Kingdom of Saudi Arabia
Ministry of Finance

# Annual Report 2011

## Saudi Industrial Development Fund

Annual Report for the Fiscal Year 1432 / 1433H (2011G)

IN THE NAME OF ALLAH

MOST BENEFICENT, MOST MERCIFUL

Custodian of the Two Holy Mosques

## King Abdullah Bin Abdulaziz Al Saud

His Royal Highness

## Crown Prince Naif Bin Abdulaziz Al Saud

The Deputy Premier and the Minister of Interior

# Vision

To continue as a leading industrial financing institution, supporting economic and human development in the Kingdom of Saudi Arabia to help the Kingdom become a distinguished industrial center.

# Mission

Catalyze industrial development in the Kingdom by focusing on:

- Industrial lending.
- Supporting and influencing industrial strategies and policies.
- Consultancy services.
- Customer centricity.
- Training, skills and knowledge development.

# Contents

## Foreword by H.E., The Minister of Finance

It gives me great pleasure to introduce the Annual Report of the Saudi Industrial Development Fund, (SIDF) for the fiscal year 1432/1433H (2011G). The report is a manifestation of SIDF's outstanding performance at all levels. It signifies the confidence Saudi and foreign investors place in the strength of the national economy and the viability of industrial investment in the Kingdom as well as the success of the policies pursued by the Government to diversify the national sources of income.

Many countries worldwide are struggling against formidable economic challenges due to the global financial crisis, however, the Kingdom by the Grace of Allah and the wise policies of the Government of the Custodian of the Two Holy Mosques, has been able to avert most of these challenges. Furthermore, the Kingdom has succeeded in maintaining and consolidating its multi-faceted support of economic development all over the country. The State budget for the new fiscal year 1433/1434H (2012G) confirms this trend and emphasizes the overriding determination of the government to achieve comprehensive development as well as diversification of national sources of income.

SIDF approvals during the fiscal year 1432/1433H (2011G) increased by 23% in contrast with the previous fiscal year. The Fund continued, during the year, to achieve impressive results in its lending activities. The latter contributed to the establishment of 86 new industrial projects and expansion of 32 existing industrial projects spread over different parts of the Kingdom. Approvals to these projects amounted to SR 8,085 million. At the same time, investments in these projects, totaled SR 35,067 million.

As evidence of the Government's ardent pursuit of development throughout the Kingdom, the Council of Ministers issued a Resolution which raised the ceiling of financing projects in less developed areas to 75% of the cost of the project instead of 50%. The Resolution, also, extended the repayment term of SIDF loans in such areas to a maximum of 20 years instead of 15 years. SIDF's Board of Directors made the Resolution feasible by approving the rules determining the financing percentages for industrial projects in less developed regions and towns.

In pursuance of the State support approach to small and medium enterprises, SIDF-managed SME Loan Guarantee Program (Kafala) issued, during the fiscal year of the report, 1,208 guarantees totaling SR 636 million against commercial banks' credits of SR 1,284 million. These guarantees were issued in favor of 742 small and medium enterprises engaged in activities encompassing all economic sectors Kingdom-wide.

Finally, I would like to express my sincere appreciation and gratitude to the Custodian of the Two Holy Mosques and his faithful Crown Prince for their strong support and sapient guidance which have enabled the Fund to achieve such remarkable results.

I would also like to extend my thanks and appreciation to the SIDF Board of Directors, its executive management and all employees for their achievements during the year which is still witnessing unprecedented global developments and challenges.

May Allah guide all of us!

**Ibrahim Bin Abdulaziz Al-Assaf**

**Minister of Finance**

## Board of Directors

**Dr. Abdulrahman Bin Abdullah Al-Hamidy**
Vice Governor of the Saudi Arabian Monetary Agency
and Chairman of the Board, SIDF

**Dr. Tawfig Bin Fauzan Alrabiah**
Acting Deputy Minister for Industrial Affairs
Ministry of Commerce and Industry
Director General,
Saudi Industrial Property Authority (MODON)

**Dr. Ahmed H. Salah**
Deputy Minister for Economic Affairs
Ministry of Economy and Planning

**Mr. Abdulla Bin Ebrahim AL-Ayadhi**
Assistant Secretary General,
Public Investment Fund

**Mr. Sultan Bin Jamal Shawli**
Deputy Minister for Mineral Resources
Ministry of Petroleum & Mineral Resources

## Chairman's Statement

At the end of the fiscal year 1432/1433H (2011G), I am pleased to introduce the SIDF annual report. The report reflects the Fund's activities in terms of the volume of loans and numbers of beneficiary industrial projects.

