 2018 vs Q3 2019 (% change)



Source: Colliers International

The Makkah-Taif tunnel is one major transport project in the pipeline. Upon completion, it will include an 11-km tunnel consisting of two parallel tunnels, each with three lanes. ILF Consulting Engineers has conducted a feasibility study and a decision is expected by the end of 2020 on whether the project will be developed as a PPP or by the Ministry of Transport. It is expected to be a toll project. A number of important cross-country connectivity works are also under way. This includes expansion of the King Fahd Causeway connecting Bahrain and Saudi Arabia, and a 680-km road linking Oman and Saudi Arabia, which is set to significantly reduce the distance needed to travel between the countries.

SECTOR TRENDS: A notable trend emerging across the sector and the wider economy is a preference for PPP developments. As identified in Vision 2030, the government has been pushing for PPPs and learning from successful models adopted elsewhere, particularly in the UAE. Accessing funding through PPPs to address state budget concerns is proving a successful approach. The National Centre for Privatisation, established in 2017, is responsible for privatising certain government assets and services. For infrastructure projects, it reviews the feasibility of every project as a PPP first.

Sustainable development is another growing theme in the sector, and is at the core of the Kingdom's giga-projects and the renovation of its historical districts and regions, both during construction and in end-use designs. While not yet centralised or led by a state entity, sustainable urban development is a theme that is increasingly appearing at a local level across the sector. Al Widyan, for example, aims to become a walkable city through its sustainable urban design, while King Salman Park – which is scheduled for completion in the capital in 2024 or 2025 – and the planned 135-km Riyadh Sports Boulevard, which is scheduled for phase 1 completion in 2027, place sustainability at the core of their designs. Sustainability was a theme of the Saudi Build 2018 exhibition, and in January 2020 leaders from the sector highlighted the need for sustainable building designs and construction materials. This trend will also help meet Vision 2030 targets to reduce energy use.

The market is seeing a shift to bundled utilities as part of the construction process, whereby one provider supplies all services such as water, power, waste, cooling and ICT. This is being pursued within new developments such as Qiddiya and the Red Sea Project. Utility tender bids for the latter were expected to be submitted in the first half of 2020, and ILF, EY and Clifford Chance have been tasked with evaluating the tenders.

CONTRACTORS: The sector's contraction over recent years brought mixed results for contractors and some businesses were forced to close, with 2015-16 marking a particularly rough patch. Martin Erath, managing director of ILF Consulting Engineers, noted that while cash flow remains an issue for some firms, improvements are being seen. "During the down period, banks and corporate finance were reluctant to provide loans. However, a royal decree was passed in 2019 to enforce government payments to the private sector, with mid-2019 seeing improvements to cash flow," he told OBG.

In 2019, 193 new licences were awarded to construction firms to operate in the Saudi market, an increase of 74% over 2018, according to public agency Invest Saudi.

LABOUR: The sector has witnessed a steep drop in employment figures since 2017 and increased labour costs. Between the first quarter of 2017 and the third quarter of 2019, 1.98m expatriate workers left the country, with the total number declining from 8.5m to 6.6m. The vast majority of these labourers worked in the construction sector. The sector employed 3.8m expatriates and 437,470 Saudis in the first quarter of 2017, compared to 2m expatriates and 285,833 Saudis as of end-2019. While the sector employed 44% of the expatriate workforce and 14% of the Saudi workforce in the first quarter of 2017, this dropped to 31% and 9%, respectively, by the end of 2019. This meant an overall decline in workers in the sector from 4.2m to 2.3m. While expatriate numbers have continued to decline, the overall number of departures has slowed on a quarterly basis since the second quarter of 2018.

The market is seeing a trend of construction workers moving from Dubai to Saudi Arabia, particularly as Dubai Expo projects come to a close, and infrastructure and giga-projects in Saudi Arabia grow. However, recent regulations have made it difficult for contractors to hire the labour they need, with increased residence permit fees meaning construction labour now comes at a higher cost. For government projects, the higher cost of labour will be priced into the capital expenditure by the awarding public body.

BUILDING MATERIALS: According to Riyadh Capital, cement sales rose by 35% year-on-year (y-o-y) in February 2020, from 3.5m tonnes to 4.8m tonnes. This is thought to have been driven by the increase in housing builds, with all major companies in the sector reporting a y-o-y increase in sales. Southern Cement maintained a 15% market share, followed by Saudi Cement and Yamamah Cement, each with a 10% market share.

Property and construction firm Colliers International noted that prices for key construction materials remained relatively stable between the third quarter of 2018 and the third quarter of 2019. Timber costs dropped by 0.7% and aluminium dropped by 3%, while the price of concrete rose by 3%, and cement and sand both rose by 4%. A 10% increase in steel prices was reported in early 2020, driven by Vision 2030 projects and a surge in housing activity, although building may slow as the battle against Covid-19 continues, thus impacting materials prices. Steel prices rose from SR2280 ($608) per tonne at the start of 2020 to nearly SR2480 ($661) in February that year.

In terms of exports, Riyadh Capital reported that cement export sales increased by 40% y-o-y in February 2020, from 165,000 tonnes to 231,000 tonnes. Saudi Cement represented a large portion of this, exporting 117,000 tonnes, which was up by 34% y-o-y.

INNOVATION: In recent years the sector has witnessed the introduction of a greater number of innovative projects and designs. The 500-seat Maraya Concert Hall was completed in early 2020 and declared as the world's largest mirror-clad building by Guinness World Records. It is located in the Al Ula region, 22 km from the Kingdom's Al Hijr archeological site, a UNESCO World Heritage site commonly known as Mada'in Salih. The concert hall will become a key part of Al Ula's Winter at Tantora Festival. The building provides a mirage effect of its surrounding environment and is able to withstand challenging desert weather conditions. Its exterior was manufactured by local Guardian Glass using the company's UltraMirror technology.

Total cement sales rose by 35% year-on-year in February 2020 to 4.8m tonnes, driven by housing builds

193
new licences were awarded to construction firms in 2019

3D PRINTING: 3D printing, for its part, is emerging as a potentially transformative technology in the construction sector. In 2018 Saudi Arabia built its first house using 3D printing technology, and in 2019 the country inaugurated a 4775-unit housing development that used 3D technology. The process involved building modular concrete elements in factories or on-site using moulds. This comes as the Building Technology Stimulus Initiative seeks to raise the production capacity of the Kingdom's construction factories. While the technology has not yet been rolled out at commercial scale, it will likely impact the residential segment in coming years, given the Kingdom's desire to rapidly develop housing units and reduce costs per sq metre. However, quality needs to be tested further and the logistical challenges of delivering the printing machines will have to be considered. Further innovation over the short to medium term could help position 3D printing as an important element of residential builds.

OUTLOOK: Overall, the construction pipeline for upcoming years looks positive. While the sector is well placed to grow, Covid-19 is bringing disruption to projects and new contracts, which is expected to continue throughout 2020. Beyond this, various mega- and giga-projects and large residential housing schemes will drive sector activity. The growing tourism industry is also expected to be a driver. As Saudi Arabia prepares for an influx of visitors due to the new tourist visa, there will be greater scope to revisit infrastructure requirements, including accommodation and urban transport.

In 2018 Saudi Arabia built its first house using 3D printing, and in 2019 it inaugurated a 4775-unit housing development that used the technology.

In 2019 work commenced on three giga-projects in the Kingdom

Spearheading growth

Giga-projects to expand the entertainment and tourism offering

NEOM is expected to contribute

$100bn

to GDP by 2030

Saudi Arabia is in the midst of developing a number of large-scale, complex and multi-purpose construction projects that aim to transform the wider economy. The Kingdom's main giga-projects are NEOM, the Red Sea Project and Qiddiya. Rolled out as part of Vision 2030, these developments are globally unique in scope and ambition, and aim to stimulate broader economic growth. The developments follow on from earlier King Abdullah-era mega-projects, such as the King Abdullah University of Science and Technology, the King Abdullah Petroleum Studies and Research Centre, and the soon-to-be-completed King Abdullah Financial District. As of 2019 all three of the giga-projects had commenced their first phase, and by early 2020 had begun to show initial progress. The projects are set to bring significant volumes of steady work to the construction sector over the long term, starting with the need for roads and other critical infrastructure.

"Once the construction sector has adjusted to the changes laid out under Vision 2030, the plan is expected to stimulate long-term growth, and the private sector will likely enjoy a greater contribution to activity," Muhammad Abusamak, general manager of Arabian Tile Company, a locally based building materials manufacturer, told OBG.

NEOM: Launched in 2017 by Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud, NEOM stands as the flagship project of Vision 2030 and post-oil diversification plans. As a $500bn mega-city of the future, it aims to become an international hub for a wide range of sectors and services. Completion is scheduled for 2030, but with a 26,500-sq-km site and 450 km of coastline, growth and development of the area is expected to continue well beyond then.

Located on the north-western edge of Saudi Arabia, the site is in proximity to Egypt, Jordan and Israel, and eventually aims to incorporate territory from neighbouring countries. The region has particularly favourable climatic conditions, with temperatures roughly 10° cooler than the GCC average.

At its core, the NEOM development aims to offer fresh thinking and new solutions to prominent global challenges. It is focusing on 16 strategic sectors including food, energy, water, environmental protection, urban living, and health and wellbeing. Branding itself as an accelerator of human progress and "a vision of what a new future might look like", the project is seeking to become a living laboratory, a hub for innovation, and a leading sustainable ecosystem for living and working.

The project's contribution to the country's GDP is projected to reach more than $100bn by 2030. It stands to become the home and workplace for more than 1m people and is expected to attract up to 5m visitors annually, playing a key role in the Kingdom's budding leisure tourism industry.

The project broke ground in 2019, with the commencement of phase 1 of the NEOM city development. That year the NEOM Bay Airport was completed and much of the project team relocated their offices from Riyadh's Digital City to the site. Construction was due to begin at the site in 2020.

The Red Sea Project is a luxury tourism venture being developed along 200 km of the western coastline. It will include 50 hotels, a town and a new international airport.

THE RED SEA PROJECT: The Red Sea Project is a luxury tourism venture being developed along 200 km of virtually untouched coastline on the west of the Kingdom. The site comprises nine islands surrounded by a vast desert landscape and mountains. It will include 50 new hotels with approximately 8000 rooms, a new international airport, and a town for the 35,000 inhabitants who will eventually live and work there. It aims to decisively position Saudi Arabia on the global tourism map.

Located between the coastal cities of Umluj and Al Wajh, on a site spanning approximately 30,000 sq km, the area will be roughly 300 km north-west of Medina and 150 km south-west of Madain Saleh, one of the country's major UNESCO World Heritage sites.

The Red Sea Project is already on its way to setting new standards in sustainable development. It is planned to fully rely on on-site generated renewable energy – a significant ambition for a project of this scale. It also plans for its operations to be 100% carbon neutral with a zero waste-to-landfill policy. The project aims to create 70,000 new jobs and contribute SR22bn ($5.9bn) per year to the economy. It will likely be a special economic zone as well, with its own rules and regulations.

In September 2019 phase 1 commenced and John Pagano, CEO of The Red Sea Development Company, announced that the company hoped to award up to SR10bn ($2.7bn) in construction contracts by the end of 2020, although this target may be delayed by slowing business conditions due to the global Covid-19 pandemic. The first phase – which is to include 14 hotels with 3000 rooms across five natural islands and two inland sites – is expected to be completed in 2022, while full completion is scheduled for 2030-35.

In October 2019 the design contract for the site's international airport was awarded to Foster + Partners and sub-consultant WSP Global. The airport will have capacity for 1m passengers per year and construction is expected to be completed in 2022. The design will follow sustainable and environmentally conscious principles, and will use the colours and textures of the Red Sea and its surrounding landscape in design features.

In March 2020 The Red Sea Development Company announced the partial completion of the 10,000 pre-fabricated and modular cabins it is installing for construction workers at the site. However, plans for the rest of the year are likely to be delayed, as government measures to help stop the spread of Covid-19 were put in place shortly thereafter.

AMAALA: Located on the north-western coast of the Red Sea, Amaala is an ultra-luxury tourism project. The development will cover an area of 3300 sq km and serve as a resort and wellness destination with its own airport. It will consist of 2500 luxury hotel rooms, 700 residential villas, an equestrian club and four yacht marinas. By 2030 it is expected to contribute 0.6% to GDP. Phase 1 of the development commenced in 2019 and the entire project is scheduled to be completed in 2028.

QIDDIYA: Qiddiya, for its part, is an $8bn entertainment city that is expected to become the Kingdom's capital of entertainment, sports and the arts upon completion in 2030. Located in south-west Riyadh, Qiddiya will be the world's largest entertainment city, spanning more than 334 sq km, which is roughly three times the size of the Walt Disney World Resort in Florida. More than 200 km of the site will be designated for natural conservation, including recreational activities and mountain sports.

The site will include over 300 recreational and educational facilities, including a 20,000-seat clifftop stadium, a Formula One racetrack, a Six Flags theme park, golf courses and cinemas. The development will offer experiences under five themes: parks and attractions; sports and wellness; motion and mobility; art and culture; and nature and environment. It has targeted attracting 14.5m visitors per year and contributing SR17bn ($4.5bn) to the country's GDP by 2030. "The entertainment sector is currently booming in Saudi Arabia, and we hope developers and operators will be able to capture further disposable income moving forward," Hathal Al Ultaibi, CEO of Alandalus Property Company, a Saudi commercial property developer, told OBG.

Qiddiya is an $8bn entertainment city that will span 334 km and is set to be completed around 2030

The Red Sea Project aims to create

70,000

new jobs

Construction began in early 2019, with the project's master plan approved and revealed to the public that same year. In December 2019 on-site offices serving phase 1 were completed, and in February 2020 contracts were awarded for preparation of the project's resort core and city centre, in addition to the installation of security fencing around the site. In October 2019 the Qiddiya Investment Company signed a wide-ranging memorandum of understanding with Samsung. As part of the partnership, Samsung will assist in the design, engineering and construction of Qiddiya's sports complex. Phase 1 of the project is expected to be completed in 2023, with total completion scheduled for 2030.

FORECAST: While great returns are anticipated from the giga-projects, questions remain over NEOM's final end-use and whether there will be a shortage of contractors and materials needed to deliver the projects on schedule. For NEOM especially, raising the required investment to keep development at pace will likely be a challenge. While the Kingdom has many successful local firms, the giga-projects have seen a high qualification entry bar for contractors. In 2018 the government decreed that certain projects would be only be awarded to international contractors, which means a number of domestic businesses are no longer qualified and able to bid. However, there is a contractual condition that 30% of jobs within a project be awarded to local players.

Located on the north-western coast of the Red Sea, Amaala is an ultra-luxury tourism project that will serve as a resort and wellness destination. It will have its own airport and four yacht marinas.

Education & Training

Increase in issuance of education business licences

Government drive to boost private school enrolment

New limitations on the price of private school tuition

Local universities rank among the top-200 worldwide

Digital technology training programmes for teachers

The Kingdom opened 719 new schools in 2018 and 500 more in 2019

Aiming high

Ongoing reforms to improve the quality of teaching are coupled with a focus on technology and vocational skills

Education has long been a key sector in Saudi Arabia and a major recipient of government funding. Recently, focus has shifted to boosting the efficiency and quality of services, while also integrating technology in order to achieve the government's ambitious goals for the sector as part of Saudi Vision 2030, the country's economic diversification plan. To this end, the authorities are increasingly turning to the private sector for support, creating new opportunities for foreign investors. The year 2019 saw various international players enter Saudi Arabia's private general education segment, which is still largely underdeveloped.

STRUCTURE & OVERSIGHT: The education sector is developed and regulated by the Ministry of Education (MoE). Having absorbed the former Ministry of Higher Education in 2015 to better align the policies and curricula of the general education and higher education segments, the MoE is the country's largest employer, with a combined workforce of around 800,000, including teachers, management and administrative personnel.

Under Vision 2030, the MoE is tasked with educating Saudi Arabia's youth and preparing them for the jobs of the future. With these objectives in mind, the MoE has set about overhauling curricula and raising education standards nationwide. The government is also looking to increase private sector involvement to support the sector's ongoing expansion.

Expanding technical and vocational training colleges is another important priority under Vision 2030. The Technical and Vocational Training Corporation (TVTC) is the body responsible for overseeing the Kingdom's technical colleges, secondary institutions and vocational training centres. In 2013 the TVTC created the Colleges of Excellence programme, which aims to increase the performance of technical and vocational training through the establishment of partnerships with international institutions.

The MoE and TVTC are in turn monitored by the Education and Training Evaluation Commission (ETEC), an independent body that reports directly to the prime minister. The ETEC works alongside the National Centre for Assessment in Higher Education, an independent authority that administers standardised tests for university entry.

SECTOR BREAKDOWN: Saudi Arabia's education system is divided into four levels: pre-primary (ages 3 to 5); primary (ages 6 to 11); secondary (ages 12 to 17); and tertiary (ages 18 to 22). Compulsory education lasts nine years, from the ages of six to 14. According to the most recent data from UNESCO, gross enrolment rates – which refer to the number of students enrolled expressed as a percentage of the corresponding population – were 21.2% in pre-primary, 99.8% in primary, 110.1% in secondary and 68% in tertiary education in 2018.

That year there were 6.3m students enrolled in primary and secondary education in the Kingdom. Of this total, 659,504 students, or 10.1%, were privately educated. The remaining 5.6m students attended public institutions. That year there were 32,027 government-run primary and secondary schools with 434,593 members of teaching staff, and 4666 private schools with 67,457 teachers.

In the tertiary segment there were roughly 2m students enrolled in 2018, 91,863 of which attended private higher education establishments. The remainder were enrolled in public institutions, including 224,275 students undertaking technical and vocational studies. King Abdulaziz University (KAU) in Jeddah and King Faisal University in Hofuf were the largest institutions, with 186,078 and 173,680 students, respectively.

REFORMS & INVESTMENT: When Vision 2030 was announced by Crown Prince Mohammed bin Salman bin Abdulaziz Al Saud in 2016, the long-term goals for the sector included raising standards, shifting

The Ministry of Education is the country's largest employer, with a combined workforce of around 800,000, including teachers, management and administrative personnel.

In 2018 there were 32,027 government-run primary and secondary schools with 434,593 members of teaching staff, and 4666 private schools with 67,457 teachers.

Roughly 87% of schools are operated by the government, and public school enrolment continues to rise

education spending to the private sector and helping at least five Saudi institutions break into the top-100 universities in the world. The $72bn National Transformation Programme (NTP), which runs from 2016 to 2020 and is the first phase of Vision 2030, has also set targets for the education sector. These cover a range of areas, such as raising attainment levels in maths and English by 15%, increasing pre-primary enrolment rates from 13% to 27.2%, achieving an adult literacy rate of 97.5% and increasing private school enrolment rates from 6% to 15%.

In recent years the education sector has consistently received the largest share of public spending. In 2020 the government allocated SR193bn ($51.5bn), or 18.9% of the total budget, to education. This figure remains unchanged from 2019, although that year it represented 17.5% of the budget. In 2019 education spending equalled 6.2% of GDP. Although this is a decline from roughly 10% in 2013, as the government has increasingly sought to boost private sector involvement in recent years, it is still in line with the OECD average of 6.3%.

PUBLIC EDUCATION: Roughly 87% of schools in Saudi Arabia are operated by the government. Although the private segment is rapidly expanding, public school enrolment rates continue to rise. According to the "GCC Education Industry" report published by regional investment bank Alpen Capital in 2018, enrolment rates in the public segment increased at a compound annual growth rate (CAGR) of 2.7% between 2011 and 2016, and are predicted to rise by 3.5% per year between 2016 and 2020. The pre-primary segment was the fastest growing, with a CAGR of 15.8% between 2011 and 2016. The report noted that, while there is growing awareness of the importance of pre-primary education in Saudi Arabia, enrolment rates are still the lowest in the GCC.

In recent years the education sector has consistently received the largest share of public spending. In 2020 it was allocated $51.5bn, or 18.9% of the total budget.

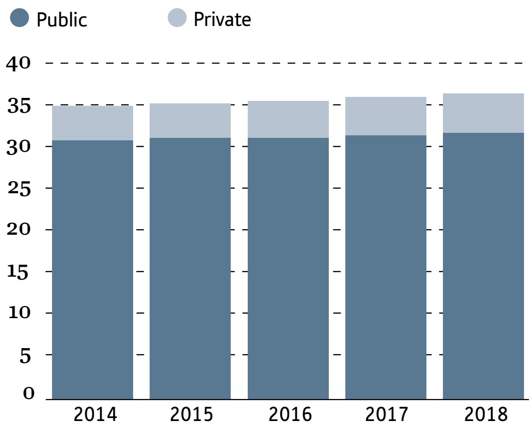
In 2019 brokerage firm Colliers predicted that Saudi Arabia's education sector would have to absorb an additional 800,000 students by 2030, which prompted the MoE to invest heavily in the construction of new schools, opening 719 institutions in 2018 and a further 500 in 2019. With an average of 13 pupils per teacher at the primary level and 11 at the secondary level, it will also be important to recruit teaching staff to support rising student numbers. Nevertheless, Saudi Arabia compares favourably to other countries such as the US and the UK, which had around 14 and 15 pupils per teacher, respectively, at primary schools, and 15 and 17 at secondary schools.

While there is a focus to increase capacity to keep up with a growing number of students, improving the quality of education at state-run schools is also a priority for the MoE. Like other countries in the region, despite a high level of funding, Saudi Arabia performs relatively poorly in global assessments. The Programme for International Student Assessment (PISA) is a triennial survey administered by the OECD, which is taken by 15-year-old students and measures proficiency in maths, science and reading. The Kingdom was in the bottom third out of 79 countries in the most recent PISA, conducted in 2018, scoring below the OECD average in all three subjects, indicating significant room for improvement.

RECENT REFORMS: The government has been taking steps to improve the country's educational outcomes. The ETEC was created in 2017 to address concerns about the quality of public and private education at the primary, secondary and tertiary levels. It is responsible for developing new systems for the evaluation and accreditation of institutions, teachers and programmes. The ETEC also sets standards and requirements for educational institutions to be awarded accreditation from international bodies.

The work of the ETEC complements ongoing reforms to the public school curriculum aimed at encouraging critical thinking and creativity. In January 2019 the MoE announced that, beginning in the 2019/20 academic year, public schools would run classes in critical thinking, philosophy, financial

Number of schools, 2014-18 (000)



Source: GaStat

literacy and law. This forms part of the Kingdom's attempt to move away from an emphasis on rote learning and broaden students' skillsets.

As another sign of reform and modernisation, in August 2019 the MoE appointed Ibtisam Al Shehri as the first female spokesperson for public education in Saudi Arabia. Al Shehri, an English-language teacher with more than 17 years of experience in public education, brings a new approach and perspective to the sector, which is increasingly looking to engage with and empower women.

The MoE is also recruiting female teachers to improve efficiency and increase the quality of teaching in the pre-primary and primary segments. In September 2019 the ministry announced that, for the first time, female teachers would be permitted to teach male pupils across 1460 government-run schools. This reform is expected to save the public education segment around $533m, as teaching spaces for young learners are desegregated.