As a development institution fully committed to enhancing the industrial activities of the private sector, the Fund continued its outstanding performance during the year of the report. SIDF approved 118 loans totaling SR 8,085 million. This represents an increase of 24% in number of loans and 23% in terms of amounts approved in contrast with the previous year. These loans contributed to the establishment of 86 new industrial projects and expansion of 32 existing industrial projects. During the fiscal year 1432/1433H (2011G), disbursed amounts totaled SR5,202 million and repayments amounted to SR 2,575 million.

Accordingly, the number of loans approved by the Fund, since its inception up to the end of the fiscal year 1432/1433H (2011G), has totaled 3,344 loans committed to assisting the implementation of 2,371 industrial projects all over the Kingdom, with financial commitments amounting to SR 95,476 million. Out of that total an amount totaling SR 64,604 million was disbursed, and beneficiaries from extended loans have so far repaid SR 37,216 million. Undoubtedly, the magnitude of these figures positively attests to the high quality environment of investment in the industrial sector of the Kingdom. Such an environment attracted large numbers of local and foreign investors to invest in this field and benefit from SIDF's loans and its consultancy services, extended to borrowing projects in the technical, management, financial and marketing areas.

In addition to its principal role of lending to industrial projects, SIDF also manages the SME Loan Guarantee Program (Kafala) in cooperation with local commercial banks which provide financing for these enterprises. The Program approved 1208 guarantees valued at SR 636 million during the fiscal year 1433/1434H (2011G) to guarantee SR 1,284 million worth of credits provided by commercial banks to 742 small & medium enterprises Kingdom-wide. The aggregate number of guarantees approved by the Program, since inception six years ago up the end of the fiscal year 1432/1433H (2011G), has reached 3095 guarantees with a total value of SR 1,355 million against bank's financing of SR 3,069 million extended to 1991 beneficiary small & medium enterprises all over the Kingdom.

I would like to stress that SIDF's Board of Directors spares no effort in implementing Government policy emphasizing the giving of due care to all parts of the Kingdom, particularly less-developed areas. In this respect, the Board, recently, approved the rules determining the maximum limit of SIDF's financing percentage to projects established in less-developed regions and towns in the Kingdom. Such a move is intended to activate the relevant Council of Ministers' Resolution. Furthermore, the Board approved the financing of industrial sector services projects implemented in the industrial cities with the objective of providing support and logistics services. Such services contributed to the provision of integrated-services industrial areas and established an environment that is attractive to industrial investments. Moreover, these services are considered complementary to the Fund's financing of similar projects which represent primary support for manufacturing industries. The Fund will continue to introduce the necessary measures to serve the industrial sector and increase its contribution to the Gross Domestic Product (GDP) of the Kingdom.

Despite the major challenges facing the world nowadays, caused in large part by the global financial crisis, I am sure that the Fund is capable of overcoming these challenges, through its cumulative experience, its highly professional management, its competent staff and the steady support and judicious leadership of the Custodian of the Two Holy Mosques and HRH Crown Prince.

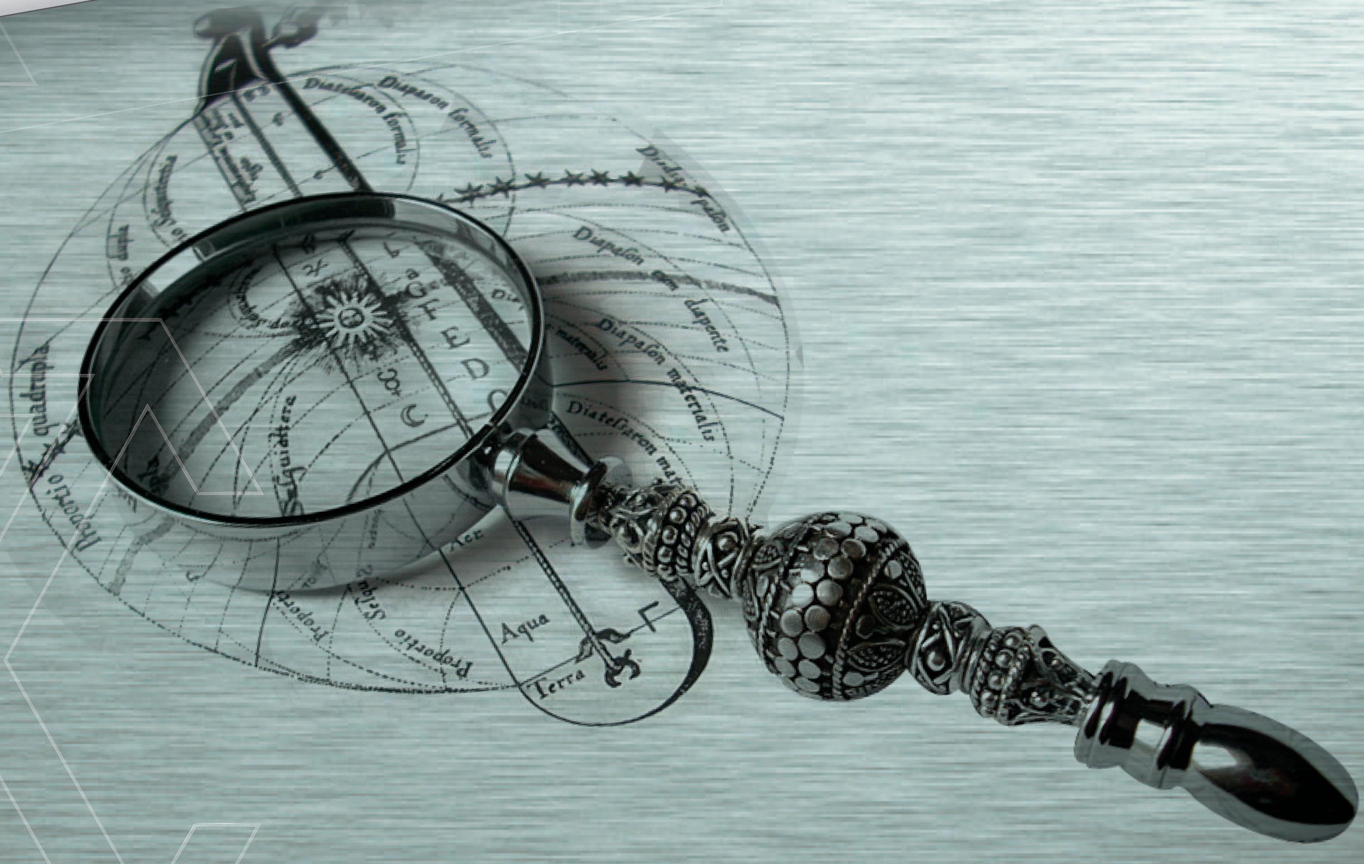
In conclusion, I extend my sincere thanks to the members of the Board of Directors and SIDF's management and all employees for their outstanding achievements year after year. I am fully confident that they will continue their commendable efforts to accomplish the objectives for which the Fund was established.

May Allah bless all of us.

**Abdulrahman Bin Abdullah Al-Hamidy**

**Chairman of the Board of Directors**

# Preface: Trends and Indicators in the Domestic Economy



## Preface: Trends and Indicators in the Domestic Economy

### KSA Economic Review for the Year 2011G:

The Saudi economy achieved excellent performance according to all economic indicators in 2011G. Its positive results were achieved despite the persistent repercussions of the global financial and economic crisis on the world economy. Increase of oil production in the Kingdom; continued high oil prices throughout 2011G; ongoing government structural and organizational reforms of the Saudi economy, and steady government expenditure on infrastructure projects have been instrumental in realizing these positive results. According to the Ministry of Finance's statement accompanying the state budget announcement, the Kingdom's gross domestic product (GDP) is expected to reach SR 2,163 billion in 2011G, reflecting a strong growth of 28% at current prices and 6.8% in constant prices. Preliminary estimates indicate that public debt will decline to around SR 135.5 billion, i.e., 6.3% of GDP, by the end of the fiscal year 2011G.

The private sector and its composites continued their good performance in 2011G by achieving high growth rates. The private sector's growth is expected to be around 14.3% at current prices and 8.3% at constant prices in 2011G. Moreover, its contribution to GDP is projected to be about 48.8% in 2011G. All economic activities comprising the non-oil GDP maintained their good results in 2011G. Non-oil manufacturing sector is estimated to grow by 15%; Building and Construction sector by 11.6%; Communications, Transportation and Storage sector by 10.1%; Wholesale, Retail, Restaurants and Hotels sector by 6.4%; Electricity, Gas and Water sector by 4.2% and Financial, Business Services, Insurance and Real Estate sector by 2.7%.

With regard to inflation and price levels, the cost of living index recorded an increase of 4.7% in 2011G compared to 2010G. The non-oil GDP deflator, a key economic indicator for calculating inflation for the whole economy, witnessed an increase of 6.1% in 2011G in contrast with 2010G.