PRIVATE SEGMENT: While Saudi Arabia's education sector is the largest in the GCC in terms of the number of students and schools, the private segment is one of the least developed. As of 2018, 10.1% of students in Saudi Arabia attended private education institutions, compared to 90.5% in Dubai, 74% in the UAE and 40.9% in Kuwait. The number of students in internationally accredited schools is even lower, with only 378,000 of the 659,504 privately educated students attending these establishments.

Although the share of students attending private institutions has seen a marked increase from 6% in 2016, there is still considerable progress to be made in order to reach the government's target of 25% by 2020. Private school enrolment rates among locals in Saudi Arabia remain low compared to Abu Dhabi (57%), Dubai (37%), Kuwait (21%) and Oman (14%), suggesting there is significant room for growth.

With a per capita income of around $20,000, affordability and effective price strategies are essential to increasing private enrolment in Saudi Arabia. According to Colliers, the optimal price range for international private schools in the Kingdom is between $9500 and $16,000. This falls in line with new tuition fee regulations introduced in June 2019, which set limitations on the cost of private and international schools. The maximum fees are now SR45,000 ($12,000) for pre-primary instruction, SR40,000 ($10,700) for private schools and SR60,000 ($16,000) for international ones. "Private and international schools require permission from the MoE to increase fees, and are only able to do so every two years," Ibraheem Al Turki, CEO of Ataa Educational Company, which operates 13 schools in and around Riyadh, told OBG. The regulations came into effect after concerns were raised that private and international schools had become unaffordable for the expatriate community.

TERTIARY EDUCATION: Enrolment rates for tertiary education institutions have seen strong growth in recent years, increasing at a CAGR of 8.4% between

In 2018 there were approximately 6.3m students enrolled in primary and secondary education in the Kingdom

2011 and 2018. In 2018 there were 1.8m students enrolled in university or college, compared to approximately 1m in 2011. That year there were 28 public universities and colleges, and 34 private establishments in the Kingdom, according to the General Authority for Statistics. Although the number of private universities has risen steadily, the segment only accounted for around 5.2% of intakes in 2018. Nevertheless, enrolment in private higher education institutions increased at a CAGR of 15% between 2016 and 2020, outpacing the public sector, which grew at an average of 0.4% per year.

Under Vision 2030 the government aims to have at least five Saudi institutions ranked among the top-100 universities in the world. It has already made significant headway in achieving this goal: in the 2020 QS World University Rankings, two Saudi Arabian universities – KAU and King Fahd University of Petroleum and Minerals – featured in the top 200, at 186th and 200th place, respectively. King Saud University in Riyadh was not far behind, at 281st.

VOCATIONAL TRAINING: Although university enrolment is steadily increasing, there is consensus that tertiary education programmes need to be more aligned with skills gaps and the needs of the labour market. Regional media reported that an estimated 63% of Saudi universities only offered programmes and courses focused on human sciences or Islamic studies. This is set to change as employers increasingly look for technology-based skills. "Automation is becoming increasingly important globally. Higher education in Saudi Arabia should prepare young people for this reality by developing skills centred around new technologies," Mohanad Dahlan, CEO of the University of Business and Technology, told OBG.

Despite this, enrolment rates for professional and vocational training colleges have remained low. While higher education enrolment stood at around 61.1% in 2016, according to the most recent MoE

In late 2019 the Ministry of Education announced that, for the first time, female teachers would be permitted to teach male pupils across 1460 government-run schools.

In 2018 there were

1.8m

students enrolled at colleges and universities

Two Saudi Arabian universities placed among the top-200 universities in the world in a 2020 ranking

In 2018 there were 104,525 new students attending technical and vocational colleges, representing a 21.4% increase on 86,108 the previous year.

figures, enrolment in vocational education was just 5.1%. In comparison, the OECD average enrolment rate for vocational education was 41%. Though there is still progress to be made, the TVTC has already succeeded in raising the Kingdom's enrolment rates. In 2018 there were 104,525 new students attending technical and vocational colleges, representing a 21.4% increase on 86,108 the previous year.

As of 2018 there were 124 public technical colleges, 99 public vocational institutes and 897 private training colleges accredited by the TVTC. In recent years the TVTC has sought to expand the number of technical and vocational colleges in Saudi Arabia, with the goal of opening 100 new institutions between 2014 and 2020. The MoE has also converted existing higher education institutions into vocational colleges. In December 2019 the ministry announced that several community colleges would be converted to provide vocational training linked to the requirements of employers, as part of the government's plan to realign the tertiary education system away from academic study and towards the demands of the labour market. At the same time, the MoE plans to reduce the number of admissions to theory-based higher education programmes.

This comes alongside the TVTC's renewed focus on the quality of training to ensure that colleges and programmes are able to meet the requirements of its growing number of strategic partners. The TVTC has approximately 30 strategic partnerships with domestic businesses, including the national oil company Saudi Aramco, petrochemicals manufacturer SABIC, the Saudi Electricity Company and the Saudi Arabian Mining Company.

In December 2018 the Ministry of Education opened the first virtual school for students with special educational needs and disabilities, located in the city of Jazan.

EDTECH: Education technology (edtech) is playing an increasingly important role in Saudi Arabia as a teaching and learning tool, as well as a way to improve the quality and accessibility of education. In late 2017 the MoE launched the Future Gate initiative to promote the use of digital learning tools in the classroom. The countrywide programme aims to roll out edtech infrastructure across all schools in both the public and private sectors.

Future Gate is being implemented by Tatweer Educational Technologies Company (TETCO), the technology arm of the MoE. The initiative, which has a scheduled completion date of 2021, is divided into three phases: an initial phase working with 150 schools; a scaling-up phase covering 1500 schools; and a final phase to reach remaining schools. Within a year of its launch the initiative had engaged 310 schools, 7273 teachers and 104,000 students.

One of the projects rolled out as part of Future Gate is the National Education Portal (iEN), a virtual classroom platform that uses video and interactive technology to connect teachers and students from across the country. Equipped with projectors, smart cameras, interactive whiteboards, and digital educational materials and activities, iEN has particularly helped to improve education access among disadvantaged groups. In December 2018 the MoE opened the Kingdom's first virtual school for students with special educational needs and disabilities, in the city of Jazan. The introduction of virtual schools is complemented by training courses for teaching staff. The MoE aims to train 1000 teachers in digital technology skills by 2022.

The Future Gate initiative presents numerous opportunities for private sector involvement, particularly from technology companies. In 2019 TETCO signed agreements with Microsoft and Japan-based multinational cybersecurity company Trend Micro to provide services for the programme. As the country continues to implement new technologies across all sectors, these partnerships are likely to continue. "As part of the nationwide digitalisation strategy, Vision 2030 is pushing the development of e-learning, online courses and digital educational content, including platforms in the Arabic language," Ibraheem Almuaqel, rector of Saudi Electronic University, which provides a combination of classroom-based and online education, told OBG.

OUTLOOK: Although there are encouraging developments, many of the reforms being introduced by the MoE to modernise Saudi Arabia's education system and better prepare the country's youth for the workforce of the future are likely to take years to bear fruit. Nevertheless, the Kingdom remains one of the largest and most attractive markets in the region for investment, given the considerable room for growth in the private segment and the need to construct new schools as enrolment rates continue to rise. With strong government support for privatisation as part of Vision 2030, foreign investment is set to grow in the coming years. Moreover, the opportunities for private sector involvement are not limited to traditional education providers, with the rollout of edtech initiatives opening the door for technology companies to develop innovative new systems to modernise teaching and learning.

Saad bin Othman Al Kasabi, Governor, Saudi Standards, Metrology and Quality Organisation

Harnessing potential

Ibraheem Almuaqel, Rector, Saudi Electronic University, on using new technologies to enhance digital learning

What is the importance of using new technology to make positive impacts in all levels of education?

ALMUAQEL: It is imperative that current education models recognise the role of technology in knowledge transmission and is responsive to the needs of the millennial generation that grew up in an era of pervasive use of IT. Therefore, the education sector must adopt strategies that incorporate technology in teaching and learning that meet the needs of today's generation. The traditional teaching pedagogy of learning, whether face-to-face or from blackboards and textbooks, is being progressively replaced by online learning and interactive whiteboards. Developing a plan to train Saudi nationals to compete in the labour market is key. Achieving this requires initiatives to invest in human capital, especially highly qualified teachers who can integrate technologies to support instruction. Partnerships with the private sector can help support the planning and implementation of such innovative initiatives to improve educational outcomes.

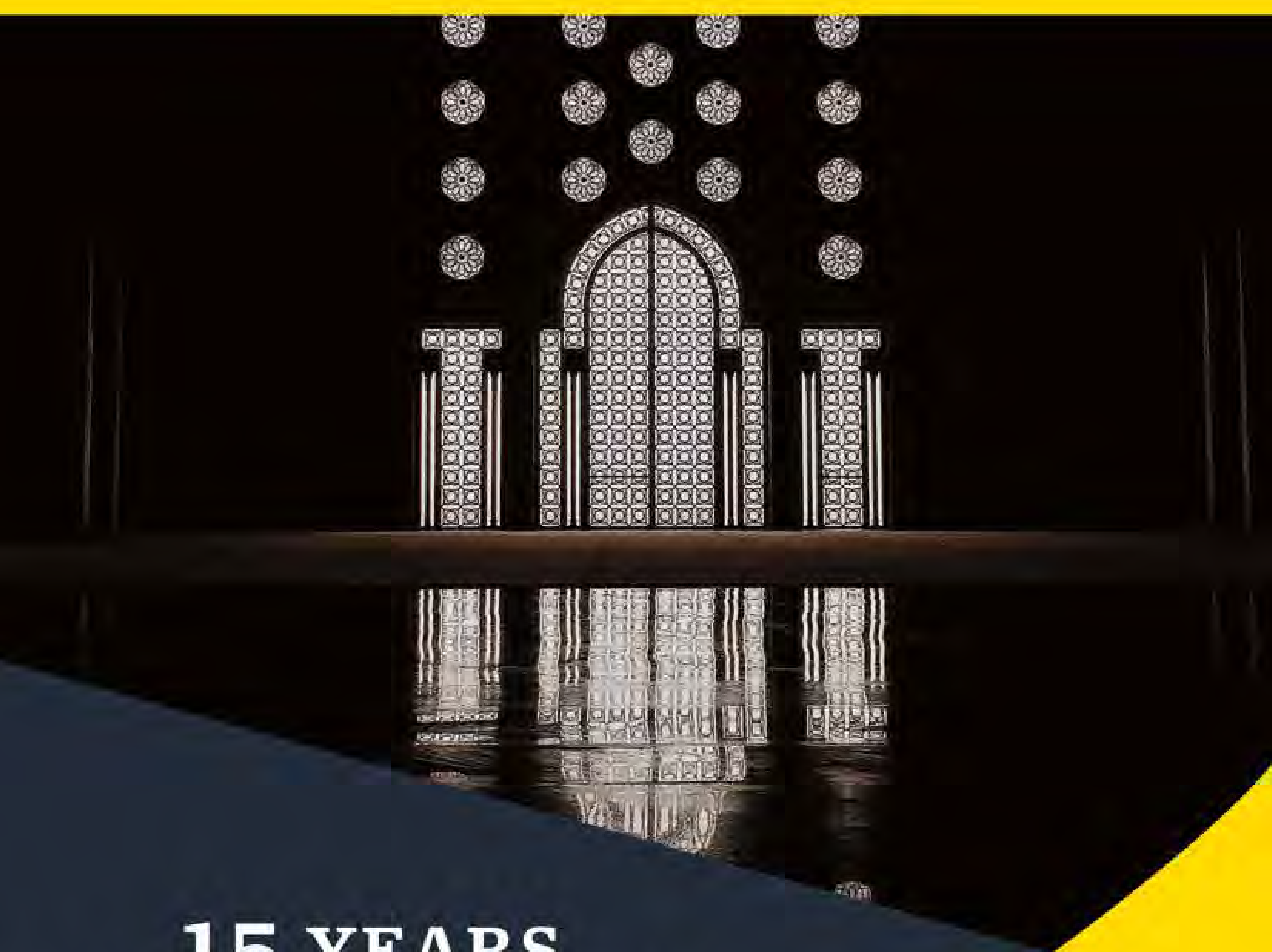
How has the ICT sector enhanced education?

ALMUAQEL: Within the education sector ICT has been instrumental in bringing about innovative practices in teaching that have created personalised and collaborative learning environments, and have solved day-to-day challenges. ICT enables learners to engage with their peers in the classroom, across the region and around the world, and participate in dialogue that is conducive to intellectual growth and increased understanding of different backgrounds and cultures.

In many ways ICT can support assessment and evaluation, and make the curriculum meaningful and responsive to students. Assessment tools and grades since the year 2000 have greatly benefited from the use of ICT. The interactive nature of assessment tools and reports has greatly enhanced teachers' ability to interpret results, and make teaching and learning more responsive to the individual needs of the learner. ICT can also be used to support people with disabilities by enhancing their independence, productivity and capabilities. The benefits of ICT in education, particularly in assessment, will allow people with disabilities to be assessed more effectively. Additionally, ICT increases fairness and reduces discrimination, allowing all students to be assessed according to their conditions and needs. ICT therefore helps all students reach their full potential. ICT has also helped to facilitate the democratisation of the education sector and the notion of access to education anywhere, anytime and at a minimal cost. A good example of this is a massive open online course (MOOC), which is provided by leading higher-learning institutions and offers high-quality education for free or at a minimal cost. It also turns higher education into a public asset by allowing anyone to enrol in courses. MOOCs also provide opportunities to connect openly on a global scale with international peers.

In what ways does the blended learning model fit within the education system in Saudi Arabia?

ALMUAQEL: Blended learning is a new and effective student-centric education model with the potential to transform teaching and learning in higher education. This can be done by enhancing flexibility and access, and optimising resources. It helps provide the digital literacy that is essential for graduates in today's global knowledge-based economy, while also facilitating soft skills in terms of lifelong learning. Blended learning came in response to the diversity of learning needs, enabling students in employment to enrol and expanding access in more than 10 cities and their surrounding towns and villages. It also provides the flexibility that students and instructors require, as it allows some time for face-to-face student and instructor engagement, as well as online learning that enables students to work on course activities at their own pace and convenience. Studies have indicated that blending online learning with face-to-face learning can be even more effective.



Officials are targeting a 25% enrolment rate at private schools by 2020

Open enrolment

Moves to develop the private education segment offer new opportunities for foreign investors

Spurred on by the government's efforts to increase the involvement of private players in the sector and a 2018 regulatory amendment allowing 100% foreign ownership of schools, universities and colleges, education is one of the largest recipients of foreign investment in Saudi Arabia. Opportunities continue to emerge in the general, vocational, technical and special educational needs segments: in 2019 the Saudi Arabian General Investment Authority (SAGIA) announced that the number of business licences issued in the education sector increased by 100% compared to the previous year.

MARKET DYNAMICS: The Kingdom's education sector is the largest in the region and accounts for almost 80% of public expenditure on education in the GCC. It is characterised by high levels of state ownership and a limited, but growing, private segment. In 2018 the private segment accounted for 12.6% of the $37.2bn market and 10.1% of general education enrolment. However, the sector's dynamic is rapidly changing as the government seeks to increase private sector involvement as part of Saudi Vision 2030. To this end, the authorities targeted an enrolment rate of 25% in private schools by 2020 through the construction of new schools, public-private partnerships and subsidies for private investment.

REGIONAL TRENDS: Market dynamics in Saudi Arabia differ from other GCC nations such as the UAE and Kuwait. Most students are locals, rather than expatriates, and there are very few large regional or international schools operating in the domestic market. The number of students enrolled in international private schools remains limited. In 2018 there were 378,000 students out of a total 6.3m enrolled in these institutions, representing 6% of the countrywide intake. In comparison, in the UAE there were 642,000 students, or roughly 60% of the student body, enrolled in international private schools. However, the number of Saudi nationals attending international schools is on the rise since a 2018 legislative change overturned a ban on Saudi parents enrolling children in private international schools. As a result of recent reforms, Saudi Arabia's private and international education segment is expected to account for the majority of growth in the GCC market in the coming years. In September 2018 regional media reported that the segment is likely to be worth approximately $12bn by 2023.

PROMISING AREAS: Working alongside SAGIA and the National Centre for Privatisation (NCP), the Ministry of Education is marketing the sector to local and international investors. In January 2020 the NCP concluded a roadshow covering several cities in Saudi Arabia and the UAE to attract private investors to fund, construct and manage schools, and provide educational services in the Kingdom. Following the roadshow SAGIA announced the signing of various investment deals worth a total of SR2.9bn ($773.1m). This included a contract awarded to real estate developer Tatweer Buildings Company to construct, operate and maintain 58 schools with a capacity of 70,000 students. The SR1.4bn ($373.2m) project will involve cooperation with several private sector partners, including Google Education.

There are also considerable opportunities for investors in the technical and vocational education segment. While enrolment rates remain low, at 5.1% as of 2018, the government has prioritised the segment's growth to ensure that the young population is equipped with the skills needed for future jobs. In the first half of 2019 nine international vocational education companies were awarded investor licences in Saudi Arabia worth a total of $141m. Partner institutions included Niagara College Canada, a vocational and technical education specialist, and Arizona Centres for Comprehensive Education and Life Skills, a US-headquartered non-profit organisation that caters to students with special educational needs.

In 2019 the Saudi Arabian General Investment Authority announced that the number of business licences issued in the education sector increased by 100% compared to 2018.

In 2018 the private segment accounted for 12.6% of the

$37.2bn

education market

TOGETHER WE GROW

التجمع الصحي الثاني بالمنطقة الوسطى
Second Health Cluster in Central Region

مدينة الملك فهد الطبية
King Fahad Medical City

مستشفى الملك سعود للأمراض الصدرية
King Saud Chest Diseases Hospital

مستشفى الأمير محمد بن عبدالعزيز بالرياض
Prince Mohammed bin Abdulaziz Hospital in Riyadh

مركز الملك سلمان لأمراض الكلى
King Salman Center for Kidney Diseases

مستشفى اليمامة
AlYamama Hospital

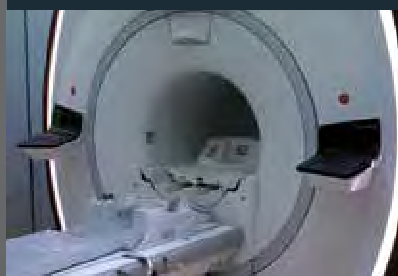
Health & Life Sciences

Government spending on health continues to grow

Number of hospital beds set to increase substantially

Greater emphasis placed on local pharmaceuticals

New reform programme to boost private investment



The health care sector was allocated 16.4% of the 2020 budget

Clean bill

Public sector restructuring, digitalisation and increased private activity adds dynamism to care

As of 2018 the Kingdom had a total of 2390 primary health care centres, 494 hospitals, and various specialist facilities and clinics. Riyadh had the highest number of primary health care centres (447) and hospitals (106).

Saudi Arabia's health care sector is currently undergoing major restructuring in response to rising demand and costs, driven by population growth and an increased incidence of non-communicable diseases (NCDs). At the same time, like the rest of the world, the Saudi health sector has had to contend with the threat posed by Covid-19 in the first half of 2020, with the authorities taking steps to limit both the health and economic impact of the virus.

Guided by Vision 2030 – the Kingdom's economic development blueprint – the Ministry of Health (MoH) is enacting wide-reaching changes, reorganising the provision of public care, and opening the sector to increased private investment in an effort to boost efficiency and quality. These endeavours continued apace throughout 2019, with the launch of the country's first health care sector public-private partnership (PPP). Meanwhile, the pharmaceutical and insurance segments also posted consistent growth, driven by mandatory coverage requirements and greater use of domestically produced generics.

STRUCTURE & OVERSIGHT: The national health service is owned and operated by the government through the MoH and other public and semi-public entities. Its development is guided by Vision 2030 and a number of supporting strategy documents. The MoH is also the leading provider of health care services in the country, operating 284, or 57%, of Saudi Arabia's hospitals in 2018. Of the remaining 43%, the private sector accounted for 33%, or 163 hospitals, while the remainder were run by other government bodies such as the Ministry of Defence, the Ministry of Education and the National Guard. These public bodies have regulatory independence from the MoH and maintain their own standards in terms of service provision.

Other relevant regulatory bodies in Saudi Arabia's health care system include the Council of Cooperative Health Insurance (CCHI), the body tasked with enforcing mandatory health insurance coverage requirements for locals and foreigners who are employed by private companies.

There is a three-tier health care system in Saudi Arabia, divided into primary, secondary and tertiary, corresponding, respectively, to health care centres, general hospitals and specialist hospitals. The primary health care centres, in addition to mobile clinics in remote rural areas, provide preventive, emergency, prenatal and other basic services. If necessary, these primary health care centres can refer patients to hospitals or tertiary specialised facilities located in the Kingdom's main cities. As of 2018 there were a total of 2390 primary health care centres, 494 hospitals, and various specialist facilities and clinics in the country, according to the MoH. Riyadh, the capital, had the highest number of primary health care centres (447) and hospitals (106) of all regions.

GENERAL INDICATORS: Saudi Arabia has made significant progress in improving health care provision and outcomes since embarking on a series of five-year development plans in 1970. At that time, the Kingdom possessed 74 hospitals, with an emphasis on curative solutions, rather than preventive care. Since then, the health care sector has been a major government priority in terms of public investment. Following education and the armed forces, health care received the third-largest share of the 2020 budget, with SR167bn ($44.5bn), or 16.4% of the total. The share of the budget going to health care has increased consistently over the past decade, growing at a compound annual growth rate (CAGR) of approximately 12.1% between 2010 and 2019.

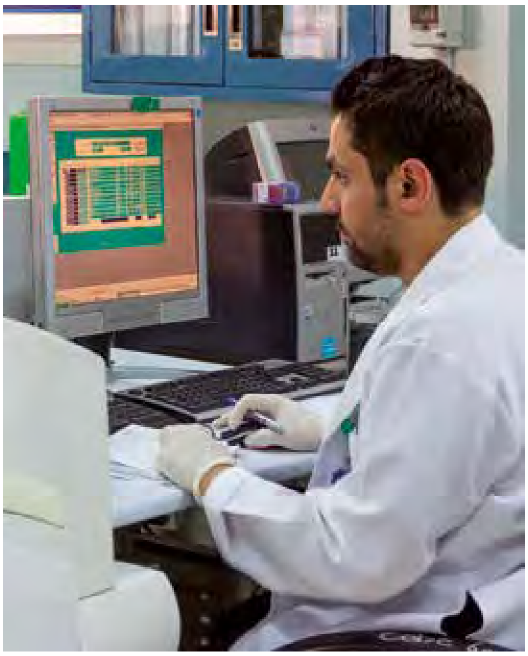
Between 2010 and 2019 government funding for health care increased at a compound annual grow rate of

12.1%

Since 2016 two primary strategy documents have guided health care policy: the National Transformation Programme (NTP), which was set to run to 2020, and the government's overall development strategy, Vision 2030. Under the NTP, the MoH was expected to spend around SR23bn ($6.1bn) on new initiatives and infrastructure between 2016 and 2020, while increasing the share of private health care expenditure from 25% to 35%. According to the most recent data, the number of hospitals, health care centres and hospital beds rose steadily under the NTP. Between 2014 and 2018 the total number of hospitals increased from 453 to 494, while the number of health centres grew from 2281 to 2390, and the number of hospital beds grew from 67,977 to 75,225, according to the MoH. This saw the number of hospital beds per 10,000 inhabitants rise from 22 to 22.5 over the same period. These figures are set to increase substantially in the short term, with 35 new hospitals being developed in the Kingdom as of late 2019, providing an additional capacity of approximately 8850 beds. In addition, two medical cities with a total of 2350 beds were under construction. While this marks a significant expansion in capacity, a 2018 report by UK-based property consultancy Frank Knight highlighted that the country will require a further 20,000 beds by 2025 and 40,000 by 2035 in order to keep pace with both projected population growth and a higher number of ageing citizens.