The current account of the balance of payments, according to the preliminary estimates of the Saudi Monetary Agency (SAMA), is estimated to achieve a considerable surplus of SR 598 billion in 2011G against SR 250 billion in 2010G. i.e., an increase of 139% In the same context, the balance of trade in 2011G is expected to achieve an enormous surplus of SR 915 billion, i.e., an increase of 59% compared with the previous year 2010G. Such surplus can be attributed to the increase in oil and non-oil exports and the low growth of goods imports. On the exports side, the total volume of exports of goods is expected to reach SR 1,287 billion in 2011G, representing an increase of 37% in contrast with 2010G. Non-oil exports of goods are estimated at SR 153 billion in 2011G, reflecting an increase of about 14% and representing 12% of total goods exported. On the other hand, total volume of goods imported is estimated at SR 370 billion in 2011G, representing a growth of 2% compared to 2010G.

At the level of financial and monetary developments and in the light of developments in local and global economies, the Kingdom continued its firm fiscal and monetary policies to achieve a suitable level of liquidity to satisfy the requirements of the national economy. The money supply, in its broad definition, recorded a strong growth rate of 10.2% in the first ten months of the fiscal year 2011G in contrast with a growth rate of 1.2% in the same period of the previous fiscal year.

In terms of the banking sector, commercial banks continued to strengthen their financial position. During the first ten months of 2011G, capital and reserves of the commercial banks increased by 7.2% to reach SR 191 billion, while total claims on the public and private sectors rose by 10.1%. During the same period, bank deposits grew by 8.4% to SR 1,067 billion. Moreover, commercial banks continued their vital role in supporting and expanding the economic activities of the private sector. The total credit extended by banks to the various economic activities amounted to more than SR 840 billion during the first 9 months of 2011G. However, banks performance concerning provision of credit to the various economic activities was relatively uneven during the said period. For example, credit extended to the Mining and Quarrying sector increased by 53%; Manufacturing & Processing sector by 39%;

Water, Electricity and Gas & Health Services sector by 31% and Transportation and Communications sector by 23.2%. Then, the Services sector increased by 16.3%; Commerce sector by 7.2%, and the Building and Construction sector by 4.8%. In contrast, credit extended to the Agriculture and Fishing sector increased slightly by 0.9%, while credit extended to the Financing activity decreased by 17.6%.

The Saudi Industrial Development Fund continued its outstanding commitment to the support of local industry in all spheres of industrial activities. SIDF's loan approvals in the fiscal year 2011G amounted to SR 8,085 million. Moreover, the Small & Medium Enterprises Loan Guarantee Program (KAFALA), administered by the Fund, witnessed a significant increase of guarantee documents approved in 2011G. 1,208 guarantees were approved having a total value of SR 636 million to guarantee financing of SR 1,284 million extended by local commercial banks to 742 small and medium enterprises.

At another level, the general Saudi Stock Market index registered 6,417 points by the end of 2011G in contrast with 6,620 points at the end of 2010G. Five companies made partial public offerings in the market of SR 1.7 billion bringing the total number of companies registered in the market to 149. Furthermore, the Capital Market Authority (CMA) continued to draw up and issue a set of regulations to organize and develop the market and enhance the principles of fairness, transparency, disclosure and investor protection. The CMA Council has issued the Resolution of the Securities Conflicts and amended certain articles of the Anti-Money Laundering and Counter-Terrorism Financing Rules.

In pursuit of development and consolidation of structural and organizational reforms to strengthen the national economic structure, a number of measures were taken in 2011G. These measures included the establishment of a number of government institutions such as the Ministry of Housing and the National Anti-Corruption Commission. Furthermore, new laws and regulations were introduced including the approval of laws governing the Saudi Red Crescent Authority; the National Committee for Regulation and Standardization of Operations and Maintenance Works; Saudi Fiqh Council; the Law of Government Revenues, and the Law of Civil Affairs.

As a result of the remarkable performance of the Saudi economy in 2011G, the Kingdom won the praise and appreciation of many international economic organizations. The International Monetary Fund (IMF) commended the notable achievements of the Kingdom throughout recent decades in accordance with social development indicators which are currently approaching the averages recorded in the G-20 countries. The IMF also complimented the Kingdom for overcoming the global economic slowdown and its positive role in stabilizing the oil markets. In addition, the IMF expressed its appreciation of recent government reforms in the organization and supervision of the banking sector. Despite the global financial crisis engulfing the financial institutions of several countries, the global rating agency (Fitch) lauded the Kingdom's prudent financial and monetary policies, and confirmed Saudi Arabia's sovereign rating at AA-. This attests to the Kingdom's economic and financial strengths and its sound management of its foreign investments and reserves as well as its disciplined supervision of the banking sector. Therefore, the performance of the Saudi economy in 2011G reflected positively on the rankings of the Kingdom in the investment and global competitiveness indices. For instance, the Kingdom was ranked 12 out of 183 countries in the "Ease of Doing Business Index" issued by the World Bank, and it was also ranked 17 out of 142 countries in the "Global Competitiveness Index" issued by the World Economic Forum.