MEDICAL STAFF: While expanding hospital bed capacity remains a policy priority for the sector, so too does the continued expansion of the number of doctors in the country. According to the latest figures from the MoH, there were a total of 104,775 medical physicians and dentists in the country as of 2018. That same year there were 184,565 nurses, or 5.5 nurses per 1000 inhabitants, whereas the ratio for doctors hovers at around 2.8 per 1000 inhabitants. This places the country's doctor-to-patient ratio in line with the GCC average and on a par with other countries such as the US (2.6) and the UK (2.9). Nevertheless, according to estimates from property research firm Colliers International, the country will need an additional 30,000 doctors by 2030 to meet rising demand.

Saudi Arabia's health care sector has historically relied on foreign nationals to meet its workforce demands, with estimates from 2018 indicating that



There were 24,297 doctors employed in the private sector in 2018

Saudi Arabia had 2.8 doctors per 1000 habitants in 2018, on a par with countries such as the US and the UK

67% of doctors and dentists in the Kingdom were foreigners. Rates of Saudiisation – the policy of increasing the overall proportion of jobs held by Saudi citizens and reducing reliance on expatriates – among nurses is marginally higher, at 38%. Under the NTP the government has committed to training 4000 local doctors each year to support its Saudiisation objectives. The latest MoH figures from 2018 suggest that these targets were on track to be met. Between 2016 and 2018 the number of Saudi physicians in MoH facilities increased from 39,180 to 45,571, with the share of domestic citizens in the physician workforce rising from 28.8% to 36.7%. This marks an increase of roughly 3196 doctors a year. Meanwhile, the number of Saudi doctors employed in the private sector also increased significantly, with around 1808 Saudi physicians joining the segment each year. The total number of domestic doctors in the private sector rose from 20,681, or 2.5% of the workforce, in 2016 to 24,297, or 8.1%, in 2018.

According to Abdulmohsen Alashry, CEO of NMC Healthcare KSA, the two sectors should work together to enlarge the pool of local physicians. "In terms of human capital development, collaboration and a strong partnership between the private and public sectors is needed to ensure the steady supply of local health practitioners in the long term," he told OBG.

DISEASE BURDEN: In line with the country's rapid economic development and urbanisation, Saudi nationals have increasingly adopted more sedentary lifestyles. While rising public and private investment has expanded the infrastructure and capacity of Saudi Arabia's health care, efforts have focused primarily on treatment rather than preventive care.

In a pattern common to other emerging markets and developed economies, these factors have contributed to a rapid rise in NCDs, including diabetes, respiratory illness and cardiovascular disease, which put a strain on the public health care system and push up costs. Chronic diseases now account for around 78%

As of 2018 there were **104,775** medical physicians and dentists in Saudi Arabia

Under the National Transformation Programme the government has committed to training 4000 local doctors each year to support its Saudiisation objectives.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Jeddah Capacity (160 Beds)

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Public health care provision is being decentralised via the New Models of Care programme through 2030

of deaths in Saudi Arabia, with many of these caused by lifestyle choices, according to a 2019 study published by the Saudi Food and Drug Authority (SFDA).

With 17.9% of the country's adult population living with diabetes and 35.4% of adults considered obese, Saudi Arabia has some of the highest prevalence of lifestyle diseases in the region. Accordingly, the cost burden of diabetes on the health care system is significant and accounts for around 24% of the health budget every year. Tackling diabetes and obesity has therefore become a major government priority. The MoH has set itself the target of reducing obesity by 3% by 2020 and diabetes by 10% by 2030. To achieve this, the MoH launched various initiatives focused on informing the public on preventive health measures. These efforts include the Quality of Life Programme 2020, which aims to enhance quality of life by encouraging active lifestyles via sport, and participate in cultural and entertainment activities. As part of the programme, the MoH hoped to boost student participation in sporting activities by 25% and increase the number of fitness coaches in Saudi Arabia to 4500 by 2020.

As is the case across the rest of the world, the Saudi health sector is contending with the spread of Covid-19 and the resulting pressures it can place on medical systems. However, as of mid-March 2020 the Kingdom had relatively few confirmed cases, with just 274. The country took swift measures to slow the spread of the infectious disease, including temporarily closing its borders to non-nationals, enforcing work-from-home protocols and unveiling a SR50bn ($13.3bn) investment package to offset the economic impact of the virus on the Kingdom's private businesses.

The government aims to increase private sector expenditure as a share of total health spend from 25% in 2016 to 35% by the end of 2020.

PUBLIC SECTOR: Saudi Arabia's public health system is undergoing a complete overhaul as the government looks to restructure the sector. While the system is currently overseen by the MoH, health service provision is being decentralised under a new system being implemented through to 2030, known as the New Models of Care programme. Under this initiative, public health services will be divided into 20-30 regional clusters covering between 1m and 2m people to be managed by local providers, while the MoH will limit its focus to regulation and oversight.

Other features of the New Models of Care programme include the expansion of digital health service platforms. This includes an electronic appointment-booking system called Mawid, which was launched in 2018, and allows patients to book and change medical appointments through a mobile phone app. The system also centralises and automates referrals across the health system by linking them electronically, thereby streamlining operations for the various institutions. During its first year in operation the platform was rolled out to 98% of MoH hospitals and health care centres. As of mid-2019 more than 6.5m users had registered for online health services and around 16m medical appointments had been logged via the platform. This forms part of a longer-term strategy to fully digitise all health care data, and link all public and private facilities.

PRIVATE SECTOR: If Saudi Arabia's efforts to expand capacity, improve care and upgrade efficiency are to be sustainable, a significant portion of the country's health care burden must be shifted to the private sector. The government has therefore set itself the target of increasing private sector expenditure on health care as a share of total health spend from 25% in 2016 to 35% by the end of 2020. These objectives form part of a set of longer-term privatisation targets outlined under Vision 2030. As part of this strategy, the MoH plans to privatise 290 hospitals and 2300 primary health care centres by 2030.

To achieve these objectives, the government has undertaken various regulatory and legal reforms. In March 2019 the Council of Ministers approved amendments to the Private Health Institutions Law to allow foreign investors to own, operate, and manage hospitals and health centres in the Kingdom through PPPs and build-operate-transfer (BOT) models. Previously, PPPs were largely restricted to the utilities sector.

With the MoH divesting health care provisioning responsibilities and opening the sector to privatisation, the private health segment is set to experience a rapid increase in activity and investment. By creating a vibrant and competitive private sector, Vision 2030's goal is to increase the efficiency of health care services and provide citizens with greater choice in terms of provision. "Given the current shortage in long-term care facilities, the private sector can definitely help improve access to health care by enhancing quality and controlling costs, as well as building new assets throughout the country," Sarry Al Buraik, president and CEO of Riyadh-based private medical services company Green Crescent Health Services, told OBG.

Under the Private Health Institutions Law, the MoH is prioritising PPP and BOT contracts to expand the number of facilities. In April 2019 the MoH, in cooperation with the National Centre for Privatisation, announced the country's first PPP in the sector, calling

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Joint ventures are a popular way to finance investment in private care

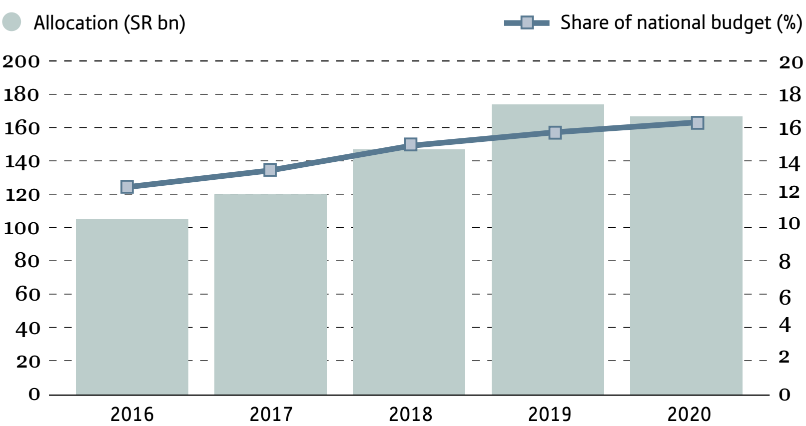
A Saudi health care tech start-up has announced the launch of the first Arabic-language artificial intelligence platform that allows users to obtain accurate medical diagnosis within seconds.

for proposals to upgrade radiology and medical imaging services at seven hospitals in Riyadh.

Joint ventures (JVs) are also an increasingly popular way of financing investment in Saudi Arabia's private health care sector. For example, in May 2019 UAE-based health care company NMC Health finalised a JV agreement with the Saudi state-owned General Organisation for Social Insurance that includes up to SR6bn ($1.6bn) of investment in health care in the Kingdom over a five-year period. The JV will acquire and develop facilities with a capacity of up to 3000 beds and employ as many as 10,000 workers.

Initial public offerings (IPOs) are another financing method being utilised by private health care providers. In January 2020 Dr Sulaiman Al Habib Medical Group – one of Saudi Arabia's largest private health care companies – announced plans to launch an IPO for around 15% of its share capital for $700m. The move comes as the company looks to expand its portfolio, which currently comprises seven health care facilities and two pharmacies which it owns, along with another seven health care centres and two medical solutions businesses that it operates and manages.

Government funding for health care, 2016-20



Source: MoF

MEDICAL TECHNOLOGY: Promoting innovation in digital health is another key part of Vision 2030. While the MoH has already started rolling out its own digital technology solutions for patients – such as appointment-booking platforms and unified digital patient records – it is also looking to accelerate the digital transformation of its business operations in order to boost efficiency. In December 2019, for example, the MoH signed a memorandum of understanding with Chinese tech giant Huawei to introduce emerging digital technologies to the sector. Huawei has been working across the GCC to create digital ecosystems for governments, utilising technologies such as artificial intelligence (AI), the internet of things, 5G and cloud networking, among others.

Some of the facilities under the purview of the MoH have already undertaken digital transformation initiatives of their own. King Faisal Specialist Hospital and Research Centre (KFSH&RC), a tertiary care facility in Riyadh with 1800 hospital beds and 13,000 staff, is a notable example in this regard. In 2017 KFSH&RC was facing data latency challenges due to delays in data input in its electronic patient records, which was slowing response times to patient needs. To address this issue, the facility created a smart room in one of its wards with fully integrated digital patient records and linked bedside medical devices and other service tools to the room. Communication between medical teams improved, as did care and patient satisfaction, with the average length of stay decreasing from 33 to 30 days. In recognition of the success of this initiative, KFSH&RC was awarded the Davies Award of Excellence by the US-based non-profit Healthcare Information and Management Systems Society in January 2020.

In November 2019 Nala – a Saudi health care tech start-up – announced the launch of the first Arabic-language AI platform which allows users to obtain accurate medical diagnosis within seconds. A number of Saudi doctors helped develop the platform, which is currently available through a mobile app. Between February 2019 and November 2019 the platform registered approximately 50,000 new users. To further develop the platform and expand its reach, Nala raised $1m in financing from Dubai-based Al Araby Investment. "Digitalisation within the health care sector will play an important role moving forwards," Tarek Al Kasabi, chairman of the board at Saudi health care services and pharmaceuticals provider Dallah Health Company, told OBG. "For instance, AI is set to change the way we diagnose patients and improve accuracy across the board. These technologies can ensure that health care reaches rural and more remote areas outside of the main urban centres."

INSURANCE: The introduction of mandatory insurance regulations has driven strong growth in the health insurance market in recent years (see Insurance chapter). The CCHI began implementing mandatory unified health insurance in July 2016. The first phase of the scheme – which ended in 2017 – made it compulsory for private sector companies to provide insurance for their Saudi employees and dependants. The second phase, which was fully rolled out by July 2018, made it mandatory for these companies to also provide insurance for expatriate employees and their dependants. Following this, in September 2019 the CCHI announced that tourists must purchase a health insurance policy provided by the government when submitting their visa application for any visits to the Kingdom.

According to the latest data from the Saudi Arabian Monetary Authority, the country's central bank, as of December 2018 there were 27 insurance companies operating in the Kingdom. The total number of insured people stood at around 10.8m, including 1m Saudi employees along with over 1.8m of their dependants, as well as 6m expatriate employees and 1.9m of their dependants. An additional 2m people were expected to be insured by the end of 2019 as the CCHI enforced full compliance across the private sector.

Health insurance gross written premium reached SR19.9bn ($5.3bn) in 2018, a 5.4% increase on the previous year. Health care constitutes the largest insurance segment, representing 57% of total premium. The health segment also bucked the downward trend in the wider insurance market, which declined by 4% in 2018, and is expected to grow further as new regulations – such as compulsory insurance for foreign visitors – come into full effect.

PHARMACEUTICALS: The Saudi pharmaceuticals market is one of the largest in the Middle East and is forecast to reach $9bn in value by the end of 2020, having grown at a CAGR of 10% since 2016, according to government figures. By 2023 its value is expected to reach approximately $10.7bn, with a forecast CAGR of 6.1%. This growth is linked to increasing demand for medication to treat the rising prevalence of lifestyle-related NCDs such as diabetes. High spending power and traditional consumer preferences for foreign brands have meant that most pharmaceuticals are imported, but this is gradually changing. Relative to other countries in the region, Saudi Arabia also has a large, well-developed domestic pharmaceuticals industry, with many companies producing generics.

As of 2019 local manufacturing accounted for around 20% of pharmaceuticals in the market, but the government is aiming to double this by the end of 2020. To achieve this objective, the government has implemented a price-protection strategy for locally produced pharmaceuticals, exempting them from price cuts enforced by the MoH. Since the passing of the Law of Pharmaceutical Establishments and Preparations in 2004, the SFDA has regulated the pricing of medicines in the market, implementing regular price cuts to drugs in high demand and exempting companies that manufacture generics locally from price cuts. "It is quite a competitive market here in Saudi Arabia, with many local players as well as multinational companies that have located their production here," Horia Vilcu, business development director at domestic pharmaceuticals manufacturer Jamjoom Pharma, told OBG.

After rolling out digital solutions for patients, the Ministry of Health is looking to boost internal efficiency

Currently, there are 27 local manufacturing companies in Saudi, including Al Jazeera Pharmaceutical Industries, AJA Pharma, Saudi Arabian Japanese Pharmaceutical Company, Saudi Pharmaceutical Industries, Tabuk Pharmaceuticals and Jamjoom Pharma, among others. These domestic firms also face competitive pressures from international players.

"The transformation of the health care sector under Vision 2030 presents a challenge to local, private sector pharmaceutical manufacturers," Mohammad Al Badr, general manager and managing director of Saudi Chemical, the parent company of AJA Pharma, told OBG. "This is because large, international pharmaceuticals organisations have more leverage and influence than local firms." Rather than trying to compete with international companies – which have large research and development budgets for the creation of new drugs – many local manufacturers focus solely on the country's expansing generics market. "In 2019 demand for pharmaceuticals increased by around 4-5%, driven by an uptick in antibiotics and a 15% increase in demand for diabetes medicine," Vilcu told OBG. "This looks set to continue given the high prevalence of diabetes in Saudi Arabia."

OUTLOOK: Although Saudi Arabia faces a number of challenges in terms of increasing capacity to meet rising demand and a higher incidence of NCDs, as well as the more recent threat posed by Covid-19, the outlook for the sector remains positive. The government's efforts to restructure the public sector through decentralisation and digitalisation initiatives are increasing efficiency and reducing costs.

Meanwhile, ongoing privatisation and efforts to create a more competitive health care environment are improving care and attracting significant investment. The shift towards PPP and BOT contracts is expected to support private sector activity in the decade to come, while the burgeoning health start-up ecosystem is set to contribute to a greater level of digitalisation.

Health coverage constitutes the largest insurance segment, representing

57%

of total premium in 2018

By 2023 the Saudi pharmaceuticals market is expected to reach approximately $10.7bn in value, with a forecast compound annual growth rate of 6.1%.

Hisham bin Saad Aljadhey, CEO, Saudi Food and Drug Authority

Innovative solutions

Hisham bin Saad Aljadhey, CEO, Saudi Food and Drug Authority (SFDA), on utilising new technologies for better overall care

In what ways can technology change the way medicines are consumed in the long term?

ALJADHEY: Technology is introducing radical changes in the industry and is directly impacting the type and quality of products. Major advancements have led to gene therapy, biological products and advanced therapies. However, these new health developments face challenges, including large-scale replication of treatments; manufacturing capabilities that are not easily transferable; and high prices, that can amount to SR1m-2m ($267,000-$533,000) per patient. We expect both regulators and the industry to adapt to evolving trends in order to leverage new manufacturing systems, technical know-how and investments in innovation. We also expect more than 50% of all medication to be biologically based in the near future.

In patient diagnosis, big data and artificial intelligence now allow us to predict the likelihood of a patient being affected by a specific illness. The Ministry of Health is already applying predictive analytics to prevent any increase in clinical cases. Moreover, the Saudi Health Council has established a committee to discuss both the high costs and the ethical dilemmas associated with these innovative medications. The SFDA, which is responsible for both evaluating the efficiency and safety of products, and for making sure that overall health benefits outweigh any risks, recently doubled the team responsible for overseeing these products. These bodies have also worked to make these types of medications available locally. Patients can then decide whether to buy them or not. To cover the high cost of these medicines, the Kingdom plans to become a centre for health tourism in the region.

How can the Kingdom's pharmaceutical manufacturing capabilities be strengthened?

ALJADHEY: Offtake agreements and pricing strategies will bring short-term development to the pharmaceutical manufacturing sector. However, the current expansion of the industry, which is producing medication ready for export, indicates that long-term growth on a scale of 20-30 years will require an integrated and sustainable ecosystem; increased drug discovery by institutions such as the King Abdulaziz City for Science and Technology; and the direct government intervention through investment hubs, funds and joint ventures with private manufacturers.

The pharmaceuticals industry benefits from both the Kingdom's active ingredients resources as well as its talent pool. The Saudi Arabian Basic Industries Corporation, one of the only raw material producers in the Kingdom, is gradually localising its medication production from active ingredients to final goods. Saudi Arabia has been heavily investing in education, establishing more than 30 pharmacy colleges, which has stimulated the discovery of new drugs.

What actions are being taken to effectively prevent contamination in imported foods?

ALJADHEY: Saudi Arabia imports food from more than 157 countries, which represents over 80% of all the food consumed in the country. In order to prevent the import of contaminated food the Kingdom is strengthening its regulations. Recently, for example, the Kingdom drastically reduced the quantity of pesticide residues introduced to the country in just a year.

In 2020 the SFDA started promoting the first of a series of annual global forums on food safety. This event was initially organised with the respective authorities of Ireland, Australia and New Zealand, and then France, Japan, China, Morocco and Kuwait, as well as the World Health Organisation and Codex Alimentarius. The purpose of these events is to increase international dialogue, the exchange of information, and the adoption of best practices and regulations throughout the sector. In the context of international dialogue, Saudi Arabia is now moving from a mere passive position to being a proactive and inclusive leader.

Eight regional health care clusters had been established by early 2020

Model patient

A new programme of reforms is decentralising public sector provision and facilitating private investment

Transforming the delivery of public health services forms a key plank of Vision 2030. For decades facilities owned and operated by the Ministry of Health (MoH) have formed the backbone of the country's health care system. While the private sector's share has increased in recent years – with the share of beds in private facilities reaching 25% in 2018 – the public sector remains the primary vehicle for treatment and care. Rising costs associated with increased incidence of lifestyle-related diseases, along with a growing population, are increasingly weighing on public expenditure. The government budget allocated to health care grew at a compound annual growth rate (CAGR) of 12.1% between 2010 and 2019. At the same time, government revenue has come under pressure from lower oil prices. Recognising the need to create a more sustainable and cost-efficient health system, the government is rolling out the New Models of Care programme to restructure the sector and promote greater private investment.

PLAN OF ACTION: The New Models of Care programme – which was launched in 2017 and is expected to run until 2030 – comprises 42 initiatives aimed at restructuring the way public health care is delivered, financed, developed and regulated. The programme also aims to facilitate the handover of service delivery responsibility to the private sector. The initiatives fall under four categories: decentralising the public health care system; financing reforms to optimise and reduce government spending and increase private sector investment; reforming governance to redefine the MoH's regulatory role; and facilitating public-private partnerships (PPPs) to address any gaps in health care infrastructure.

These initiatives are being rolled out in three phases. The first phase, which runs from 2018 to 2020, focuses on reorganising the public health system into different regional clusters, while utilising PPPs to address gaps in service. The second phase, which is scheduled to run from 2021 to 2025, is set to focus on the creation of accountable care organisations (ACOs) to serve as autonomous corporate bodies responsible for health care in each cluster. The third phase running from 2026 to 2030 centres on extending national health insurance to all residents, citizens and visitors, while simultaneously encouraging the expansion of private insurance to provide more choice and competition.

CUTTING COSTS: One of the key goals in reforming the sector is to cut public costs and boost private sector investment. In 2020 the government allocated SR167bn ($44.5bn), or 16.4% of its budget, to health care, the third largest after education and military spending. "Currently, Saudi Arabia's public hospitals are very costly for the government," Abdulaziz Saleh Alobaid, CEO of domestic provider National Medical Care, told OBG. "Reform is required to better control spending while still increasing local capabilities." Under the reform programme, public health spend is projected to reach SR126bn ($33.6bn) by 2030, roughly 41.3% lower than government estimates for public expenditure in a business-as-usual scenario. Enacting these reforms will involve significant financial investment, with current government estimates for the cost of implementation through to 2030 standing at around SR129bn ($34.3bn).

However, according to government analysis, the benefits outweigh the costs, with every SR1 ($0.27) invested forecast to generate SR1.80 ($0.48) in economic returns. While this kind of economic modelling provides a useful framework for understanding the longer-term return on investment to be gained through sector reform, the spread of Covid-19 in early 2020, and its potential impact on the health care system and public spending, complicates the prediction of future health care demand and expenditure (see overview).

HEALTH CLUSTERS: In late 2018 the MoH established a holding company to separate the delivery of health services from its other functions. This company comprises five public health bodies, each responsible for the provision of care in their respective regions. These regional corporate entities are, in turn, tasked with

Recognising the need to create a more sustainable and cost-efficient health system, the government is rolling out the New Models of Care reform programme to restructure the sector and promote greater private investment.

Under the new reform programme, public health spend is projected to reach $33.6bn by 2030, roughly 41.3% lower than government estimates for public expenditure in a business-as-usual scenario.

Through clusters, the government aims to integrate primary, secondary and tertiary care at a regional level

creating health clusters of 20-25 hospitals and clinics. Under the plan, there is expected to be 20-30 such clusters across the country, each serving 1m-2m people.

The decentralisation and clustering of public health service delivery is being undertaken in an effort to increase competition, transparency and efficiency. Health clusters compete with each other and the private sector for clients, as well as for the most highly-trained health care professionals. Registered medical practitioners can decide which clusters they want to work in, and clients have more right to choose doctors, hospitals and clinics under this model.

Integration is also part of the newly decentralised system. Through the independent clusters, the MoH aims to integrate primary, secondary and tertiary care at a regional level to streamline the provision of services to patients. Together with the MoH, the clusters will work to effectively bolster prevention by focusing on health awareness campaigns and increasing primary health care visits per capita from two to four per year.

MAKING PROGRESS: As of early 2020 eight health care clusters had been established across the country, with the delivery of services in each cluster supervised by a consultative council. Thanks to their budgetary independence, these clusters are able to actively build new facilities to meet demand. For example, in April 2019 clinics catering to women and children were opened in the Riyadh cluster, offering treatment for the prevention of breast cancer and osteoporosis, among other services. Clusters also have autonomy to run their own programmes. In October 2019 the first cluster established in the Eastern Province launched a campaign called AnHour4Nation to promote health awareness.

In March 2019, one month after the Private Health Institutions Law was enacted, the Ministry of Health announced its first public-private partnership calling for proposals to upgrade radiology and medical-imaging services at seven hospitals in Riyadh.

HANDING OVER CONTROL: As in other sectors of the economy, privatisation is playing an important role in the health care transformation programme. Over the coming decade, the MoH intends to privatise 290 hospitals and 2300 clinics. Recent regulatory changes have been a crucial first step towards achieving these goals. Foreign companies can now own 100% of health care companies and compete for PPP deals. As per the New Models of Care, privatisation initiatives will be accelerated during the third phase of the programme. During this period, ACOs, having consolidated their clusters, will be encouraged to transfer the ownership, management and operations of institutions to private companies. These firms will also take on a key role in the supplementary health insurance market, which is due to be expanded during this period. "The New Models of Care programme will be key in developing the national health care strategy of the Kingdom, including the plan for a universal health care coverage," Alobaid told OBG. "Many industries, including the insurance sector, will be able to capitalise on such reform policies."

PRIVATE SECTOR PARTICIPATION: Health care clusters have begun issuing tenders for private companies to provide consulting services as they consolidate their operations. The MoH has also ramped up the number of opportunities on offer through its PPP scheme, which is run by separate business units each responsible for expanding specific health care segments. These business units have been charged with increasing private sector involvement in eight strategic areas: primary care, hospital commissioning, the construction of medical cities, rehabilitation, radiology, long-term care, home care and laboratories. With joint financing provided by the Public Investment Fund – Saudi Arabia's sovereign wealth fund – numerous PPP projects are planned.

The New Models of Care has opened the sector to privatisation across the board, from service delivery to development. In the short term, PPPs will provide a pipeline of opportunities for construction and operation of new facilities, while the latter half of the decade will see the privatisation of existing public facilities ramped up. In March 2019, one month after the Private Health Institutions Law was enacted, the MoH announced its first PPP calling for proposals to upgrade radiology and medical-imaging services at seven hospitals in Riyadh.

In April 2019 clinics for women and children were opened in Riyadh

Tourism & Entertainment

Government invests in culture and leisure projects
New marketing campaigns promote local attractions
Tourist visas recently made available to 49 countries
Religious segment continues to drive broader growth





Plans are under way to create 1.2m additional tourism jobs by 2030

Something for everyone

New regulations and investment are aimed at placing the Kingdom among the top tourist destinations worldwide

The second half of 2019 saw some of the most exciting developments yet for Saudi Arabia's tourism sector. In a softening of visa regulations, the government created a new visa category for tourists as it looks to grow the industry. Numerous opportunities and tourism experiences are on the horizon as the government opens the country's vast and varied landscapes, as well as its rich heritage and culture, to foreign visitors and investors.

To raise awareness, the government has launched social media marketing campaigns and investments to expand tourism-related infrastructure in order to establish the country as a regional destination for tourism and entertainment. In one promising development, Saudi Arabia has the fastest-growing hotel segment in the region, and tour operators and event management companies are looking to capitalise on this expansion. While the Kingdom, like the rest of the world, is contending with the near-term impacts of border closures and travel stoppages on the tourism sector in the wake of the global spread of Covid-19, the enabling foundation for robust growth is evident.

STRUCTURE & OVERSIGHT: The Saudi Commission for Tourism and National Heritage (SCTH) is responsible for the oversight and regulation of the tourism sector. Its mandate includes developing and strengthening the sector, as well as preserving the Kingdom's national heritage sites and antiquities across 17 regional branches. The organisation is charged with developing tourism destinations, overseeing visa regulations, promoting events and festivals, attracting foreign investment, raising awareness of national heritage sites, and developing local tourism services and expertise.

These responsibilities are divided among sub-entities within the SCTH, some of the most notable of which are the National Centre for Tourism Human Resources Development (Takamul), and the Tourism Information and Research Centre (MAS). Other government bodies relevant to the Kingdom's tourism sector include the General Authority for Culture (GAC) and the General Entertainment Authority (GEA), both established in 2016 to promote Saudi Arabia's cultural offerings and develop a local entertainment industry, respectively.

TOURISM LAW: The Tourism Law, which came into effect in May 2016, sets regulations for the sector and defines the SCTH's monitoring role within the industry, as well as its responsibility for overseeing prices, issuing licences, and supervising and conducting inspections of licensed tourist facilities and destinations. Per the law, all businesses in the sector – including accommodation establishments, tour operators, travel agencies and guides – require licensing from the SCTH.

Changes to the Tourism Law in 2019 aimed to relax regulations and increase the number of tourist arrivals to the Kingdom. In October 2019 the SCTH issued Regulation No. 4800, creating a new tourist visa category. Prior to that, foreign travel to Saudi Arabia had been largely restricted to resident workers and their dependants, business travellers and Muslim pilgrims, who receive special visas to visit the holy cities of Makkah and Medina. The new regulation allows citizens from 49 countries to visit the Kingdom for tourism purposes by obtaining an e-visa prior to arrival or a visa upon arrival. To coincide with the new law, the SCTH announced a relaxing of regulations pertaining to single female travellers and unmarried foreign couples, who are now allowed to book hotel rooms.

The spread of Covid-19 is expected to have an impact on 2020 tourist arrivals to the Kingdom and around the world, as international movement slowed dramatically in the first few months of the year. As part of its own precautions, in late February 2020 the government issued a temporary entry ban for

In October 2019 the Saudi Commission for Tourism and National Heritage issued Regulation No. 4800, allowing citizens from 49 countries to visit Saudi Arabia for tourism purposes by obtaining an e-visa or a visa upon arrival.

Over $64bn has been earmarked to invest in culture, leisure and entertainment projects through to 2030

Umrah pilgrims. The next month officials suspended tourist visas for travellers from several countries where the disease was widespread, and on March 15 halted all international flights for an initial period of two weeks, with extensions possible. Visa issuance remained suspended as of late April 2020.

GROWTH STRATEGY: Under Saudi Arabia's long-term economic development programme, known as Saudi Vision 2030, the government wants to create an additional 1.2m jobs in the sector by 2030 and increase its contribution to GDP to 10%. It is also aiming for 100m domestic and international tourist trips per year by 2030, up from 67.7m in 2018. To achieve these targets, the government is combining regulatory reforms with major investment in tourism infrastructure. This is not only aimed at attracting foreign tourists, but also encouraging citizens to travel domestically more often. Saudis spend as much as $26bn on travel, shopping and entertainment outside of the Kingdom each year, and the government is hoping to bring at least the same amount back into the local tourism sector.

Over $64bn has been earmarked to invest in culture, leisure and entertainment projects through to 2030. Many of these have the backing of Saudi Arabia's sovereign wealth fund, the Public Investment Fund (PIF). These include the Red Sea Project, slated for completion in 2022 and forecast to attract an estimated 1m visitors per year, in addition to Qiddiya, an integrated destination set to become the Kingdom's capital of entertainment, sports and arts. Located just outside Riyadh, Qiddiya is set to house the world's largest Six Flags amusement park, motor racing tracks, a cliff-top stadium and performing arts centres, among other facilities. Qiddiya aims to attract an estimated 14.5m visitors per year by 2030.

By 2030 the government wants to increase the tourism sector's contribution to GDP to

10%

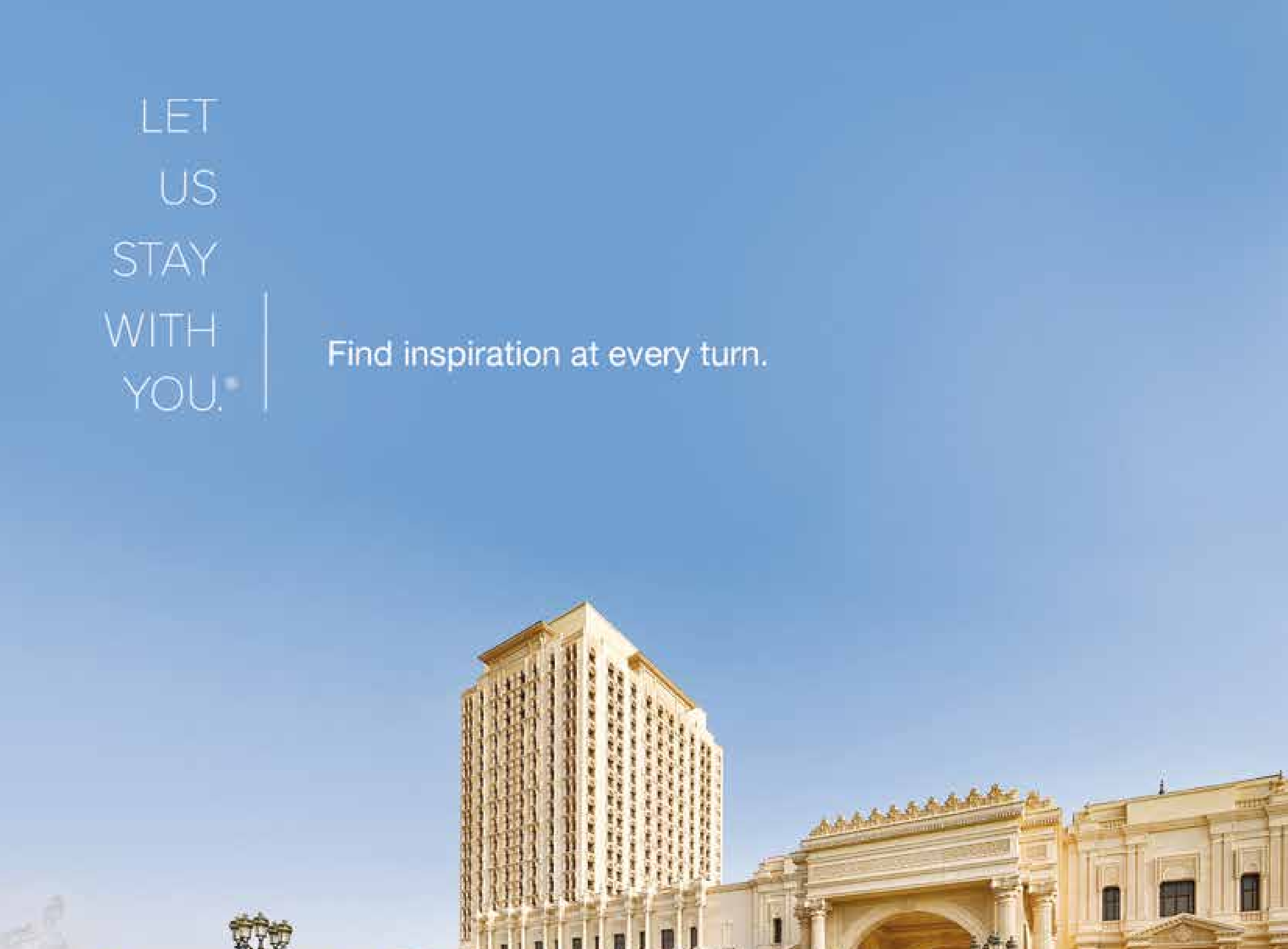
PERFORMANCE & SIZE: Saudi Arabia has the largest travel and tourism sector in the Middle East, primarily driven by a sustained religious tourism segment. The direct and indirect contribution of the Kingdom's travel and tourism sector to the economy was forecast to reach $70.6bn in 2019, or 9.3% of GDP, according to the World Travel & Tourism Council. This marks a 7.6% increase from 2018, when travel and tourism accounted for SR244.6bn ($65.2bn), or 9% of GDP. The actual direct contribution of the travel and tourism sector to GDP is smaller, however, at 3%, and supports 600,000 jobs, or 5% of total employment. Although small relative to the size of the country's hydrocarbons sector, tourism is growing rapidly. By 2021 its direct contribution to the economy is expected to reach 5% of GDP, on track to meet Vision 2030's goal of 10%.

Within the sector, religious tourism remains the largest economic contributor, with more than 1.8m Hajj pilgrims coming to Makkah and Medina in 2019 (see Makkah & Medina chapter). Due to the absence of any type of tourist visa until late 2019, non-religious leisure tourism to the country has been limited. As a result, leisure tourism spending to date has primarily been driven by local residents travelling within the country on public holidays and has increased at a slower rate, from $23.6bn in 2009 to $26.4bn in 2018. According to the latest data on domestic tourism, there were 47m local tourist trips within Saudi Arabia in 2018, and this is forecast to rise by 8% per year to 70.5m by 2023.

The meetings, incentives, conventions and exhibitions (MICE) segment, for its part, has witnessed solid growth and accounted for 16-20% of all foreign arrivals in 2019. According to a report by Saudi travel and tourism services provider Seera, the number of business travel transactions between January and August 2019 grew by 38% year-on-year to over 1.1m. Business tourism spending – calculated as spending on business travel by residents and international visitors within Saudi Arabia – has witnessed solid long-term growth, increasing by 35.8% between 2009 and 2018 to reach $4.5bn.

> "Saudi Arabia has the largest travel and tourism sector in the Middle East: the direct and indirect contribution of the sector to the economy was expected to reach $70.6bn in 2019"

VISITORS & SOURCE MARKETS: Given the importance of the holy sites of Makkah and Medina, pilgrims from predominantly Muslim countries have historically been the mainstay of Saudi Arabia's tourism industry. Of the approximately 19m pilgrims who visit the country every year, the majority arrive from Indonesia, Pakistan, India, Bangladesh and Egypt. Business travellers from within the GCC comprise the next-largest share of foreign arrivals in the country. While other tourist arrivals have remained limited through mid-2019, recent changes to visa regulations and the introduction of a tourist visa category have already had a notable impact.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Within the first 10 days of the e-visa coming into effect, some 24,000 tourists had taken advantage of the new regulations to visit the Kingdom. China was the largest source market in these early days, accounting for 7391 visitors, followed by the UK with 6159 visitors and the US with 2132 visitors.

MAS has been crucial in keeping track of various sets of data to determine how the country's tourism dynamics are changing and applying the results to government decision-making and policy. MAS is responsible for collecting tourism data, as well as conducting research and related studies on tourism at both the national and subnational levels. "Through the work of MAS, Saudi Arabia became the first Arab country to develop a tourism statistics collection system that is consistent with the recommendations and guidelines of the UN World Tourism Organisation," Abdulhakim Al Babtain, the former general director of MAS, told OBG. "The Kingdom was ranked first among 140 countries from 2011 to 2017 in the World Economic Forum's Travel and Tourism Competitiveness Index in terms of the competitiveness of its annual travel and tourism data."

HOTEL INFRASTRUCTURE: The number of hotel rooms is expected to see a significant increase throughout the country as the tourism sector continues to expand and gains a foothold in areas outside the main urban centres. "There is currently a shortage of supply of hotel rooms in the Kingdom," Sultan Al Otaibi, CEO of Dur Hospitality, a local residential real estate development company, told OBG. "Given the uptake of both business and leisure tourism in the country, the capacity will have to be dramatically increased in the next few years."

According to a report by global consultancy firm PwC, there were some 78,000 hotel rooms across the Kingdom's major cities as of 2018, the last full year for which data is available. This represents a 13% increase from 2017. An additional 9000 rooms

Some 9000 three-star or higher rooms were set to come on-line in 2019

Around 24,000 visitors came to the Kingdom in the first 10 days of the launch of a new tourist visa category

in three-, four- and five-star hotels were expected to enter the market throughout 2019.

Hotel supply in Riyadh reached 119 properties with 16,441 rooms in 2018, while Jeddah's inventory stood at 92 hotels with 11,276 rooms. Growth over the past few years has been strong, with 1700 rooms added to Riyadh's stock in the three-, four- and five-star categories in 2018 alone. The pipeline for hotel infrastructure across the country is even more encouraging. In early 2019 there were 187 hotel projects in the planning stage or under construction, which would add 64,000 rooms, marking a 76% increase. Remarkably, these accounted for a 37.9% share of all rooms under construction in the Middle East at the time, underlining the efforts to develop Saudi Arabia's tourism infrastructure.

ACCOMMODATION METRICS: While increases in accommodation capacity will be a boon to the sector in the long term, average daily rates (ADR) and occupancy levels at hotels have come under pressure from the increased supply, yet this pressure has been partly offset by an increase in the average length of stay by foreign travellers. A 2019 report by global real estate services provider Savills attributed this to a 30-day visa extension made available to Umrah pilgrims. According to the most recent data from MAS, hotel occupancy rates in Riyadh in the first half of 2019 averaged 69.1%, and the ADR stood at SR385 ($103). Occupancy rates in Makkah and Medina were higher, at 86.9% and 83.6%, respectively, but the ADRs were slightly lower, at around SR368 ($98) and SR352 ($94).

MARKETING: The year 2019 saw the SCTH launch a two-pronged tourism marketing campaign focusing on social media and its Saudi Seasons annual festival and events calendar. In September 2019 the SCTH launched its Visit Saudi brand across social media platforms Twitter, Instagram and Facebook, as well as on a new website. Using various slogans

Hotel occupancy rates in Riyadh in the first half of 2019 averaged 69.1%, with an average daily rate of $103. Occupancy in Makkah and Medina was above 80%, with average daily rates between $90 and $100.

In September 2019 the Visit Saudi brand was launched on social media

In 2019/20 Saudi Arabia hosted

11

festivals showcasing local culture and heritage

and hashtags, Visit Saudi has begun showcasing both iconic and less well-known natural landscapes and cultural sites across the country. It comes as the government looks to attract a wider array of foreign travellers and encourage locals to spend more money on domestic tourism. "Destination branding is on the rise, both in the Gulf region and worldwide," Josh Brash, founder and CEO of Brash Brands, a marketing agency, told OBG. "In Saudi Arabia, for example, the Amaala wellness tourism project where luxury, experience and destination will be combined represents a great opportunity to create a successful brand for the country."

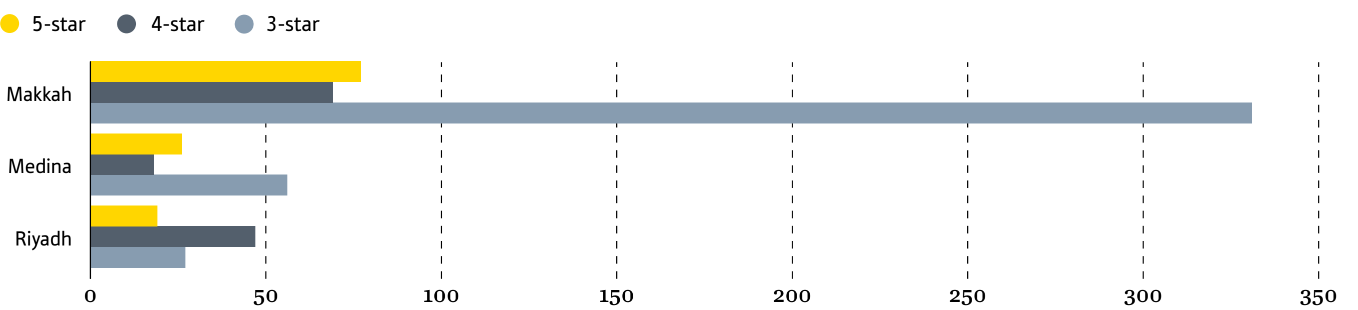
Saudi Seasons – a new initiative being undertaken by the SCTH, the GEA, the GAC, the General Sport Authority, and the Saudi Exhibition and Convention Bureau – features a programme of annual festivals and entertainment events that take place across the Kingdom's different regions. In its first cycle – for 2019/20 – 11 festivals were hosted around the country that highlighted the Kingdom's culture and heritage. The events proved to be a success. The Riyadh season, which stretched from October 2019 to January 2020, generated more than $270m in revenue for the GEA, attracted some 10.3m visitors to the capital region and created over 37,000 seasonal positions in tourism.

CULTURAL HISTORY: Saudi Arabia has a rich cultural heritage dating back many millennia, with over 4000 registered archaeological sites. Efforts are under way to develop and promote tourism around these sites. The Diriyah Gate project, located on the outskirts of Riyadh, is currently the largest cultural and heritage tourism development project in the Kingdom. The site consists of iconic mudbrick buildings and served as the Al Saud dynasty's first capital. The Diriyah Gate Development Authority wants to establish the location as a global cultural and lifestyle destination. With construction slated to start in 2020, the SR64bn ($17.1bn) development will stretch over 7 sq km and host several luxury and lifestyle retail brands, 20 luxury hotels, over 100 cafes and restaurants, eight museums and galleries, a golf course and a racetrack.

Local tour operator Meteb Al Mahmoud, the CEO of Riyadh-based Amazing Tours, is hoping that the development of cultural sites like Diriyah – along with further investment in tourist-related infrastructure and expertise – will be a boon for business and a catalyst for expansion. Amazing Tours has been offering trips to cultural and historical sites and adventure tours to foreign visitors, expatriates and locals since 2010. "We have always offered guaranteed fixed departures on weekend tours to destinations such as the Empty Quarter desert and historical sites like Madain Saleh," Al Mahmoud told OBG. "We developed a good reputation, particularly among expatriates and solo travellers who want to see the sights and sounds of Saudi Arabia." With the new tourist visa regulations, tour operators are hoping to attract more foreign visitors to existing weekend tours and to diversify their offerings, in line with public investment. "We hope that the SCTH markets existing tourism routes and builds infrastructure around them, and offers training to tour operators and guides," Al Mahmoud added.

ENTERTAINMENT & SPORTS DESTINATION: Under Vision 2030, the government wants to increase household spending on entertainment and cultural activities within the country from 2.9% to 6% of GDP

Hotels in selected cities by type of establishment, September 2019



Source: MAS

Private sector investment is expected to comprise as much as 75% of all new capital injections in the tourism sector over the coming decade.

through the coming decade. Each year around 5000 live entertainment events are held in the Kingdom across more than 55 cities, and these are expected to increase significantly in the years to 2030 in order to reach the goal and increase citizens' quality of life.