To conclude, while most countries, particularly the highly developed, are still suffering from the severe consequences of the global financial crisis, the Saudi economy emerged healthy and vibrant in 2011G. Moreover, according to current indicators, the Kingdom's economy is expected to continue its good performance over the coming years, and the government is fully committed to continuing its implementation of programs of economic reform in pursuit of the achievement of sustainable development and enhancing the competitiveness of the Saudi economy.

## Local Industrial Sector Performance Indicators

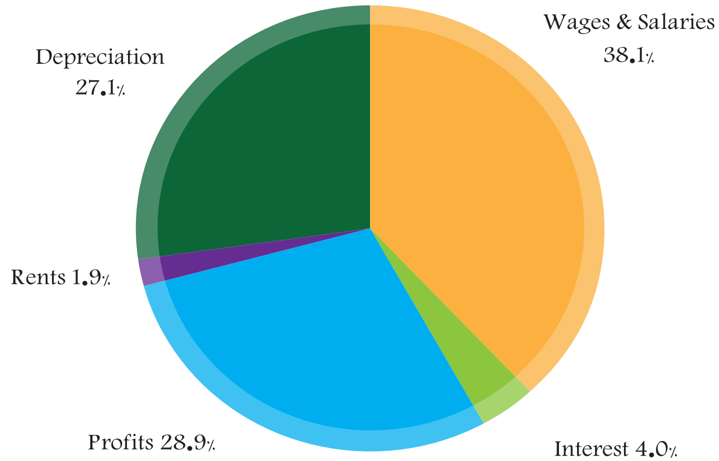
The non-oil manufacturing sector in the Kingdom achieved substantial growth, approximately 15% in 2011G, in contrast with 5.0 % in 2010G. In addition, the relative contribution of the sector to the country's GDP has considerably increased recording 10.9 % in 2011G, indicating the strength of the sector. Furthermore, the industrial sector has largely contributed to the growth of Saudi non-oil exports to international markets with an increase of 14% over that of 2010G, reaching SR 153 billions.

In the context of the general picture of the industrial sector outlined above, we should consider the performance of some indicators in this sector. Since the data for 2011G is unavailable, we will, instead, refer to the data for 2010G. Figures 1, 2 and 3 show the distribution of the components of value added and Saudi labor ratio in the main Saudi manufacturing sectors.

As for the value added indicator, the adjacent figure (1) shows the distribution of the components of the Saudi manufacturing sector value added in the year 2010G, indicating that wages & salaries accounted for 38.1 % of the total manufacturing value added. Profits accounted for about 28.9 %, depreciation 27.1 %, interest rates 4% and, finally, rents accounted for about 1.9 %. This distribution pattern highlights the contribution of the manufacturing sector towards increasing national income by reaching a higher value added covering wages and salaries, and, in addition, by contributing towards the expansion of production capacity.

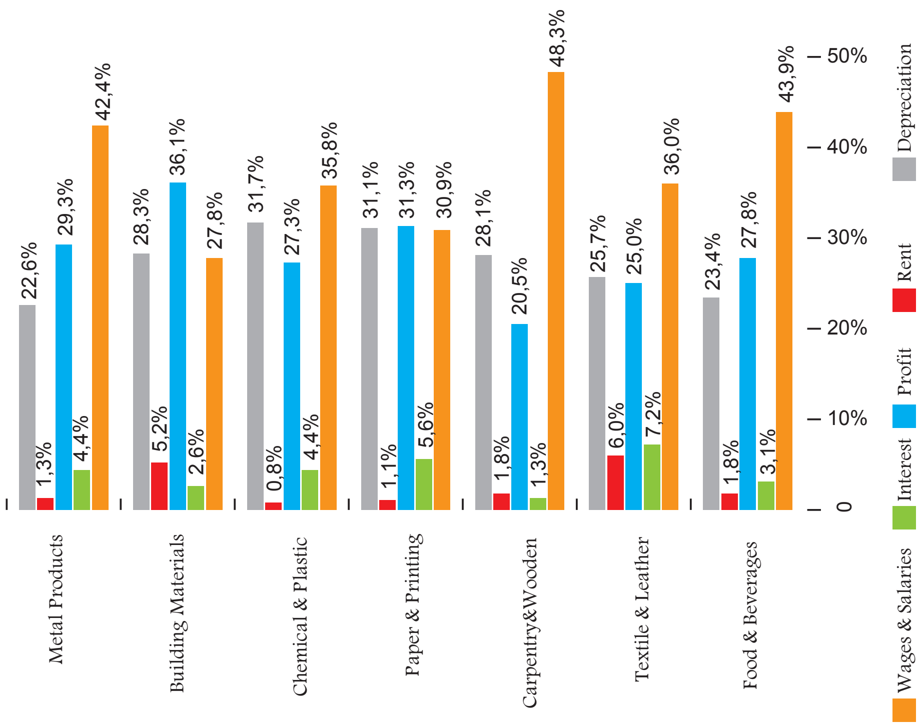
Figure (2) presents a more detailed picture of the distribution of the different components of value added in the major industrial sectors. Profits with wages and salaries accounted for above 70% of gross value added in each of the Metal Products and Food Products sectors. This figure declined to 68.8% in Wooden Products sector, 63.9 % in Building Materials, 63.1% in the Chemical Industries, 62.2 % in Paper & Printing, and, finally, to 61.0 % in the Textiles & Leather sector. The main reason for this decline, is the technical nature of the industries cited, making them relatively more capital-intensive with a higher share of depreciation costs contrasted with other industries.

Figure (1) Components of the Saudi Manufacturing Sector Value Added (2010G)




Source: SIDF Manufacturing Database (2010G)

Figure (2) Components of the Value Added in the Major Industrial Sectors (2010G)

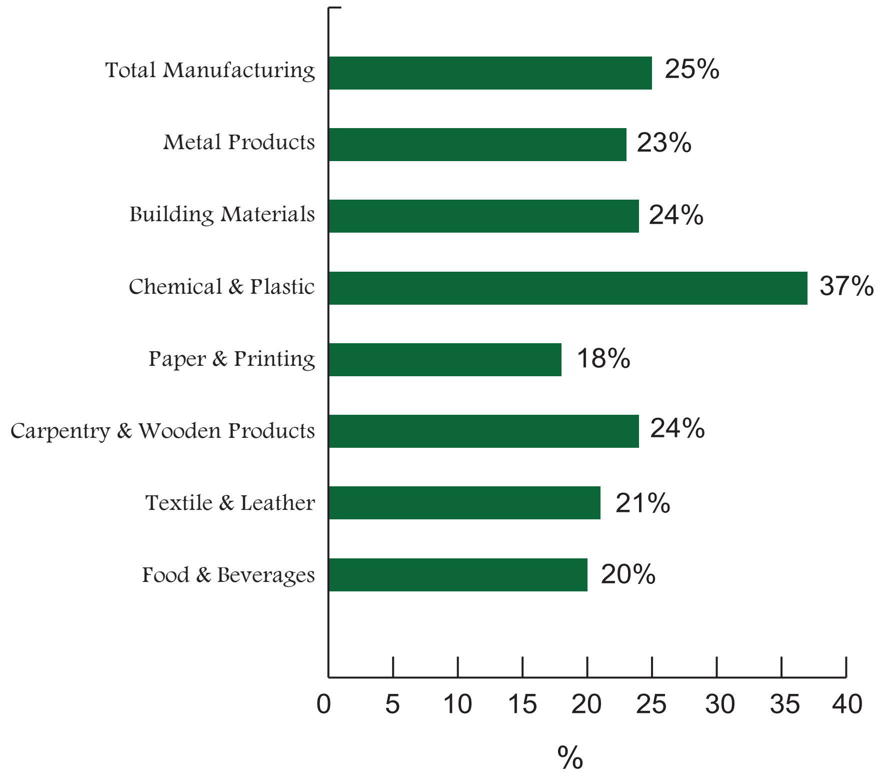



Source: SIDF Manufacturing Database (2010G)

As for the ratio of Saudi labor to total labor in the industrial sector, this indicator is gaining increasing importance at the national level. Figure (3) shows the Saudi labor ratio to total labor in the major industrial sectors during 2010, indicating that the Chemical Products Sector was ahead of all other sectors, with a Saudi employment ratio of 37%. Then came the Building Materials & Wooden Products sectors; each with 24%; the Metal Fabrication sector with a Saudi employment ratio of 23%; the Textiles & Clothes sector with 21%, and, finally, the Food Products and Paper & Printing sectors with Saudi employment ratios of 20% and 18%, respectively. As for the whole industrial sector, the Saudi labor ratio of 25% is considered moderate as foreign labor still accounts for the bulk of the labor force.

Figure (3) Percentage of Saudi Workers to Total Workers

By Major Sectors (2010G)




Source: SIDF Manufacturing Database (2010G).