The GEA and its subsidiary, the Development and Investment Entertainment Company (DIEC), are leading efforts to establish and grow the country's reputation as an entertainment destination by investing in the necessary infrastructure and encouraging private sector involvement.

In January 2019 the GEA unveiled a bold development and marketing strategy that seeks to establish Saudi Arabia as one of the top-four entertainment destinations in Asia and among the top-10 such markets globally. To achieve this, the GEA plans to spend nearly $64bn over the next decade to develop entertainment-related infrastructure while simultaneously creating 224,000 new jobs.

Formed in January 2018 with an initial capitalisation of $2.6bn, the DIEC acts as a planning body and investor in the entertainment industry. Both the GEA and the DIEC have signed numerous agreements with foreign companies in segments such as movie theatres, theme parks, vacation resorts and sports-related infrastructure. For example, in April 2019 the DIEC signed an agreement with US movie theatre chain AMC Theatres to open between 50 and 100 cinemas in 25 cities by the end of 2030.

Meanwhile, in line with goals to achieve a three-fold increase in citizen participation in sports, opportunities for private sector involvement in the construction of sporting facilities and managing large-scale sporting events are emerging. In January 2020 the Kingdom hosted the coveted Dakar Rally, following a major international boxing match held in the capital in December 2019, for which a 15,000-seat purpose-built stadium was constructed.

OUTLOOK: While the full extent of the impact of Covid-19 on Saudi Arabia's tourism sector was difficult to gauge as of March 2020, it is clear that the pandemic is set to significantly affect tourism numbers not just in the Kingdom but around the world in the first half of 2020. In the long term, however, the prospects for the sector look bright, with recent visa changes opening up Saudi Arabia's once little-known and undiscovered landscapes, history and culture to foreign visitors.

Tourism and entertainment indeed have some of the best growth prospects of any industry in the Kingdom. The government is working to bring tourism infrastructure up to speed with significant investment from the PIF and other public bodies, though it expects private sector investment to comprise 75% of all new capital injections in the coming decade. Opportunities therefore abound for foreign companies across the entire hospitality value chain, from construction to catering to event management.

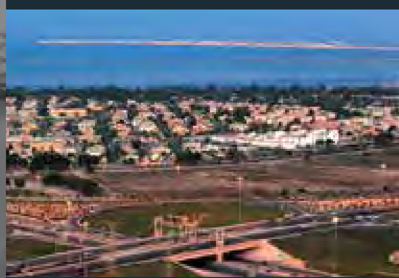
Tax

Excise tax expanded to include additional categories

New portal launched for country-by-country reporting

Self-correction programme effective January 1, 2020

Draft zakat law published regarding financial penalties




KPMG


Saudi Arabia does not impose personal income tax on wages or salaries

Steady evolution

Updated regulations are put in place as basics remain unchanged

Saudi Arabia's income tax rules are governed by the Income Tax Law (Tax Law), which came into force in 2004. The Tax Law is supplemented by implementing regulations (by-laws). *Zakat* is governed by the implementing regulations for zakat collection (zakat regulations). The Ministry of Finance issues ministerial resolutions concerning aspects of tax and zakat, and the General Authority of Zakat and Tax (GAZT) regularly issues circulars and responses to frequently asked questions containing its interpretation or position on regulations.

The GAZT generally takes a substance-over-form approach in dealing with tax matters as it is generally favourable for them. The GAZT often scrutinises transactions and challenges taxpayers if they view transactions were motivated by non-commercial tax reasons. In some cases, the GAZT takes positions based on its own interpretations of the laws and regulations; for example, the virtual permanent establishment (PE) concept.

TAXATION SYSTEM: Saudi Arabia's direct taxation system includes income tax, withholding tax and zakat. Whether Saudi resident companies are subject to income tax or zakat – or both – generally depends on the nationality of their owners:

- Resident companies that are wholly owned, either directly or indirectly, by Saudi/GCC nationals (residents from Bahrain, Kuwait, Oman, Qatar and the UAE) – with no non-GCC entity in the ownership structure – are subject only to zakat.
- Resident companies that are wholly owned, either directly or indirectly, by non-Saudi/GCC nationals are subject to income tax.
- Resident companies that are jointly owned by mixed companies (companies owned by Saudi/GCC and foreign nationals) are subject to zakat in proportion to the Saudi/GCC ownership and to income tax in proportion to the foreign ownership.

Exceptions to these rules include:

- Resident companies listed on the Saudi Stock Exchange (Tadawul) are generally only subject to zakat;
- Resident companies engaged in natural gas investment, and oil and hydrocarbon production are only subject to income tax; and
- Resident companies are subject to income tax to the extent their shares are owned by persons engaged in oil and hydrocarbons production.

All non-resident entities and companies, regardless of their ownership structure, which conduct business in Saudi Arabia through a PE, or which derive income from sources within the country, are subject to income tax.

Non-residents that provide services in Saudi Arabia without having a PE or branch are subject to withholding tax.

PERSONS SUBJECT TO INCOME TAX: The following persons are subject to income tax:

- Resident companies that are not listed on the Tadawul, to the extent they are owned by non-Saudi/GCC (foreign) nationals;
- Resident companies engaged in natural gas investment and oil and hydrocarbons production;
- Resident companies to the extent their shares are owned by persons engaged in oil and hydrocarbons production;
- All non-resident entities, regardless of their ownership structure, that conduct business in Saudi Arabia through a PE; and
- All non-resident entities that derive taxable income from sources in the country.

For the purposes of determining the ownership of a resident company, indirect ownership is traced up to the second level, for example, the direct investee company and its parent company. The restriction on the tracing of indirect ownership was enacted by Ministerial Resolution No. 1727 on February 10, 2018. However, based on discussions with the GAZT

The ownership structure of a resident company determines whether it is subject to income tax or zakat

and their practices, they may not restrict the tracing of indirect ownership up to the second level. If at any point the shareholding structure exits the GCC, they may take this into account for tax purposes.

TAX RESIDENTS: A natural person is considered a Saudi resident if one of the following conditions is met:

- The person has a permanent place of residence in Saudi Arabia and resides in the country for at least 30 days in a tax year; or
- The person resides in Saudi Arabia for at least 183 days in a tax year without having a permanent place of residence.

A company is considered resident in Saudi Arabia if one of the following conditions is met:

- It is formed in accordance with the Saudi Arabian Companies Regulations; or
- Its central management is located in Saudi Arabia.

INCOME TAX RATES: The general income tax rate is 20%. However, income from oil and hydrocarbons production is subject to tax at rates ranging from 50% to 85% depending on the amount of investment.

Non-residents that provide services in Saudi Arabia without having a PE or branch are subject to withholding tax ranging from 5% to 20% depending on the nature of services.

INCOME SUBJECT TO TAX: Income subject to tax is gross income and includes income, profits, gains of any type and any form of payment arising from carrying out activity. Gross income includes capital gains and incidental income but excludes certain exempt income. The Tax Law provides that income derived from the following types of activities and sources is considered taxable in Saudi Arabia:

- Any activity carried out in Saudi Arabia;
- Immovable property located in Saudi Arabia;
- Disposal of shares in a company, the property of which consists mainly – directly or indirectly – of shares in immovable properties in Saudi Arabia;
- Disposal of shares in a resident company;
- Lease of moveable property used in Saudi Arabia;
- Sale or licence for use of industrial or intellectual property used in Saudi Arabia;
- Dividends, management and directors' fees paid by resident company;
- Any payments made by a resident company to its head office or to an affiliated company in respect of services;
- Amounts paid by a resident for services performed wholly or partly in Saudi Arabia;
- Exploitation of natural resources in Saudi Arabia;
- Income derived through a PE of a non-resident located in Saudi Arabia;
- Interest charge and insurance/reinsurance premium with certain conditions; and
- Income from technical or consultancy services rendered to a resident person in Saudi Arabia or related to an activity carried out in the Kingdom.

EXEMPT INCOME: Tax exempt income includes:

- Capital gains realised from the disposal of securities listed on the Saudi Arabian stock, regardless of whether the disposal was executed through a stock market inside or outside of Saudi Arabia, or through any other means; subject to the conditions set out below:
  * Disposal is performed in accordance with the Capital Market Law in Saudi Arabia; or
  * If the securities disposed of did not exist before July 30, 2014.
- Dividends, in cash or kind, from a resident company, or a non-resident company, are exempt provided the ownership in the investee company is at least 10% for at least one year before the distribution of the dividend.

GROUP RELIEF FOR ASSET TRANSFERS: No gain or loss is calculated on the transfer of assets between wholly owned group companies – directly or indirectly by the same parent company – provided the asset remains within the group for at least two years after the transfer. Where this relief is claimed, the transfer is considered as made at book value for tax purposes. The wording of the law is broad enough to take a position that covers all wholly owned groups and not only groups or entities within Saudi Arabia.

CAPITAL GAINS TAX: A non-resident person with no PE in Saudi Arabia will be subject to capital gains tax (CGT) on capital gains derived from the disposal of fixed and traded assets, or from the disposal of shares in a resident company (unless the sale relates to listed securities that qualify for exemption).

The non-resident seller is required to file the CGT return and pay due tax at the rate of 20%. Any capital gains made by a Saudi resident company is subject to zakat/tax, on the basis of year-end results.

The non-resident seller is required to inform the GAZT of the sale transaction and pay the due tax on the resulting capital gains within 60 days of the sale transaction date. The seller is primarily responsible for paying CGT; however, in case of failure, the seller and purchaser are jointly liable, with the seller to pay any amount that is due to the GAZT as a result of a sale transaction. Delay in settling the required CGT will result in late filing penalties and delay fines.

Capital gains realised by a resident taxpayer is added to the tax base and subject to tax on the overall position for the year.

INTEREST EXPENSE LIMITATION: The Tax Law does not stipulate any minimum debt-equity ratio, and an entity can be formed with the minimum required capital and funded by debt. However, deductions for interest expense incurred during a tax year cannot be the entities' total interest income plus 50% of taxable income before interest income and interest expense. Any disallowed interest as a result of this limitation is a permanent loss. The interest expense limitation is not applicable to banks. Interest paid by a branch to its head office is not considered a deductible expense except in the case of a branch of a bank.

TAX LOSSES: Tax losses can be carried forward indefinitely by a capital company, subject to satisfaction of the loss carry-forward requirements. The amount of carried forward tax losses that can be deducted in a year is limited to 25% of the taxable income for that year.

The following restrictions apply to the deductibility of tax losses:

- Losses from natural gas investment cannot be deducted from the oil and hydrocarbons tax base; and
- Losses from oil and hydrocarbons activities cannot be deducted from the tax base of entities engaged collectively in the production of oil and hydrocarbons, and natural gas investment.

Prior to January 1, 2018 tax losses could only be carried forward by a company if there had not been a change of 50% or more in its underlying ownership or control. After January 1, 2018 amendments provide that a capital company can carry forward tax losses even if there is 50% or more change in its underlying ownership or control, provided it continues to perform the same activities.

Accordingly, an acquisition of shares in a company will not cause the acquired company to lose the potential benefit of carried forward tax losses, provided the acquired company continues to carry on the same business. It has also been clarified that the transfer of assets between companies would not be considered as a change in ownership or control.

ADVANCE TAX: Taxpayers are required to make an advance payment of corporate income tax for the year in three instalments, which are due by the end of the sixth, ninth and 12th month. Each instalment of advance payment of tax is equal to 25% of tax liability of the prior period reduced by any withholding tax deducted at source during the prior period. However, the taxpayer is not required to pay advance tax if the instalment calculated is less than SR500,000 ($133,300).

If a taxpayer foresees that the current year's taxable income will be lower than the previous year by at least 30%, the taxpayer may request the GAZT to proportionately reduce the amount of advance tax due under the second and third instalments proportionally.


Income from oil and hydrocarbons production is subject to tax at rates ranging between 50% and 85%

DELAY FINES & PENALTIES: The GAZT imposes delay fines if there is a delay in submitting the tax declaration and late settlement of income tax beyond the prescribed deadline, as well as penalties where there is a tax evasion.

Failure to file a tax return or payment of due amount in time results in a fine amounting to the greater of:

- 1% of the gross revenue to a maximum penalty of SR20,000 ($5332); or according to the following rates:
- 5% of the underpayment of tax if the delay is for up to 30 days after the due date;
- 10% of the underpayment of tax if the delay is more than 30 and no more than 90 days after the due date;
- 20% of the underpayment of tax if the delay is more than 90 days and no more than 365 days;
- 25% of the underpayment of tax if the delay is more than 365 days after the due date.

In addition to the penalties mentioned above, 1% of underpayment of tax for each 30 days of the delay is added in the following cases:

- Delay in payment of tax payable per the return; or
- Delay in payment of tax payable per the GAZT assessment.

A penalty for tax evasion is imposed at a flat rate of 25% on the additional tax assessed if a taxpayer intentionally conceals facts or information from the GAZT that would have resulted in an increase in the tax liability.

PERSONAL TAXES: Saudi Arabia does not impose personal income taxes on wages and salaries. It should be noted that salaries, wages or any benefits paid to a shareholder, or any of their relatives or a partner, are not deductible expenses for income tax purposes.

WITHHOLDING TAX: Non-residents without a PE in Saudi Arabia are subject to withholding tax on the payments from Saudi Arabian residents and non-residents with a PE in Saudi Arabia that are sourced from the Kingdom (see table).

Saudi Arabian residents and non-residents with a PE in Saudi Arabia are required to deduct the required amount of withholding tax from payments and remit it to the GAZT. Such payers are required to file:

- Monthly withholding tax returns within 10 days of the end of the month in which the payments are made to the non-resident. Failure to settle the withholding tax results in a delay fine equal to 1% percent of the outstanding withholding tax per every 30 day delay in payment; and
- An annual withholding tax return within 120 days of the end of the fiscal year. For proprietorships, the annual withholding tax return should be filed within 60 days of the end of the fiscal year.

For transactions with related parties, the date the transaction is recorded as the date of payment if transactions are settled through account rather than making payments.

The GAZT may request information relating to payments made to non-residents at the time of assessment. Records, such as copies of contracts and other supporting documents in relation to payments subject to withholding tax, should be maintained for a minimum of 10 years after payment. If a payment is still under review by the GAZT, the records relating to the payment should be maintained until the review is finalised or a final decision is issued by the Appeal Committee.

ZAKAT: Zakat is an obligatory payment required from Muslims according to sharia law and forms one of the five pillars of Islam.

In most Muslims countries the payment of zakat has been left to the individual; however, in Saudi Arabia the collection of zakat is governed by regulations. The following persons who are engaged in a business activity are required by regulations to pay zakat to the GAZT:

- Saudi and GCC nationals residing in Saudi Arabia;
- Resident companies to the extent they are owned by Saudi and/or GCC nationals (with no non-GCC entity in the ownership structure);
- Resident companies listed on the Tadawul (except to the extent of non-resident founding shareholders or their successors and shares owned by Saudi government departments and organisations); and
- PEs of non-resident Saudi and GCC nationals if any two of the three conditions laid down in the regulations are met, i.e., the board of directors holds regular meetings in Saudi Arabia; or executive decisions are made in Saudi Arabia; or non-resident PE earns more than 50% of its revenue from Saudi Arabia.

Resident companies are not subject to zakat to the extent they are owned by resident and non-resident persons engaged in the production of oil and hydrocarbons.

For the purposes of determining the ownership of a resident company, indirect ownership is traced up to the second level; for example, the direct investee company and its parent company. The restriction on the tracing of indirect ownership was enacted by Ministerial Resolution No. 1727 on February 10, 2018. However, based on discussion with the GAZT and their practices, they may not restrict the tracing of indirect ownership up to the second level. If at any point the shareholding structure exits the GCC, they may take this into account for tax purposes.

ZAKAT BASE & RATE: On March 14, 2019 the Minister of Finance issued new zakat regulations replacing previous zakat regulations. The new regulations are effective for fiscal years beginning on or after January 1, 2019. Some of the key observations include the following:

- Zakat is imposed on the higher of the zakat base or the zakat adjusted income.
- The zakat base is equal to the sum of equity and loans that are outstanding for more than 354 days, reduced by allowable deductions, which include net fixed assets and certain investments.
- Additions to the zakat base of long-term loans and similar balances have restricted to long-term assets deductible for zakat purposes.
- Limited relief has been granted in relation to real estate and insurance/reinsurance businesses in the form of deductions of long-term projects under development (certain conditions apply) and statutory deposits.
- The lower of accumulated brought forward losses as per audited financial statements or the GAZT's assessment is allowed.
- Zakat on the zakat base is imposed at the rate of 2.5%. However, if zakat is payable on zakat adjusted

Withholding tax

Nature of payment	Rate (%)
Dividends	5%
Loan fees (interest)	5%
Royalties	15%
Rent	5%
Management fees	20%
Airline tickets and air or maritime freight	5%
Insurance and reinsurance premium	5%
Payments for technical or consultancy services or international telecommunication services paid to the head office or to a related party	15%
Payments for technical or consultancy services or international telecommunication services paid to an unrelated party	5%
Other services	15%

profit, the rate is 2.5% if the zakat year is the lunar year (354 days) or 2.6% if the zakat year is the Gregorian calendar year (365 days).

- Appeal procedures have also been updated requiring a zakat payer to pay the zakat liability on the undisputed amounts. In addition, for an appeal to be accepted, a zakat payer is required to pay a minimum of 10% to maximum of 25% of the assessed zakat liability or provide bank guarantee equal to 50% of assessed zakat liability.
- An adjustment to the value of transaction between related parties would be made if the transaction is not at arm's length.

In early March 2020 the GAZT published a draft zakat law for consultation purposes. Public consultation was invited until March 31. The key change envisaged in the law is the imposition of financial penalties for late registration, late filing and payment of zakat. If the draft regulations are approved and issued in 2020, a levy of financial penalties will be effective from January 1, 2021.

ZAKAT & TAX RETURN FILING: Zakat and taxpayers are required to file an annual zakat/tax return in Arabic within 120 days of the end of the financial year of the company. In the case of a foreign shareholding, a tax return is also required to be certified by Saudi-certified public accountant. Under the current Tax Law, extensions are not granted – with the exception on an exception for Covid-19.

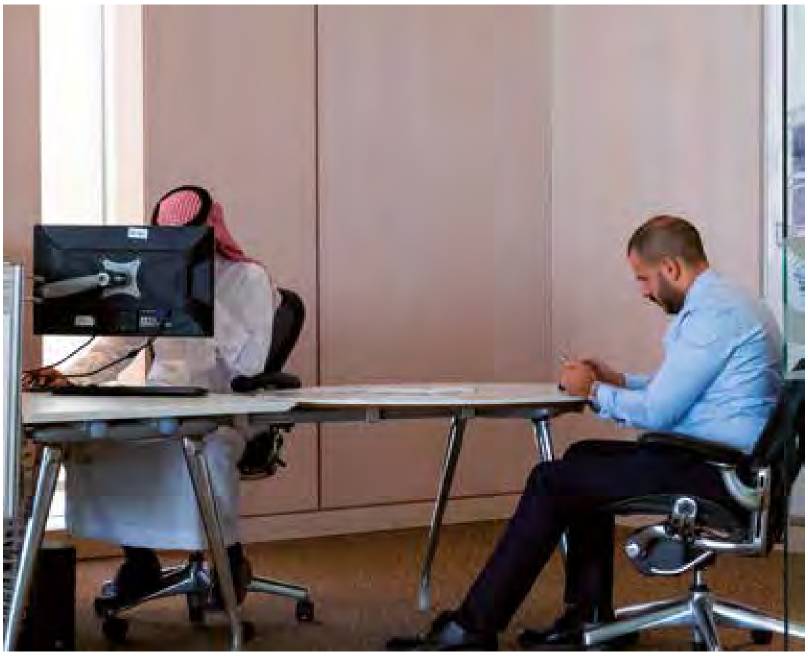
A zakat/tax return is required to be supported by audited financial statements, the social insurance payment certificate, break-up of purchases made during the period, annual withholding tax and other detailed account of affairs.

The GAZT implemented the online electronic filing system (ERAD) in 2016. As per the ERAD system, it is mandatory for all zakat and taxpayers, including mixed companies and fully owned foreign companies to submit their zakat/tax returns electronically. The online filing system requires all types of zakat/taxpayers to submit their annual corporate tax returns, zakat returns, withholding tax returns and other statutory declarations through ERAD.

RETURN FORMS: Recently, the GAZT updated the zakat/tax form to reduce the disclosure requirements applicable to the taxpayers, e.g., removal of vendor-wise disclosure of property rentals required in the previous form, which is now replaced by a requirement to disclose the total amount of rental expense only.

Additionally, transfer pricing by-laws have been introduced in Saudi Arabia effective for tax periods ended December 31, 2018 and onwards. These by-laws require a Disclosure Form for Controlled Transaction (DFCT) to be submitted along with the annual tax return.

The DFCT has been incorporated in the GAZT portal as part of the tax return. The form requires a taxpayer to disclose, among other things, the details of controlled transactions entered into by a taxpayer during the year and the transfer pricing method adopted by taxpayers to determine the value of such transactions.



The zakat/tax return form has been updated to reduce the disclosure requirements applicable to the taxpayers

ASSESSMENT & STATUTE OF LIMITATION: A final assessment is raised by the GAZT after a full and thorough review of the declaration submitted to the GAZT. This review may result in further details being requested by the GAZT before raising an assessment.

The Tax Law, however, provides that a declaration will be considered as finalised/accepted as filed by the taxpayer in the event that five years have lapsed from the date of filing the declaration, without the GAZT requesting any additional information or raising an assessment.

The Tax Law empowers the GAZT to:

- Raise an additional tax assessment within five years of the statutory filing deadline to rectify errors in the application of regulations;
- Raise an additional tax assessment within 10 years of the statutory filing deadline correcting material errors in the declaration or the assessment; and
- Raise an additional assessment at any time with the taxpayer's consent.

RESOLUTION COMMITTEES: Article 66 and 67 of the Income Tax Law provide for the constitution, jurisdiction and functions of appeal committees. In July 2017 Royal Decree No. M/113 was issued to amend Article 67 regarding such appeal committees. As per the amendment, zakat/taxpayers will not have the option to file an appeal before the Board of Grievances (BoG). Recently, rules for dispute resolution committees have been issued, which have classified the appeal procedures to be followed by the taxpayers.

For the cases already filed before BoG, if BoG has issued the judgement that it does not have jurisdiction over the case after the changes in Article 66 and 67, the taxpayer may file an appeal before the General Secretariat of Tax Committees (GSTC) within 60 days from the date of BoG's decisions.

Taxpayers are required to make an advance payment of corporate income tax for the year in three instalments

However, if a BoG decision was issued before the issuance of these rules, the taxpayer may file an appeal before GSTC within 60 days of the effective date of these rules for tax disputes and violation resolution committees.

These rules also clarified that, according to the new appeal procedures, a taxpayer will have a right to file an appeal before the GAZT within 60 days of an assessment raised by the GAZT. The taxpayer will have the right to file an appeal with the Tax Violation and Dispute Resolution Committee (TVDRC) within 30 days in the event of the GAZT's rejection of appeal or lapse of 90 days with no response from the GAZT, whichever comes first. In addition to this, the zakat/taxpayer may opt to approach the settlement committee for settling disputes with the GAZT.