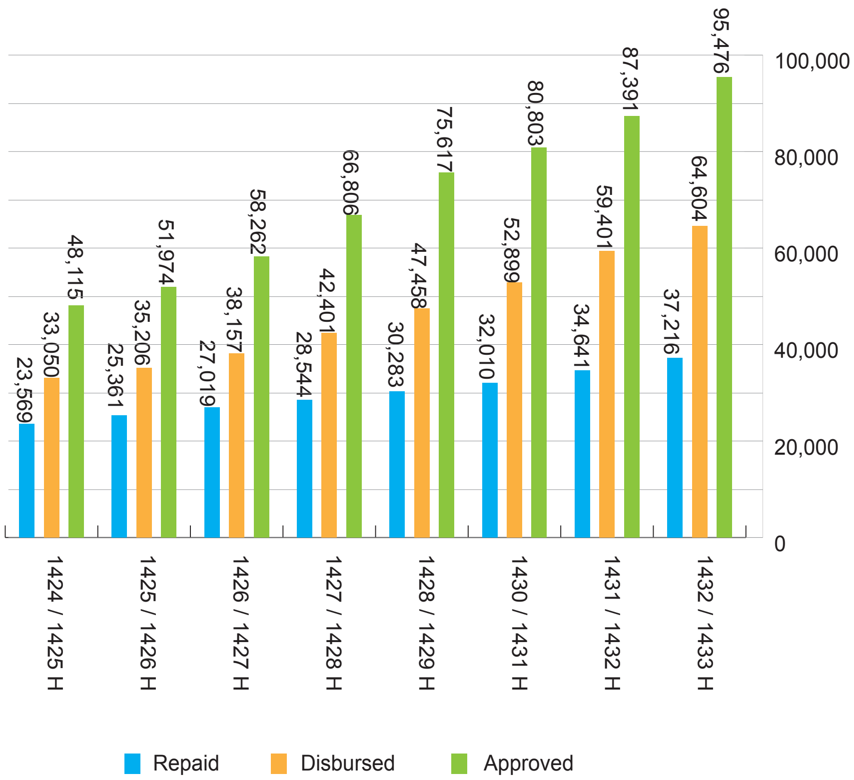
# SIDF Performance Review:

## SIDF Performance Review:

### Lending Activities for the Fiscal year 1432/1433 H (2011G):

The Saudi Industrial Development Fund continued its outstanding track record of achieving high performance rates at all levels over the fiscal year 1432/1433H (2011G). Such achievements reflect the solid base of the domestic economy as evidenced by the government budget announced for the year. It also came as a natural result of the substantial government support to the Fund and other development institutions within the Kingdom.

Figure (4): Cumulative value of SIDF Approved, Disbursed and Repaid Loans (SR Millions)




In 1432/1433H, the Fund committed SR 8,085 million in loans, a figure 23% higher than commitments for the previous fiscal year of 1431/1432H. By number, commitments for the year totaled 118 loans, a 24% increase over the number of loans approved last year. The loans approved assisted in the creation of 86 new industrial projects and expansion of 32 existing industrial plants with total investments of SR 35,067 million. During the report year, disbursements made amounted to SR 5,202 million, and SR 2,575 million was received in repayment to outstanding loans.

From inception up to the end of 1432/1433H, the Fund has approved a total of 3,344 loans amounting to SR 95,476 million, which assisted in the creation of 2,371 industrial projects Kingdom-wide. Under these commitments, a total of SR 64,604 million has been disbursed and SR 37,216 million repaid as of the year end. This highlights the success of projects that benefited from the loans and advisory support provided by the Fund to such projects in the technical, managerial, financial, and marketing areas.

It is worthwhile noting that the fiscal year 1432/1433H was marked by considerable achievements at the internal level of the Fund. Inter alia, a team for the appraisal of loan applications from small and medium industrial enterprises has been formed. The key role of the team will be to “soften” SIDF evaluation requirements and expedite application processing with a high standard of professionalism streamlined to the needs of the sector while maintaining the key factors for approval of financing such as project’s feasibility, and the capability of meeting its obligations to the Fund. Moreover, the Fund has established a customer services division to make it easier for the Fund to liaise with local and foreign investors, in addition to development of electronic transactions; online connection with the Ministry of Commerce & Industry, and coordination with the Industrial Cities & Technology Zones Authority through online links for easier business dealings with industrial investors all over the Kingdom. During the current fiscal year 2012 G, the Fund will develop online customer services to facilitate loan application submission and processing with optimal speed.