In the event of an unfavourable outcome from the settlement committee, the TVDRC's unfavourable decision, or a lapse of 60 days (which may be extended to maximum of 60 days) with no response from the TVDRC, a taxpayer will have a right to file an appeal within 30 days with the Appellate Committee of Tax Violation and Dispute Resolution (ACTVDR).

In the case of an unfavourable decision from the ACTVDR, the taxpayer will have a right to file a review appeal before ACTVDR within 30 days of the decision.

PERMANENT ESTABLISHMENTS: A PE is defined as a permanent place of the non-resident's activity through which it carries out business, in full or in part, including business carried out through an agent.

The following are considered PEs:

- Construction sites, assembly facilities, and the exercise of supervisory activities connected therewith;
- Installations, sites used for surveying natural resources, drilling equipment, ships used for surveying for natural resources as well as the exercise of supervisory activities connected therewith;
- A fixed base where a non-resident natural person carries out business;
- A branch of a non-resident company licensed to carry out business in the Kingdom.

A dependent agent mentioned above is defined in the by-laws as someone who has any of the following powers:

- To negotiate on behalf of the non-resident;
- To conclude contracts on behalf of the non-resident;
- Maintains stock of goods owned by the non-resident on hand in Saudi Arabia to supply customers on behalf of the non-resident;
- An insurance/reinsurance agent (with or without powers to negotiate); or
- A place from which a non-resident carries out insurance and/or reinsurance activity in the Kingdom through an agent is considered a PE of the non-resident even though the agent is not authorised to negotiate and conclude contracts on behalf of the non-resident.

A place is not considered a PE of a non-resident in Saudi Arabia if used in the Kingdom only for following:

- Storing, displaying or delivering goods or products belonging to the non-resident;
- Keeping a stock of goods or products belonging to the non-resident for the purpose of processing by another person;
- Purchasing goods or products for the sole purpose of collection of information for the non-resident;
- Carrying out other activities of preparatory or auxiliary nature for the interests of the non-resident.

The Tax Law and the by-laws do not provide any period or threshold of onshore presence that would result in activities of non-resident entity to qualify as a PE in Saudi Arabia.

However, the GAZT has recently begun applying the concept of virtual PEs where offshore services are provided even without physical presence of a non-resident in Saudi Arabia.

FORCE OF ATTRACTION: The force of attraction rule envisages that when an enterprise is said to have a PE in another country, it exposes itself to taxation of income that it earns from carrying on activities in that other country, whether or not through that PE. The reason for this contention is that the Tax Law states that income is from a source in the Kingdom if it is attributable to a PE of a non-resident located in the Kingdom, including income attributable to sales in the Kingdom of goods of the same or similar kind as those sold through such a PE, and income arising from the rendering of services or the performance of other activity in the Kingdom of the same or similar nature as activity performed via such a PE.

TAX TREATIES: Saudi Arabia has double tax treaties in force with Algeria, Austria, Azerbaijan, Bangladesh, Belarus, China, the Czech Republic, Egypt, Ethiopia, France, Greece, Hong Kong, Hungary, India, Ireland, Italy, Japan, Jordan, Kazakhstan, Kyrgyzstan, Luxembourg, Macedonia, Malaysia, Malta, Mexico, the Netherlands, Pakistan, Poland, Portugal, Romania, Russia, Singapore, South Africa, South Korea, Spain, Syria, Sweden, Tajikistan, Tunisia, Turkey, Turkmenistan, the UAE, Ukraine, the UK, Uzbekistan, Vietnam and Venezuela. Other treaties have also been concluded with Morocco and Switzerland, but await ratification. The expansion of Saudi Arabia's tax treaty network (especially over the past years) is indicative of the Kingdom's desire to increase bilateral trade with its major trading partners.

MULTILATERAL INSTRUMENT: The OECD has taken up an initiative to prevent base erosion and profit sharing, i.e., international tax planning with the intention of shifting profits to low-tax or no-tax jurisdictions. Saudi Arabia has recently signed this convention, becoming the 84th country to be part of the convention to counter tax evasion.

WITHHOLDING TAX REFUND/UPFRONT CLAIM: After the accession to the World Trade Organisation, the Saudi tax treaty network grew rapidly. In order to curb any misuse of treaty benefits for withholding taxes purposes, the GAZT issues its Circular No. 3228/19, dated 23-Rabi al-thani 1431H (corresponding to May 23, 2010), which provided for the payment of withholding tax at the rates prescribed in Saudi tax regulations first and claiming the refund of overpaid taxes based on the provisions of tax treaties later.

However, the GAZT subsequently issued Circular No. 5068/16/1434, dated 30-Rajab 1434H (corresponding to June 9, 2013), advising certain amendments in the procedure of claiming tax treaties' benefits as provided in the previous GAZT's Circular No. 3228/19.

Based on the GAZT's circular later, the Saudi Arabian entity making taxable payment to a non-resident service provider can apply the provisions of effective tax treaties (i.e., not settle withholding tax on payment to non-resident parties from a treaty country or apply a reduced rate) if it complies with the following requirements:

- Reporting of all payments to non-resident parties (including those payments which are either not subject to withholding tax or subject to withholding tax at a lower rate as per the provisions of effective tax treaties) in the monthly withholding tax returns (on a prescribed format);
- Submission of a tax residency certificate issued by the tax authorities in the country where the beneficiary is residing. Such a tax residency certificate should confirm that the beneficiary is resident in that country in accordance with the provisions of Article 4 of the treaty and the amount paid is subject to tax in that country. Such forms should be on the prescribed format (Form Q7/B). The document should be attested by the Saudi embassy in the country of non-resident and the Ministry of Foreign Affairs in Saudi Arabia; and
- Submission of an undertaking from the Saudi entity that it would bear and pay any tax or fine due on non-resident payees due to incorrectness of submitted information or a computation error or misinterpretation of the provisions of tax treaty (Form Q7/C), attested by the Chamber of Commerce.

Since January 2018 value-added tax has been at a single rate of 5% on the majority of goods and services

The above-mentioned Circular No. 5068/16/1434 also specified that the Saudi Arabian entities that cannot comply with the above-mentioned requirements may follow the procedure provided in the previous circular, i.e., Circular No. 3228/19.

Saudi tax laws provide that a taxpayer is entitled to a refund of any overpayment made under the provisions of the Tax Law within five years of the year for which the overpayment was made.

CONTRACT REPORTING: Under the Income Tax Law, all persons (natural or legal) and government agencies are required to provide the GAZT with information pertaining to contracts with a value exceeding SR100,000 ($26,660) that they entered into with the private sector.

A zakat/taxpayer is required to report all the contracts it concludes with the private sector of a value of SR100,000 ($26,660) or more within three months of the signing of the contract. The GAZT also reserves the right to obtain data on any other contracts of less than SR100,000 ($26,660) as well or any other information relevant to tax.

Based on the amendments to the Tax Law dated September 20, 2017, the GAZT's right to receive information now extends to the provisions of international agreements.

VALUE-ADDED TAX: Since January 2018 value-added tax (VAT) has been at a single rate of 5% on the majority of goods and services. The GAZT continues to develop its capacity to administer taxes, which is crucial to ensure the key principles of taxation are adhered to and in supporting the Vision 2030 goal of economic diversification. VAT raised over SR49bn ($13.1bn) in 2018. The Kingdom now boasts 240,727 VAT taxpayers and VAT compliance reaching 90%, exceeding the GAZT's expectations of 60-70%.

The introduction of VAT followed the implementation of excise tax in June 2017, since expanded to several new categories of goods, was followed by the introduction of transfer pricing and new zakat regulations in early 2019. The Kingdom is rapidly moving towards a fully taxed economy.

The VAT system in the Kingdom is based on the GCC Agreement, Saudi VAT Law and the Saudi Implementing Regulations. These documents outline the legal basis for determining, inter alia, the nature, location, timing and value of supplies.

Certain supplies of goods and services are zero rated or exempted from VAT to provide some relief to consumers. Examples include: the leasing of residential real estate, qualifying medicines and medical goods, export of services, qualifying financial services, educational services to Saudi nationals, etc.

Mostly, the compliance requirements for VAT taxpayers have been kept relatively straightforward, with the obligation to file monthly returns, or quarterly if the turnover is below SR40m ($10.7m), by end of the following month of the tax period. The VAT return contains summary-level numbers of turnover and VAT on output and input transactions.

That said, taxpayers that operate in complex industries – for example, retail and corporate banking, asset management, insurance and telecommunications – can find the reporting requirements extremely challenging.

To address this concern, the GAZT has published a number of guides on topics such as Islamic finance, financial services, investment funds, real estate investment and financing, professional services, health care, the digital economy, economic activity and real estate. Private rulings have also been issued to the taxpayers that have applied for clarifications.

Since 2019 the GAZT has been very active in terms of conducting audits, issuing assessments for contraventions and questioning the approach adopted by taxpayers in terms of specific transactions. This has led to an increased number of disputes with the GAZT. Taking into consideration that the tax courts have yet to hear any VAT cases, taxpayers still face some uncertainty, even if they are confident in their tax position.

February 2020 marked the beginning of a VAT compliance cycle for the year. To ensure accurate compliance in the new year, taxpayers must consider the legislative provisions that took effect in 2019, such as amendments to Article 33 of the VAT regulations, whereby the conditions for the zero-rating of exported services appear to have been relaxed in some respects. In particular, the restriction in zero rating requires the recipient to receive a direct benefit from the supply.

In light of these changes, it is important that taxpayers revisit their approach to the VAT treatment of major business transactions.

CUSTOMS: Since 2005 the World Customs Organisation has adopted the SAFE Framework of Standards to Secure and Facilitate Global Trade to act as a deterrent to international terrorism, secure revenue and promote trade facilitation worldwide. One of the main features of this framework is the Authorised Economic Operator (AEO) programme, where Customs authorities can accredit businesses that have a high-quality internal process to prevent tempering goods in international transport.

As Saudi trade is growing rapidly along with the rest of world, it has developed its own AEO programme to facilitate stakeholders involved in the import and export of goods. The Saudi AEO programme lists certain requirements for a business to be part of AEO such as the existence of a robust electronic record keeping system, financial solvency, and effective policies and procedures related to safety of goods and staff training.

A business recognised as AEO would have a number of advantages over non-recognised businesses, including a dedicated fast line for Customs clearance, priority over non-AEO shippers in the processing of Customs-related requests, a reduced ratio of the physical inspection of imported goods, the right to use an AEO logo and a dedicated Saudi Customs account manager. This list of requirements and advantages in not exhaustive.

Further to the government's vision to transform Saudi Arabia into an international logistics centre, Saudi Customs is implementing an audit after the clearance initiative programme. The aim of this programme is to ensure that importers comply with Customs regulatory requirements. Such a Customs audit would focus on a wide range of issues, including examining the transaction value, bank statements, sales contracts, inventory papers, financial statements, non-financial records, payment terms, goods classification and Customs duty payments.

Saudi Customs recently introduced a self-correction programme enabling importers to declare and pay Customs duties on any historic non-compliance with Customs legislation. When applying for self-correction within the specified conditions and timing, the taxpayer would pay only the outstanding Customs duties and taxes and would not be subject to any additional penalties. The initiative is effective from January 1, 2020 until June 30, 2020.

EXCISE: The GAZT introduced the excise tax regime in June 2017. The excise duty rate is 50% on soft drinks, and 100% on energy drinks and tobacco products.

The excise tax was further amended in mid-May 2019, when the applicability of the tax was expanded to include additional products. According to the changes, sweetened beverages are subject to a 50% excise levy, and e-cigarettes and their associated liquids are taxed at a rate of 100%. The effective date for application of the amendments was May 15, 2019 for e-cigarettes and December 1, 2019 for sweetened beverages.

A sweetened beverage has been defined as any product infused with a source of sugar or other sweeteners, produced for the purpose of drinking as a beverage — whether ready for drinking, or as a concentrate, powder, gel extract or any form that can be converted into a drink.

SPECIAL ZONES: Saudi Arabia has announced the establishment of new special integrated logistics zones. The first such zone will be situated at King Khalid International Airport in Riyadh. Other similar zones would be established after approval by the Council of Economic and Development Affairs. The zones intend to provide preferential tax treatment for the specified activities to be carried out in the zones.

Key features of the preferential tax treatment include:

- Non-residents conducting activities directly related to specified goods inside the zone shall not be treated as having a PE in the Kingdom;
- Goods situated inside the zone will be under Customs suspension – therefore Customs duties and VAT should not apply while goods remain in the zone;
- VAT will not be charged on supplies of goods in the zone; and
- Temporary transfer of goods between mainland and the zone for the purposes of repair and maintenance shall not be subject to VAT.

Specified activities that would enjoy preferential tax treatment include:

- Repair maintenance, processing, etc. of goods;
- Sorting, repackaging and similar actions in relation to goods, including simple manufacturing processes;
- Imports, exports and re-exports;
- Logistics and after-sales services; and
- Certain recycling activities.

SOCIAL INSURANCE: Social insurance contribution is collected by the General Organisation for Social Insurance (GOSI). The social insurance is levied on salaries at the following rates (see table): the minimum and maximum amounts used to calculate GOSI are SR1250 ($333) and SR45000 ($12,000).

WAGE PROTECTION SYSTEM : The Ministry of Labour (MoL) has implemented a wage protection system (WPS) in Saudi Arabia. Under the WPS entities are required to disburse salaries to their employees using a standard wages or electronic payroll file provided by the MoL. Each entity is required to submit a completed wages or electronic payroll file to its bank in Saudi Arabia for the disbursement of salaries to its employees. A copy of the electronic file provided to banks in Saudi Arabia is also required to be filed with the MoL.

FINANCIAL STATEMENTS: Effective 2018 all businesses are required to prepare annual financial statements under the International Financial Reporting Standards (IFRS) as adopted by the Saudi Organisation for Certified Public Accountants (SOCPA). Saudi banks and insurance companies have been already preparing their financial statements under IFRS.

All zakat/taxpayers are required to locally maintain commercial books and accounting records in Arabic

ARABIC RECORDS: According to the Tax Law and by-laws, all zakat/taxpayers are required to maintain necessary commercial books and accounting records locally inside Saudi Arabia in Arabic to support their tax declarations.

The GAZT emphasises the need to keep necessary books of accounts in Arabic inside Saudi Arabia by all companies, branches of foreign companies and individuals, with the exception of filers under a deemed profit method. The GAZT may not accept any return from any company, branch or individual that does not keep books of accounts in Arabic.

Furthermore, the GAZT is reluctant to receive any responses to their queries if the response includes extracts from the ledger or journal vouchers in a language other than Arabic.

The Ministry of Commerce and Investment issued a circular to the SOCPA to re-emphasise that auditors should comply with the requirement of issuing a limited review report certifying that an audit client is maintaining books and records in Arabic.

TRANSFER PRICING: In December 2018 the GAZT issued the draft Transfer Pricing (TP) By-laws. In mid-February 2019, the GAZT formally released the final version of the by-laws. On its website the GAZT has also posted various frequently asked questions and their respective answers. Early March 2019 the TP guidelines through the GAZT. The TP guidelines have a wider approach and represent the GAZT's view on how it wants to apply the TP By-laws in the Kingdom. In December 2019 the GAZT launched its portal for country-by-country reporting (CbCR). This short overview highlights how active the GAZT has become in the field of TP.

EFFECTIVE DATE: In the final version of the TP By-laws, there is no specific mention of any reporting in respect of the year ended December 31, 2018, which was still the case in the draft version. However, the GAZT addresses this question as part of their frequently asked questions. TP documentation requirements are applicable to the reporting year which ended on December 31, 2018 and all subsequent reporting years. The answer further clarifies that the GAZT also retain a right to seek documentation in respect of transactions undertaken during the years prior to 2018. However, in all cases, the taxpayers would be allowed at least 30 days for submitting the requisite information and documentation.

PERSONS SUBJECT TO TP REGULATIONS: The TP By-laws are applicable on all taxable persons, as defined in the Tax Law. This includes entities that are jointly owned by GCC and foreign (non-GCC) shareholders (mixed entities).

Companies that are owned 100% by GCC nationals, and are subject only to zakat, are not subject to TP documentation requirements relating to master file, local file and DFCT. Such entities are subject to requirements relating to the filing of the CbCR, provided they meet the threshold requirement for global gross revenues being in excess of SR3.2bn ($853.1m).

TRANSACTIONS SUBJECT TO TP REGULATIONS: From a Saudi perspective, all controlled transactions should be documented. A controlled transaction is any transaction between related parties or parties under common control. Individuals are considered related parties if they are relatives (up to the fourth degree) or partners in a partnership.

To determine if an individual is related to a juridical person, the GAZT uses the concept of control. If the individual is able to control the juridical person, they should be considered as related.

Two juridical persons are related for Saudi TP purposes if one person has effective control over the other, or a third person has effective control over both juridical persons. The GAZT provides a long list of examples of how effective control could be established between persons. Ultimately, the GAZT concludes that effective control can be established by governance, funding or business.

This approach is extremely wide and is not fully aligned with the OECD guidelines. Under the GAZT approach, any exclusivity agreement will lead to the conclusion of a related party scenario and potential TP documentation requirements. Another important aspect is the fact that the Kingdom's TP regulations also include domestic transactions.

TP METHODS: In Article 7 of the TP By-laws, the GAZT lists the approved methods, which are identical with the five OECD TP methods. The GAZT highlights the fact that there is no hierarchy that the taxpayer should follow when applying a TP method.

Taxpayers may even use a non-approved method, if he can demonstrate that the non-approved method delivers better results than the traditional TP methods.

DOCUMENTATION REQUIREMENTS: As mentioned earlier, documentation requirements vary according to tax status. While taxpayers or mixed companies are subject to documentation obligations as defined by the new OECD approach, zakat payers are subject to CbCR obligations only.

DFCT:

- The DFCT is required to be filed along with tax returns for the year that ended December 31 2018. This is on the basis that the filing requirement – a procedural matter – arises after the issuance of the TP By-laws. The GAZT retains the right to seek additional information in support of a tax return.

Within the DFCT the following detailed information needs to be submitted:

- Details of all controlled transactions undertaken for or without monetary consideration, such as barter arrangements; and
- A list of all shareholders. For listed entities, information of all shareholders, directly owning more than 5% shares would need to be disclosed.
- Where there has been an internal reallocation of functions, assets and risks within a group, the same needs to be reported as part of the DFCT for the reporting year relevant to the change.

The DFCT shall form part of an annual tax declaration and be submitted electronically by every person engaged in controlled transactions, irrespective of their value. Along with the DFCT, taxpayers would also be required to produce an auditor's certificate confirming that the TP policy of a multinational enterprise (MNE) has been consistently applied by and in relation to the taxpayer.

TP DOCUMENTATION: The GAZT has adopted the new OECD three-tier approach for preparing TP documentation. Taxpayers need to prepare: (i) a master file, (ii) a local file and (iii) a CbCR, if applicable to them.

The master file should contain information on the global business operations and TP policies of the MNE group to which the taxable person belongs. With respect to any intangibles, the master file should provide the identity of legal and de facto owners of intangibles.

The local file should contain detailed information on all controlled transactions of the taxable person and should also contain information with respect to any business restructurings – transfers of risks, functions, tangible or intangible assets impacting directly or indirectly the taxpayer in Saudi Arabia – in the current year or in the preceding year.

The requirement to maintain a master file and local file is not necessary for the following:

- Natural persons;

Social insurance

Category of employee	Pension		Unemployment		Occupational hazards	Total
	Employee	Employer	Employee	Employer		
Saudi national	9%	9%	1%	1%	2%	22%
Non-Saudi national	-	-	-	-	2%	2%

- Small-sized enterprises, which are entities with an arm's-length value of controlled transactions not exceeding SR6m ($1.6m) in a 12-month period.

COUNTRY-BY-COUNTRY REPORTING: The CbCR and the notification need to be submitted by members of an MNE group with consolidated group revenue exceeding SR3.2bn ($853.1m) as per consolidated financial statements of the MNE group. While the notification remains part of the annual tax return, the CbCR needs to be uploaded onto the GAZT's CbCR portal.

The CbCR portal went live in December 2019 and requires a separate one time registration. The XML schema required by the GAZT is equivalent to the OECD v1.0.1 schema. An update to the most recent version is expected soon.

The Kingdom has signed the Multilateral Competent Authority Agreement (MCAA) and has activated exchange agreements with 49 countries. This number will soon increase, as the GAZT is in discussion with multiple countries to increase its CbCR exchange network.

Where CbCR is being filed in another country that has signed the MCAA and the Qualifying Competent Authority Agreements, the filing of the notification to the GAZT should suffice. However, if the foreign country systematically fails to provide a copy of CbCR to the GAZT, then the local constituent entity is required to provide a copy of the CbCR submitted in the foreign jurisdiction.

DEADLINES: The DFCT needs to be filed together with the annual tax declaration no later than 120 days after the end of the financial year.

The GAZT may seek a taxpayer to provide a copy of their master file or local file or any part thereof at any time by issuing a notice of no less than 30 days. As mentioned above, only with respect to the financial year that ended 2018, taxpayers were given an additional extension of 60 days for providing master file or local file or any part thereof.

For controlled transactions undertaken during the years prior to 2018, the GAZT may also require any information or documentation.

CbCR needs to be filled 12 months after the financial year end of the reporting entity.

FOREIGN ACCOUNT TAX COMPLIANCE ACT: In line with its efforts to improve international tax compliance and transparency, the Kingdom has signed several exchange of tax information agreements. The Foreign Account Tax Compliance Act Intergovernmental Agreement Model 1 (IGA) with the US to exchange information on US accounts and the OECD's Multilateral Convention on Mutual Administrative Assistance in Tax Matters (Multilateral Convention) covers various means of exchanges including the Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA).

Under the Model 1 IGA, Saudi Arabia would annually exchange information on financial accounts held by US-specified persons and maintained by Saudi financial institutions. This agreement is non-reciprocal, i.e., the US will not exchange similar information with the Kingdom.

Entities are required to disburse salaries to their employees using a standard wages or electronic payroll file

Contrary to the signed IGA, under the CRS MCAA, the Kingdom has concluded a wide range of reciprocal exchange agreements. For the 2019 tax year, 67 countries will receive information from Saudi Arabia on financial account holders who are tax residents in those countries and have bank accounts maintained by Saudi financial institutions, while 94 countries will send the same information to Saudi Arabia on Saudi tax residents that have financial accounts outside the Kingdom. Some countries made the decision not to receive information. Under the CRS, tax residency – not nationality – matters, as a person, individual or entity can have more than one tax residency.

INFORMATION TO BE REPORTED: For individual Saudi tax residents, the Kingdom will receive the name, address, tax identification numbers (TIN), date and place of birth, account number and name of the financial institutions where the account is held and the balance or value of the accounts.

For entity Saudi tax residents, the Kingdom will receive the name, address, TIN, account number, name of the financial institutions where the account is held and the balance or value of the accounts. In the event that this entity is a passive entity and controlled by a reportable person, the Kingdom will receive in addition to the above-mentioned entity details, the name, TIN, and date and place of birth for each controlling person. A controlling person is determined as per the local anti-money laundering rules. In all the above cases, income such as gross interest, gross dividends or other income, gross proceeds and full or partial surrenders paid to the corresponding accounts will be exchanged.

OBG would like to thank *KPMG* for its contribution to THE REPORT Saudi Arabia 2020

Wadih AbouNasr, Head of Tax, KPMG KSA Levant Cluster

Collective good

Wadih AbouNasr, Head of Tax, KPMG KSA Levant Cluster, on making the right choices for enhancing tax reforms

Direct and indirect taxation have been used to increase non-oil revenues and provide services for citizens. Whether it is corporate, individual income, sales, excise or value-added tax (VAT) or custom duties, the main objective is typically to increase revenue and, in some instances, change the behaviour of citizens. Excise taxes on tobacco and sugary drinks are meant to reduce the consumption of unhealthy products, and as a result, improve quality of life and lower health care costs.

In recent years many developed countries shifted from direct to indirect taxes as they were considered to be more fair and straightforward. Major economies such as the US and the UK have lowered their corporate tax rates, while maintaining a high levels of individual taxes and increasing VAT. Reducing corporate tax rates is believed to stimulate the economy by creating more jobs and create an attractive investment climate.

Meanwhile, GCC nationals and residents operate in a tax-free environment in terms of income taxes, and only corporations were subject to taxation, whether in the form of corporate taxes, *zakat* – an obligatory payment originating from the rules of Islam – or a combination of the two. From a conceptual perspective, the amount of zakat paid by Muslims is based on their wealth, while corporate tax is based on business activity.

With the current push to diversify the economy as envisioned under Vision 2030, it is imperative to focus on taxation. In 2017 the GCC Framework Agreement on VAT let to the introduction of VAT and excise taxes in Saudi Arabia and the UAE in 2018, followed by Bahrain shortly after. The Kingdom has undergone several additional reforms and introduced measures in-line with international best practices. In 2019 Saudi Arabia was one of the 10 most-improved countries in the World Bank's 2020 ease of doing business index, ranking 62nd out of 190 countries. Additionally, the country ranked 57th in terms of the ease of paying taxes. As part of its membership in the G20, Saudi Arabia has committed to implementing a tax system that stimulates the economy, pushes for higher growth rates, fights tax evasion and promotes transparency. The system also resists protectionism, encourages trade and removes fossil fuel subsidies, among other measures.

Currently, Saudi Arabia applies a two-tiered system dependent on whether the firm is GCC or non-GCC owned. Companies owned by GCC nationals are subject to zakat, with the rate based on the working capital and level of ownership. Non-GCC owners are subject to corporate tax based on their share of profits.

Saudi Arabia has long debated whether the zakat system currently in force – applicable to all companies with ownership based in the GCC – should be withdrawn or modified, and the corporate tax be universally applied instead. This is because there are several challenges related to the zakat system. It can cause discrimination and unfair competition, as the return on investment for shareholders is different if the tax burden varies. The zakat levy may be discriminatory in its structure, as it taxes highly capitalised entities more than lower-capitalised ones. It leaves open potential for tax evasion due to fronting arrangements between foreign shareholders and GCC owners, as well as causes increased compliance costs for mixed entities due to its complex filing system. Lastly, there is complexity in collection due to the need for more inspectors for different types of taxes. Zakat has, however, helped smaller businesses, as it yields a much more manageable tax burden on local small investors.

The current zakat law has not taken into consideration changes in the business environment. The recent changes to the zakat regulations for financial institutions are a clear indication that the current system will not help the Kingdom achieve its desired objectives. The government may consider moving away from this two-tiered system, but several amendments to the corporate tax system will need to be made to protect small-scale investors, deal with transitional rules, encourage investment and stimulate economic growth.

Legal Framework

Improved legislation outlines bankruptcy proceedings
Regulations mandate good corporate governance
Competition Law guards against exclusionary actions
Shareholders’ rights and arbitration central to reform





The rights of shareholders are a primary theme of recent legal updates

Higher standards

Legislative and regulatory changes enshrine good corporate governance and international principles

Saudi Arabia's Capital Market Authority (CMA) approved updated corporate governance regulations (CGRs) for joint-stock companies listed on the Saudi Stock Exchange (Tadawul) in February 2017, and amended them in May 2019. The new CGRs reflect efforts to enhance the competitiveness of the Saudi exchange to investors. The regulations set standards for best corporate practices by promoting accountability, clarity and transparency for management, board members, shareholders and stakeholders.

SHAREHOLDER RIGHTS: One of the central objectives of the CGRs is protection of shareholders' rights. This is manifested in an extensive list of legal rights of shareholders, such as:

- Shareholders must be treated equitably and fairly. Discrimination among shareholders is not permitted.
- Shareholders have the right to access information and inspect company books and records.
- Shareholders have the right to receive their respective, fair portion of company assets upon liquidation.
- Shareholders are entitled to seek judicial enforcement of their rights and to seek redress for breaches of the board's fiduciary duties.

GOVERNANCE & BOARD OF DIRECTORS: The main focus of the CGRs is to regulate the board of directors. The CGRs set out their duties and responsibilities, as well as the criteria for and composition of boards of directors. The regulations set out specific rules and procedures for convening board meetings, setting the meetings' agendas, documenting the minutes of each meeting and the disclosure of conflicts. Important provisions in this regard include:

- **Composition, nomination and dismissal of the board of directors:** The CGRs stipulate that a board of directors must be composed of at least three members and no more than 11 members elected by the shareholders, as required under the Companies Regulations. The CGRs limit the term for each board member to three years. A director may serve longer if the company's by-laws allow for re-election. Directors must also be professionally capable and have the requisite credentials and qualifications to serve as board members. Listed companies are required to provide the CMA with the names and resumes of newly elected board members within five business days of their election. The CGRs grant shareholders the authority to dismiss directors at any time prior to the expiration of the director's term, even if the by-laws of the company provide otherwise.
- **Duties of loyalty:** Directors must abide by the principles of honesty, integrity and loyalty in carrying out their responsibilities. This entails adhering to applicable laws and regulations, disclosing conflicts, and having an honest and professional relationship with the company by disclosing any material information that may compromise the director's judgment.
- **Governance and ongoing obligations:** The CGRs require the board of a listed company to publish and make available to shareholders a report on company performance on an annual basis. The report should include details on the board's compliance with laws and regulations, and its adherence to its own duties and responsibilities.
- **Committees**: Listed joint-stock companies are required to have certain committees. Under the CGRs, the Ordinary General Assembly forms an Audit Committee, which is responsible for monitoring the company's activities and ensuring the effectiveness of the reporting and internal control systems of the company. The board of directors is also required to form a remuneration committee, responsible for setting policies governing the remuneration of directors, committee members and the management team; a nomination

Saudi Arabia's Competition Law and its implementing regulations came into effect on September 25, 2019

committee, responsible for setting policies that govern the nomination of directors and management, and reviewing the composition of the these bodies to ensure compliance with required standards; and a risk-management committee, which reviews and oversees the risks and provides recommendations to maintain an acceptable level of risk and continuation of the business.

- **Conflicts of interest and related-party transactions:** The board of directors is required to put into place a mechanism for dealing with situations that give rise to conflicts of interest. This process must ensure that board members and senior officers avoid transactions where they are conflicted or that compete with the company. The measures include disclosing interests and abstaining from voting on such matters. The CGRs also prohibit directors and senior officers from receiving gifts from anyone who does business with the company.

PROTECTION OF SHAREHOLDERS: There has also been a push towards better protection of the shareholders of non-listed companies and listed companies alike through amendments to the Companies Regulations. The Companies Regulations apply to all types of firms, except companies formed by royal decree that explicitly state that the said regulations do not apply. The amendments primarily served to increase shareholders' participation and protection, while making it easier for companies to do business.

The most notable aspects of the recent amendments to the Companies Regulations include:

a. **Article 71,** which deals with transactions in which a board member has direct or indirect interest. It has been amended to strengthen corporate governance and increase transparency, while improving the ease of doing business. As originally enacted, Article 71 required interested transactions to have prior approval from the General Assembly, and such approval needed to be renewed every year. The amendment removed these two requirements, meaning that the General Assembly's approval of interested transactions can be obtained after the fact and need not be renewed annually. However, board members will be held liable for damages resulting from transactions that do not comply with the approval requirement, are not fair, or conflict with or damage the interests of the shareholders. The amendment thus maintains a robust enforcement mechanism to ensure good corporate governance while increasing the level of flexibility afforded to the board in managing the affairs of the company.

b. **Shareholders' rights:** The amendments afford shareholders more protection.
   - The amendments allow shareholders to claim the costs incurred that relate directly to a derivative claim from the company, provided that the claim is made in good faith and is in the best interests of the company. This change ensures that shareholders are not left with out-of-pocket costs due to claims brought in favour of the company, and that therefore may contribute to promoting derivative claims and enforcing the rights of companies.
   - The notice period required for holding annual general assemblies for a joint-stock company was increased from 10 to 21 days. Similarly, the deadline for submitting an internal auditor's report and signed financial statements to the company's head office has been extended from 10 to 21 days. These changes help ensure that shareholders are given sufficient time to review documents prior to convening in a general assembly and play a proactive role in the governance and decision-making of the company.
   - Shareholders holding 10% or more of the shares of a limited liability company are entitled to request a General Assembly meeting. This change from the previous 50% shareholding requirement serves to enhance the rights of minority shareholders.

COMPETITION LAW: Saudi Arabia's Competition Law and its implementing regulations came into effect on September 25, 2019. It is aimed at establishing and preserving an open and competitive market that is attractive to investors, and one that will allow new businesses and entrepreneurs to have a fair shot at entry. As such, the new Competition Law places restrictions on anti-competitive behaviour that would exclude new players in the market, such as collusion, mergers and other practices that were not properly regulated under the previous laws. The main aspects of the Competition Law are:

a. **Applicability and investigative powers:** The Competition Law broadly applies to domestic and foreign natural or legal persons engaged in business or economic activities in Saudi Arabia, which includes entities operating outside the country if their activities have an adverse effect on competition within Saudi Arabia. However, government establishments and wholly owned state entities that are solely authorised by the government to sell goods or provide services in any given field are excluded from the law. Under the Competition Law, the General Authority for Competition (GAC) is tasked with policing corporate activities including investigating anti-competitive behaviour, imposing penalties and bringing lawsuits against entities that violate the law.

b. **Anti-competitive conduct:** The Competition Law prohibits certain anti-competitive behaviours that intend to undermine competition whether by explicit, implicit, verbal or written agreements and contracts. For example, the Competition Law prohibits a range of exclusionary tactics and classifies some as per se violations of the Competition Law, without further inquiry into the actual effect of those tactics on competition or the intention of the parties engaged in such tactics. These activities include:
   - Fixing prices or conditions of sale;
   - Limiting the free flow of goods or services to or from the market;
   - The exclusion of new entrants;
   - Denying particular entity or entities access to goods or services;
   - Colluding or coordinating with respect to bids for government tenders, auctions or other activities;
   - Market-sharing through arrangements on any basis, including a geographic, customer, or seasonal basis;
   - Tying arrangements; and
   - Freezing or limiting manufacturing, development, marketing and other forms of investments.

   The Competition Law also restricts entities that are in a dominant position in the market or represent a large part of the market from engaging in oppressive or unconscionable business tactics that would suppress competition, such as discriminatory or predatory pricing, imposing trade conditions and refusal to deal or supply agreements. The Competition Law defines a "dominant position" as either an entity or group of entities with a combined market share of 40% or more, or an entity or group of entities with the ability to influence the market, including controlling prices, or supply and demand.

c. **Merger control:** The Competition Law defines an "economic concentration" as "any action that results in a total or partial transfer of ownership of assets, rights, equity, stocks, shares or liabilities of an entity to another by way of merger, acquisition, takeover or the joining of two or more departments, or by any other means, whether directly or indirectly". The Competition Law includes a worldwide turnover threshold; if one or more parties to an economic concentration have a worldwide turnover that exceeds SR100m ($26.7m), then they must notify the GAC of their intention to engage in the proposed transaction 90 days prior to completion of the transaction.

The foreign strategic investor rules allow foreign investors to directly acquire shares on the capital markets

   - **Filing requirements and fees:** Under the Competition Law, entities wishing to form an economic concentration must submit a report to the GAC describing the proposed transaction, including the parties to the transaction, the relevant markets and sectors, the likely effect of the transaction on competition, and the top customers and competitors in the market. The GAC has the discretion to request additional documents and information, as well as access, examine and make copies of any and all records, data, files and documents belonging to the parties that may assist the GAC in its assessment of the transaction. Along with the required documents, the parties have to pay a fee determined on a case-by-case basis by the GAC.

PENALTIES: There are both criminal and civil penalties that apply to violations of the Competition Law. The Competition Law grants the GAC the power to initiate criminal proceedings against and/or impose fines on individuals and entities that fail to comply with the provisions of the Competition Law. For example, parties may be subject to fines of up to 10% of the total value of annual sales of the relevant transaction if the parties fail to notify the GAC by the notification deadline for an economic concentration, or if parties close a transaction without clearance from the GAC. The fines may be tripled if an individual or entity commits the same violation within three years of the first offence.

CAPITAL MARKETS: The CMA regulates the capital markets through a robust regime that maintains the delicate balance between promoting investment, and the transparency, protection and governance that sophisticated investors demand.

Foreign investors have been gradually granted access to Saudi capital markets, with the most recent regime being the foreign strategic investor (FSI) rules. Prior to the FSI rules, foreign investors could access


The country's Arbitration Law is closely in line with international principles of arbitration set out by the UN

capital markets through one of two routes, the first of which was through swap agreements between foreign investors and local investment funds, allowing the foreign investors to receive benefits of shares bought by the funds on their behalf without the direct voting rights attached to such shares.

The second route was introduced in 2015, when financial institutions with assets under management or custody of SR1.9bn ($506.5m) or more were permitted to trade directly in listed securities on the Tadawul under the rules for qualified foreign financial institutions (QFI). The QFI rules allowed foreign investors to exercise the rights attached to their shares, but limited foreign financial institutions to up to 10% of the shares or convertible debt instruments of a listed company.

The FSI rules allowed foreign investors to directly acquire shares, with no limit on the number of shares or convertible debt instruments that can be acquired. However, shares purchased under FSI rules are subject to a minimum lock-up period of two years. The FSI rules thus aim to attract foreign capital while ensuring that the influx of capital does not affect price stability. Firms looking to avoid the lock-up period can instead invest under swap arrangements or the QFI rules, provided they satisfy certain requirements.

FOREIGN INVESTMENT LICENCES: Foreign investors can also invest in many companies. The Ministry of Investment maintains a negative list of sectors in which foreign investment is prohibited, but has moved in recent years to gradually shrink the list. Foreign investors can now invest in printing and publishing, audiovisual and media services, land transportation, real estate brokerage and military equipment manufacturing. The ministry also introduced new foreign investment licences that correspond with the newly opened sectors for foreign investment.

SUPPORT FOR SMALL FIRMS: The General Authority for Small and Medium Enterprises – known as Monshaat – was established in 2016 under Vision 2030 and is tasked with supporting, organising and developing small and medium-sized enterprises (SMEs). The authority's ultimate goal is to increase SMEs' contribution to GDP from 20% to 35% by 2030.

Monshaat manages several initiatives that help SMEs start and run their businesses. For example, the recovery initiative – or Estrdad in Arabic – allows SMEs to recover fees related to establishing a business, including commercial registration and government licensing fees, thus lowering the financial burden during the first three years of operation. Moreover, the financing initiative allows SMEs to connect with licensed lenders regulated by the Saudi Arabian Monetary Authority through a Monshaat-developed online portal. Monshaat is also promoting alternative modes of financing, such as venture capital and financial technology-related solutions. Monshaat provides SMEs with support and technical development services, including a workspace, business consultation, ongoing training and business development services.

TENDERS & PROCUREMENT: In line with Vision 2030, the government is funding major projects with the support of the private sector. To ensure the equal and fair participation of private businesses, Saudi Arabia issued the Government Tenders and Procurement Law (GTPL), which came into force in November 2019 and replaced the previous law issued in 2006. The GTPL provides a unified, electronic portal for government tenders and procurements with the goal of increasing transparency and reducing the influence of personal interests when the government decides which contractor or supplier to choose for a specific project.

The GTPL is a useful upgrade from its predecessor, as the new law is more in line with fast-developing infrastructure needs. The GTPL obliges government entities to prioritise localisation, from increasing local


Foreign investors can now invest in audiovisual and media services

content to tapping local SMEs and companies. This is expected to promote the development of local companies and encourage investment. The range of template contracts available on the unified portal has been expanded to accommodate a wider variety of modern services. The GTPL also allows government entities to include arbitration clauses in contracts, provided that the entity obtained approval from the minister of finance. This is a welcomed change and should build the confidence of private companies bidding for government work.

COMMERCIAL ARBITRATION: The infrastructure around arbitration has been developing rapidly in recent years. In the past, arbitration proceedings were conducted on an ad hoc basis. However, in 2012 Saudi Arabia issued the Arbitration Law, with detailed implementing regulations issued in 2017. The Arbitration Law closely follows the UN Commission on International Trade Law's model and is therefore closely in line with international principles of arbitration.

The Kingdom is quickly becoming a leading jurisdiction for arbitration in the region, with the Saudi Centre for Commercial Arbitration becoming the preferred venue for proceedings. The Arbitration Law and its implementing regulations provide both flexibility and procedural certainty. Parties to an arbitration agreement are free to agree to apply the laws and arbitration procedures of any legal system, provided that this does not conflict with sharia, or Islamic law. However, in the absence of an agreement on specific laws and procedures, the arbitrative tribunal will decide on which laws and procedures are appropriate according to the circumstances of each case. Improvements to the arbitration, judicial and enforcement environment have helped Saudi Arabia successfully enforce various foreign judgements and arbitrative awards.

IMPROVED BANKRUPTCY LAW: Saudi Arabia issued the Bankruptcy Law in March 2018, which supersedes the Law of Settlement Against Bankruptcy – issued in 1996 – and chapter 10 of the Commercial Courts Laws, issued in 1931. The Bankruptcy Law applies to natural and legal persons, domestic or foreign, who are engaged in commercial, profit-seeking activities. Debtors considered to hold small debts by the Bankruptcy Committee and Monshaat can benefit from simplified bankruptcy procedures.

The law introduces insolvency officials, whose role is to make the insolvency procedures more cost-efficient by protecting stakeholders' interests while minimising the need for court involvement. It will be a vital part of economic modernisation as it improves the protection of creditors, provides debtors with alternatives to liquidation that can help them maintain the value of their enterprise and, if necessary, provides for a more efficient liquidation process. The key bankruptcy procedures are:

- **Protective settlement:** Debtors in financial distress can apply to the court for a protective settlement procedure, which gives debtors the opportunity to reach an agreement with creditors while maintaining management of the business. If the application is successful, the court will assign a date within 40 days, upon which the creditors can vote whether or not to accept the settlement proposal. The proposal must then be accepted by at least two-thirds of creditors by value within each class of creditors, and who must hold over 50% of any non-related debt. This process also allows debtors to apply for a discretionary stay against litigation and security enforcement for up to 180 days from the opening date of the procedure.
- **Financial restructuring:** Debtors in distress can also apply for financial restructuring. The restructuring process is supervised by the court and an independent insolvency official. During this time, and after the restructuring is concluded, further claims against the debtor are suspended. Similar to protective settlements, the financial restructuring proposal must be accepted by a sufficient percentage of creditors. If the proposal is successful, clauses in contracts that relate to termination upon insolvency procedures will be suspended. The debtor can also benefit from debt rescheduling, operational or financial adjustments, and debt-to-equity conversions.
- **Liquidation:** A last resort for debtors is liquidation, which can be initiated by the regulator, debtors or creditors. However, creditors can only start the process if the unpaid debt is at least SR50,000 ($13,300). The liquidator adjudicates claims and makes appropriate distributions at the end of the process. An administrative liquidation procedure is applied if it is unlikely that there will be a distribution to creditors following liquidation. In this case, a representative of the Bankruptcy Commission will act as the liquidator to wind up the business.


Small and medium-sized enterprises are able to recover various fees related to establishing a new business

OBG would like to thank *Khoshaim & Associates* for its contribution to THE REPORT Saudi Arabia 2020

Zeyad Khoshaim, Managing Partner, Khoshaim & Associates

Into the future

Zeyad Khoshaim, Managing Partner, Khoshaim & Associates, on Vision 2030 and delivering on ambitious goals

In 2016 Saudi Arabia launched its ambitious economic transformation plan, Vision 2030. The long-term Vision 2030 involves diversifying the Saudi Arabian economy by steering the country away from its traditional dependence on oil. The ambition and scope of Vision 2030 is unprecedented, and the plan will promote the Kingdom's regional, cultural and religious significance to globally harness the Kingdom's massive investment capabilities and utilise its strategic geographic location.

Implementing Vision 2030 requires a legal infrastructure that is capable of accommodating the needs of the evolving Saudi economy and, on this front, the Kingdom has delivered. The government has implemented major legislative reforms since 2016, which included updating and amending the laws regulating companies, dispute resolution, bankruptcies and government tenders. These changes, among others, have led Saudi Arabia to be labelled the most improved country in terms of doing business by the World Bank in October 2019.

As part of the legal overhaul, the Kingdom opened its markets to foreign investors. Foreign financial institutions and investors can now directly acquire shares in listed companies and benefit from all the rights attached to the shares thanks to the Capital Market Authority's foreign strategic investor and qualified foreign investor rules. Furthermore, the Ministry of Investment, which is the authority responsible for granting investment licences to non-Saudi investors, has increased the number of sectors in which foreigners can invest and participate. These changes are aimed at attracting foreign capital to the Kingdom's many business opportunities, and particularly those that have arisen because of the implementation of Vision 2030, such as those in publishing and audiovisual media.

Moreover, the Kingdom has also been providing immense support for small and medium-sized enterprises (SMEs). The General Authority for SMEs (Monshaat) and the Public Investment Fund (PIF) have been key players in facilitating the growth of SMEs in Saudi Arabia. Monshaat provides technical and logistical support to the country's SMEs, while the PIF, through its fund of funds, provides financial support for small businesses by investing in venture capital and private equity funds that, in turn, invest in local SMEs. This will help to turn SMEs into the engine that drives and sustains the Kingdom's economy.

Among the Vision 2030 initiatives, the Kingdom aims to boost the contribution of the mining, manufacturing, energy and logistics sectors to GDP, from 17% to 33% by 2030, a goal that will cost an estimated SR1.6trn ($426.6bn). With low oil prices, the Kingdom is increasingly looking to public-private partnerships (PPPs) as a way to gather the necessary capital and expertise required. This will present a huge investment opportunity for both local and foreign companies.

To that end, the National Centre for Privatisation and PPP (NCP) is a government entity charged with enabling the privatisation programme by formulating regulations and providing templates, among other responsibilities. The NCP has taken a prominent role in the market. It has issued a draft of the upcoming Private Sector Participation Law, which takes a pragmatic approach to PPPs and aims to adjust onerous legal requirements, thereby easing the burden on local and foreign investors in relation to certain PPP projects.

Saudi Arabia took a proactive approach to managing the economic impact of Covid-19, which demonstrates its ability to respond to adverse circumstances. Indeed, the Kingdom quickly introduced a number of measures to mitigate the adverse impacts of the pandemic, including a SR120bn ($32bn) financial stimulus package providing loans and grants to businesses across different sectors; exemptions from, and deferrals of, government taxes and fees; and directions to banks to offer immediate support to businesses. Moreover, government entities – including the judicial system – have implemented electronic services to ensure the continuity of business while employees work remotely.

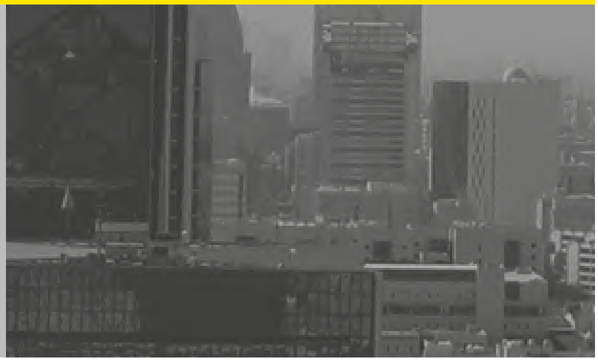
The Guide

Selection of popular hotels across the country

Advice and etiquette for business travellers

Essential information on visa requirements





Cihan Yılmaz, General Manager KSA,
MAPA Construction and Trade Company

Keeping pace

Cihan Yılmaz, General Manager KSA, MAPA Construction and Trade Company, on adapting to a rapidly evolving environment



What should investors and local entrepreneurs take into account prior to investing in the Kingdom?

YILMAZ: Saudi Arabia's economy is among the 20 largest in the world, and the Kingdom is the only G20 member country in the GCC. The country offers an attractive market for investors and has a stable outlook for the long term. While there had long been barriers imposed on foreign investors, in 2016 the government started an ambitious series of socio-economic reforms, known as Vision 2030. The programme is aimed at diversifying the economy, creating private sector jobs for a growing population, and increasing the private sector's contribution to the economy by encouraging local and international investment. Vision 2030 offers a number of attractive opportunities for foreign investors and entrepreneurs in several sectors, including health care, finance, housing, education, energy, mining, municipal services and entertainment.

In this context, the many opportunities for foreign investors and local entrepreneurs are available to those who have long-term investment plans. Prior to investment, however, it is important to conduct due diligence and to try to gain an understanding of the market and its socio-economic dynamics as much as possible. When making investments in most parts of the world, one needs to do proper research and be prepared to adapt to what may be an evolving environment, and this applies when investing in to Saudi Arabia.

Identifying local opportunities that align to one's business model and portfolio is key for any international company looking to engage in commercial activities in the Kingdom. Foreign expertise is still needed to support the growing local workforce in some sectors, and this presents significant business opportunities for those willing to grasp them. The Kingdom has been taking the necessary steps to reinforce and diversify the capabilities of its economy, utilising its key strengths to enable a fully diversified future marketplace and to become one of the largest economies in the world.

How can investors respond to challenges arising from a transforming regulatory environment?

YILMAZ: In the context of Vision 2030, regulations are changing quickly, and one must be prepared for a rapidly evolving environment. Many regulatory changes are taking place at once. The challenge for the public sector is to monitor and keep track of the progress being made under Vision 2030. Several institutions like the National Centre for Performance Measurement have been created for this purpose and have already demonstrated positive results. For the private sector, the challenge lies in closely following the goals of Vision 2030 and the National Transformation Programme in order to be familiar with and prepared for present and future conditions. It is also important to closely monitor the new rules for the tax regime and the standardisation of Customs regulations, which can have implications for supply chain management. Risk evaluation for any project is the most important element for long-term investors, and it can sometimes be difficult to fully assess the risks affiliated with an investment; however, high risks often lead to higher returns.

In what ways has the lifestyle in Riyadh for corporate travellers and new residents evolved recently?

YILMAZ: Recently, the social scene in Riyadh and Saudi Arabia at large has become undeniably more attractive. The Saudi Seasons initiative took place in 2019 and 2020 and brought in a number of new activities, including concerts, circuses, live shows and international pop-up restaurants. For new arrivals to Riyadh, there are things to do every day of the week. There are golf clubs; desert and hiking tours; historical and heritage sites; museums and several stables for those who enjoy horseback riding. Many residents play tennis, and fitness centres are a popular option for people looking to stay fit. The dining scene is one of the best in the region. There is a range of options, and there are a number of renowned international brands, including Cipriani, OKKU and COYA.

Intercontinental Riyadh

Rest easy

RIYADH

INTERCONTINENTAL RIYADH

King Saud Road, PO Box 3636, Riyadh 11481
T: (+966) 11 465 5000
www.intercontinental.com/riyadh
reservations.icriyadh@ihg.com

Rooms: 275 rooms, with 140 standard rooms, 39 junior suites, five large executive suites, two royal suites, 56 club rooms, 10 presidential suites, five club royal suites and 18 cabana rooms.
Business & Conference Facilities: 13 meeting and event rooms, and two main halls. Business centre includes workstation, fax machine, express courier service and car pickup.
Health & Leisure Facilities: Fully equipped gym, jacuzzi, Moroccan bath, massage, sauna, swimming pool, squash courts, tennis courts and 12-lane, 10-pin bowling. InterContinental Riyadh Palms Golf club has a nine-hole executive grass golf course.
Guest Services: Free Wi-Fi, 24-hour laundry service, 24-hour room service and valet parking.
Dining: Mondo (international cuisine), Al Bustan (international cuisine and breakfast buffet), Al Baylasan Lounge, Addiwan Cafe and Al Nakheel Cafe.

SHAZA HOTEL

Eastern Ring Branch Road, Al Jazirah, Riyadh 14251
T: (+966) 11 834 9000
www.shazahotels.com/en/our-hotels/shaza-riyadh
info.riyadh@shazahotels.com

Rooms: 205 rooms.
Business & Conference Facilities: Six scent-inspired meeting rooms, each featuring adjustable panels with natural lighting and audiovisual technology for flexibility and individual requirements.
Health & Leisure Facilities: Hammam, spa, wellness centre, heated indoor swimming pool, gym and kids' club.
Guest Services: 24-hour room service, airport transfer service and refreshment centre.
Dining: MeNa, Midan and Garden View Cafe.

Shaza Hotel

AL MASHREQ BOUTIQUE HOTEL

Ouroubah and Prince Turki Road Intersection
PO Box 33554, Riyadh 11458
T: (+966) 11 283 4777
www.almashreqboutiquehotel.com
info@almashreq.sa

Rooms: 69 rooms, including 18 junior suites and two royal suites.
Business & Conference Facilities: Four meeting rooms and the Al Hamra Ballroom, with all natural daylight and garden views, free Wi-Fi, leather seats, premium amenities, private offices and business centre.
Health & Leisure Facilities: Spa and gym, Moroccan hammam, massage room, sauna, steam room, jacuzzi, swimming pool, relaxation lounge and ladies' gym.
Guest Services: Airport and city limousine service, car hire, airline ticketing, valet parking and security.
Dining: Ewaan, Ward, Tea Lounge and Al Mashrabiya.

Al Mashreq Boutique Hotel

FAIRMONT HOTEL

Business Gate Qurtubah Area, Riyadh 11552
T: (+966) 11 826 2626
www.fairmont.com/riyadh
fairmont.riyadh@fairmont.com

Rooms: 298 spacious rooms and suites.
Business & Conference Facilities: Convention centre with 4500 sq metres of meeting space, sophisticated facilities for special events and weddings.
Health & Leisure Facilities: Gentlemen's Tonic Spa and men's fitness centre with indoor swimming pool. Ladies Lounge, spa, beauty salon and gym.
Guest Services: Car rental, housekeeping, transportation and parking.
Dining: The Plaza, The 365, Pesto, House of Grill and Cafe Connect.

Fairmont Hotel


The Ritz Carlton Jeddah

AL WAHA PALACE HOTEL
Street No. 6, Wadialdawasir, Olaya Main Street, Riyadh 11635
T: (+966) 11 461 2288
www.alwahapalace.com
info@alwahapalace.com.sa

Rooms: 73 rooms and suites.
Business & Conference Facilities: Fax and photocopying available, business centre, and meeting and banquet spaces.
Health & Leisure Facilities: Heated indoor swimming pool, kids' pool, fitness centre, massage, spa and wellness centre, spa lounge and jacuzzi.
Guest Services: 24-hour front desk, currency exchange, tour desk, ticket service, baggage storage, private check-in and check-out, daily housekeeping, suit press, dry-cleaning and laundry services, babysitting services, car rental and shuttle services.
Dining: Flamingo Restaurant (international cuisine, buffet and à la carte menu), on-site coffee shop and in-room breakfast.

JEDDAH

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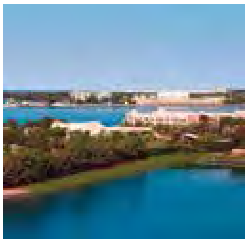
www.ritzcarlton.com/Jeddah
rc.jedrj.communication.center@ritzcarlton.com


Park Hyatt Jeddah

Rooms: 224 rooms, with 164 deluxe rooms, 30 royal suites and 30 executive suites.
Business & Conference Facilities: Total function space of 62,000 sq metres, two 1851-sq-metre grand ballrooms, two 716-sq-metre junior ballrooms, and 18 meeting rooms.
Health & Leisure Facilities: Fitness centre and full-service spa.
Guest Services: Room service, baggage storage, vehicle hire, 24-hour concierge, currency exchange, gift shop, valet service, laundry, safe deposit boxes and Club Lounge for club guests.
Dining: Reyhana restaurant (Asian, Arabic and Mediterranean cuisine), Saltz restaurant (à la carte) and Karamel lounge (desserts, snacks and beverages).

PARK HYATT JEDDAH
Al Hamra District, Southern Corniche, PO Box 5863, Jeddah 21432
T: (+966) 12 263 9666
www.hyatt.com/en-US/hotel/saudi-arabia/park-hyatt-jeddah-marina-club-and-spa/jedph
jeddah.park@hyatt.com


Mövenpick Hotel Jeddah

Rooms: 142 rooms, with four park suites, four executive suites, four prince suites and one royal suite.
Business & Conference Facilities: Business phone service, express mail, fax, meeting rooms, high-speed internet, photocopying and printing, secretarial services, three ballrooms and audiovisual equipment.
Guest Services: Babysitting upon request, children's activities, baggage storage, vehicle hire, 24-hour concierge, gift shop, valet, laundry, local area transport, multilingual staff, safe deposit boxes and tour booking.
Dining: Nafoura restaurant, Andalusia restaurant (Moroccan) and room service.

STAYTION FIRST - AL ZAHRA
7416 Abdullah Jasir, AZ Zahra District, 2914, Jeddah 23425
T: (+966) 12 605 7709
info@staytion.com

Rooms: 42 rooms with air conditioning, some have a flat-screen TV, washing machine, kettle, and kitchen.
Health & Leisure Facilities: Family spaces.
Guest Services: Free Wi-Fi in all rooms and public areas, 24-hour security, convenience store, 24-hour front desk, laundry services and free parking.
Dining: In-room breakfast available. In close proximity to restaurants and markets.

IL VILLAGGIO LUXURY VILLAS
Al Khaludiah Street, Jeddah 23421
T: (+966) 12 606 6099
www.ilvil.com
info@ilvil.com

Rooms: Villas, apartments and suites. Air conditioning in every unit, kitchen outfitted with microwave and refrigerator, flat-screen TV, shower, bathrobes, slippers and hair dryer.
Business & Conference Facilities: Fax and photocopying available.
Health & Leisure Facilities: Outdoor swimming pool, sport activities, spa services and relaxation area.
Guest Services: Free on-site parking, complimentary Wi-Fi and dry-cleaning at an additional charge.
Dining: Coffee shop, grocery delivery at an additional charge and walking distance to restaurants.

MÖVENPICK HOTEL JEDDAH
Al Madinah Al Munawarah Road, Jeddah 21451
T: (+966) 12 667 6655
www.movenpick.com/Saudi-Arabia/Jeddah
hotel.jeddah@movenpick.com

Rooms: 140 rooms, with classic rooms, superior rooms, deluxe rooms and deluxe suites.
Business & Conference Facilities: 11 meeting rooms and banquet hall with total space of 900 sq metres for up to 300 guests. Audiovisual and lighting equipment.
Health & Leisure Facilities: Personalised health and relaxation treatments at Al Maha Spa. Fully equipped fitness centre featuring high-tech cardio equipment.
Guest Services: Airport transfer service, free high-speed internet service, free parking and Internet Protocol television system with over 64 satellite channels.
Dining: Delicia Cafe and Views Restaurant (international cuisine and Swiss specialities, with buffets and à la carte menus). Family brunch is served every Friday.

Staytion First - Al Zahra

Set in Jeddah in the Makkah Al Mukarramah Province region, Staytion First - Al Zahra offers accommodation with free private parking.

All units come with air conditioning, and some have a flat-screen TV, washing machine, a kettle, completed with a kitchen.

7416 Abdullah Jasir, AZ Zahra District, 2914, Jeddah 23425, Saudi Arabia


Radisson Blu Plaza Hotel

INTERCONTINENTAL JEDDAH
PO Box 41855, Al Hamra Corniche, Jeddah 21531
T: (+966) 12 229 5555
www.ihg.com/intercontinental/hotels/us/en/jeddah/jedha/hoteldetail
intercontinental.jeddah@ihg.com

Rooms: 300 rooms, with 176 single rooms, 87 double rooms and 37 suites.
Business & Conference Facilities: Free Wi-Fi, business centre and on-site meeting team, printer, scanner and copying services. Nine meeting rooms with a capacity of 2000 guests and Al Sultan Ballroom.
Health & Leisure Facilities: Swimming pool, sauna, jacuzzi, steam room, gym, ping-pong table, tennis court and billiard table.
Guest Services: Private limousine, concierge, valet parking and grocery service.
Dining: Al Ferdaus Restaurant (international cuisine), Spears (Brazilian cuisine), Fish Market Restaurant (seafood) and Cafe 360.

RADISSON BLU GROUP OF HOTELS
Radisson Blu Jeddah, Road 271
T: (+966) 12 652 1234
info.jeddah@radissonblu.com
Radisson Blu Jeddah Corniche, Corniche Road
T: (+966) 12 511 0000
info.jeddahcorniche@radissonblu.com
Radisson Blu Plaza Hotel, King Abdullah Road
T: (+966) 12 510 9876
info.plaza.jeddah@radissonblu.com
Radisson Blu Jeddah Al Salam, Quraysh Road
T: (+966) 12 608 9900
info.salam@radissonblu.com
www.radissonhotels.com


Crowne Plaza Jeddah

Rooms: 292 rooms and suites (Jeddah location); 150 rooms and suites (Jeddah Corniche location); rooms, junior suites, and 1- and 2- bedroom suites (Plaza Hotel location); 142 rooms and suites (Al Salam location).
Business & Conference Facilities: Meeting spaces that can be configured to various sizes, and large ballrooms equipped with audiovisual equipment and Wi-Fi for conferences or weddings. Business lounges and pre-function gathering areas. Jeddah location offers off-site catering for up to 1000 people.
Health & Leisure Facilities: Swimming pools, hot tub, men's and women's fitness centres, and wellness spas for massages, steam room use and other services.
Guest Services: Free Wi-Fi, valet parking, dry-cleaning and laundry service, express check-out, cots available for extra bedding, complimentary tea and coffee in all rooms, and all locations are close to business and/or shopping districts.
Dining: Al Diwan buffet and Hokkaido sushi restaurants, and lobby lounge for drinks (Jeddah location); indoor and outdoor dining options serving local and international cuisine (Jeddah Cornice location); Al Liwan restaurant serving all-day international cuisine, and drinks and snacks on the patio by the pool (Plaza Hotel location); The Larder restaurant for buffet and à la carte dining, and the Larder Cafe for drinks and snacks (Al Salam location).

CROWNE PLAZA JEDDAH
PO Box 10924, Al Corniche - Al Ma'adi Road, Jeddah 21443
T: (+966) 12 260 4900
www.ihg.com/crowneplaza/hotels/us/en/jeddah/jedsa/hoteldetail
info.cpjeddah@ihg.com

Rooms: 323 rooms.
Business & Conference Facilities: 11 meeting rooms, the largest of which can accommodate up to 1200 people, and 20,757 sq feet of total meeting space.
Health & Leisure Facilities: On-site fitness centre and outdoor swimming pool. Modern Body Zone offers fitness activities, equipment and personal trainer.
Guest Services: Multilingual staff, dedicated quiet zone rooms and wake-up calls. Complimentary Wi-Fi.

Dining: Al Zahra Restaurant (all-day dining and international cuisine), Crowne Grill Restaurant (dinner only), Sakura Japanese Restaurant (lunch and dinner), Mashrabia Cafe (breakfast and brunch) and Bridge Cafe (all-day dining).

MAKKAH

CONRAD HOTEL MAKKAH

Jabal Omar Ibrahim Al Khalil, PO Box 19923
Makkah 21955
T: (+966) 12 530 8777
www.conradmakkah.com

Rooms: 438 rooms with Haram and partial Kaaba views.
Business & Conference Facilities: Two meeting rooms with a capacity of up to 100 people. Access to audiovisual equipment and online planning tools. Total event space of 159 sq metres, with largest room measuring 84 sq metres.
Health & Leisure Facilities: VIP Lounge, Al Kawthar Lounge and Al Hailal Cafe.
Guest Services: Butler, tour programmers, free Wi-Fi, airport transfer, limousine services, car rental, airline booking service, restaurant booking service and newspapers.
Dining: Al Mearaj restaurant, Prime restaurant, Al Helal Cafe lounge, Al Kawthar Lounge and executive lounge.

MEDINA

LE MERIDIEN MEDINA

Khalid Bin Al Walid Road, Medina 41441
T: (+966) 14 846 0777
www.marriott.com/hotels/travel/medmd-le-meridien-medina/

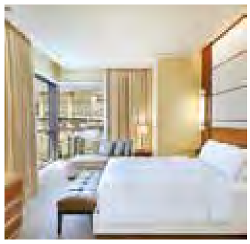
Rooms: 190 rooms, with 70 single standard rooms, 86 double standard rooms, 26 executive suites and eight royal suites.
Business & Conference Facilities: Business centre with computers, fax machines and photocopier, four banquet halls with capacity for approximately 400 people and audiovisual equipment, and three meeting rooms. The largest event space spans approximately 500 sq metres.
Health & Leisure Facilities: Barber and beauty shop.
Guest Services: Free Wi-Fi, daily housekeeping service, free parking available, newspaper delivered to room upon request, mobility accessible rooms, valet service, shuttle service to the Grand Mosque, concierge, luggage storage, dry-cleaning and laundry service and 24-hour front desk.
Dining: Al Roshan (international cuisine and buffet) and 24-hour room service.

AL KHOBAR

MÖVENPICK HOTEL AL KHOBAR

Prince Turki Street, Al Khobar 34422
T: (+966) 13 898 4999/810 9800
www.movenpick.com/al-khobar
hotel.alkhobar@movenpick.com

Rooms: 143 rooms and suites, with views of the city skyline and the Gulf shore.
Business & Conference Facilities: 1600-sq-metre Al Maha Banquet Hall for meetings and weddings of up to 1200 people, 282-sq-metre Al Massah conference room and one business centre.
Health & Leisure Facilities: Fully equipped fitness centre, spa with a selection of treatments, sauna, steam room and indoor swimming pool.
Guest Services: 24-hour front desk, on-site car hire, on-site medical assistance, currency exchange services, gift shop, news stand, hairdressing salon, dry-cleaning and laundry services.
Dining: The Blue (all-day international cuisine), Maharaja by Vineet (Indian cuisine), The View Lounge (breakfast, sushi) and Le Café (snacks, light meals, tea and coffee).


Conrad Hotel Makkah


Le Meridien Medina

Facts for visitors

Useful information for business and leisure travellers

ETIQUETTE: There are social expectations for interactions between unrelated men and women, which is polite to follow when visiting Saudi Arabia. Businessmen should wait for a woman to offer her hand to shake in a meeting. In other situations, keep a respectful distance. Handshakes between men are common. Saudis pride themselves on their hospitality, and it is impolite to begin business without engaging in small talk first. In formal meetings it is common to be offered a small cup of *qahwa* (Arabic coffee). One should accept the first cup, but have no more than three before indicating you have had enough by rocking the cup from side to side. To avoid offence, one should use the right hand when receiving gifts, eating and drinking.

VISAS: Nationals of non-GCC countries and some Arab nations need visas. Business visas require a letter of sponsorship from the firm being visited. The Saudi counterpart lodges an application and is issued a receipt, which is forwarded. The applicant presents this receipt, along with two passport-sized photographs, a completed application form, a copy of the letter of sponsorship and a fee to their local embassy or consulate. The process varies by country, and an electronic application code from the Ministry of Interior's website may be required. Check with your local embassy or consulate in advance as to variations. Single-entry, as well as three- and six-month multiple-entry visas can be issued. Work and residence visas are also available, as are visas for family members. The Kingdom is also now issuing tourist visas for some countries in the form of e-visas or visas on arrival. A single-entry tourist visa allows a stay of up to one month, while a multiple-entry visa allows stays of up to three months.

CURRENCY: The Saudi riyal is pegged to the US dollar at SR3.75:$1. Credit cards are accepted across the Kingdom, and ATMs can be found even in more remote areas. It is possible to withdraw riyals from foreign bank accounts from ATMs. A local bank account is needed to change currency, but many hotels will exchange cash.

COMMUNICATIONS: All three of the Kingdom's mobile operators – Saudi Telecom Company, Mobily and Zain – as well as Virgin Mobile and Lebara offer pre-paid SIM cards, which are easily obtained. Domestic calls and those within the GCC region are relatively inexpensive. Internet connection quality is variable. Wireless hotspots are available in most cities.

LANGUAGE: Arabic is the official language. English is widely spoken, but a grasp of basic Arabic salutations will be useful. Signs are in Arabic and English.

ELECTRICITY: There is a mix of UK-style, three-pin, two-pin and US-style plugs, as well as both 120 V and 220 V. Electric adaptors and converters are essential.

TRANSPORT: Taxis are metered and plentiful in most larger cities, and transport apps Uber, Careem and Easy Taxi are also widely available. Domestic flights are offered by Saudi Arabian Airlines and low-cost provider Flynas. Both airlines provide internet booking. There are trains connecting Riyadh to the Eastern Province, as well as a high-speed rail service connecting Makkah, Medina and Jeddah. The Saudi Public Transport Company also provides local bus services.

BUSINESS HOURS: The working week is Sunday to Thursday, but some companies are open on Saturday morning as well. Public sector hours are approximately 7.00am to 3.00pm. Private sector hours vary, and businesses often close at 1.00pm and reopen from 4.00pm to 8.00pm. It is useful to note the short closing periods during prayer times. There are a total of five calls to prayer each day, with four taking place during business hours. Businesses will close briefly during prayer times, which last up to 30 minutes. Prayer times vary throughout the Kingdom and from day to day, but exact times are listed daily in local newspapers.

HEALTH: A full range of medical services is available in all major cities. Foreigners should take out health insurance, as it is unlikely their home country will have reciprocal relations with Saudi Arabia. Foreigners who seek to reside permanently must have health insurance.