## 1. Distribution of Loans by Sector:

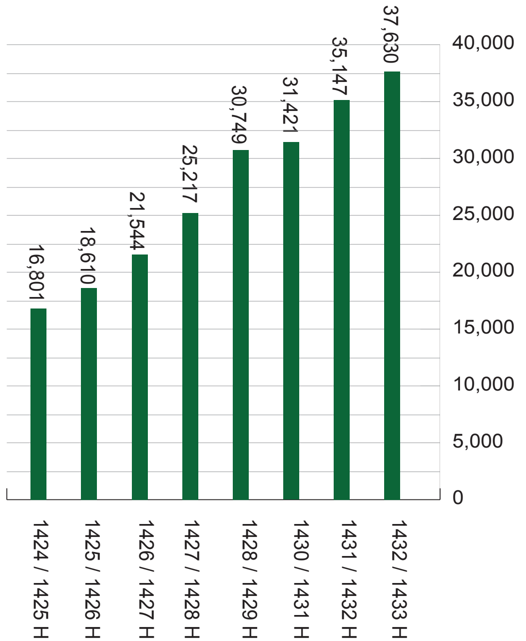
A review of major industrial sectors by value of loans approved reveals the following salient details:

## Chemical Industries:

**Cumulative Amount of Loans:**

This sector still leads all other sectors in terms of amount of loan commitments since SIDF's inception up to the end of the fiscal year 1432/1433H. Cumulative commitments extended to the sector totaled SR 37,630 million, representing 39.4% of the total value of loans approved by the Fund during the period.

Figure (5): Cumulative value of Approved SIDF Industrial Loans for the Chemical Industries Sector (SR Millions)




**Projects Approved During 1432/1433H:**

During the fiscal year 1432/1433H, SIDF approved 37 loans to this sector representing 31% of the total number of loans approved during the year. Total commitment to this sector amounted to SR 2,483 million, representing approximately 31% of the value of all loans approved during the year. Hence, the sector ranked first in terms of value of approved loans. These loans supported the establishment of 22 new industrial projects and the expansion of 15 existing projects.

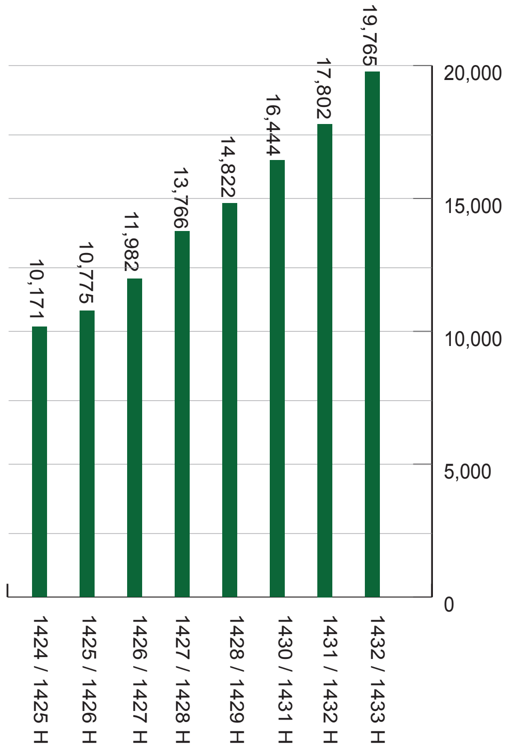
Among the loans approved to this sector in 1432/1433H, two loans of SR600 million each were approved for the erection of two plants in Jubail, one for acrylic ice acid, butalacrylite, and raw acrylic acid, and the other for ethylene copolymers, vinyl acetate and low density polyethylene. Additionally, two other loans were committed for the construction of two plants in Rabigh. One of them, for SR137 million was approved for a non-woven polypropylene fabric factory, and the other for the sum of SR91 million committed to a plant for the production of granulated PVC; PE prill for cable insulation and coating; anti-flame granules, and carbon black PE granules. Another loan amounting to SR60 million was approved for the setting up of a factory in Makkah Al-Mokarramah for the production of a variety of medical vaccines.

Commitments to expansion projects also included an SR122 million loan approved for the expansion of a Jubail-based factory producing PET & PP non-woven fabrics, and another for the sum of SR68 million for the expansion of a pharmaceuticals factory in Riyadh for the production of twenty active pharmaceutical materials. Additionally, a loan of SR47 million was approved for the expansion of a factory in Jeddah producing PET preforms, PE films, compact painted plastic sleeves, and plastic closures.

# Engineering Industries:
## Cumulative Amount of Loans:

This sector came second in terms of the value of approved loans since inception of the Fund up to the end of the fiscal year 1432/1433H (2011G). Cumulative commitments extended to the sector totaled SR19,765 million representing 20.7% of total loans approved by SIDF.

Figure (6): Cumulative value of Approved SIDF Industrial Loans for the Engineering Industries Sector (SR Millions)




**Projects Approved During 1432/1433H:**

SIDF approved 27 loans to this sector amounting to SR1,963 million or 23% of the total number of loans approved during the fiscal year 1432/1433H (2011G) and 24% of the value of these loans. Thus, the sector came second in terms of number and value of loans approved during the year. These loans financed the construction of 24 new industrial projects and the expansion of 3 existing plants.

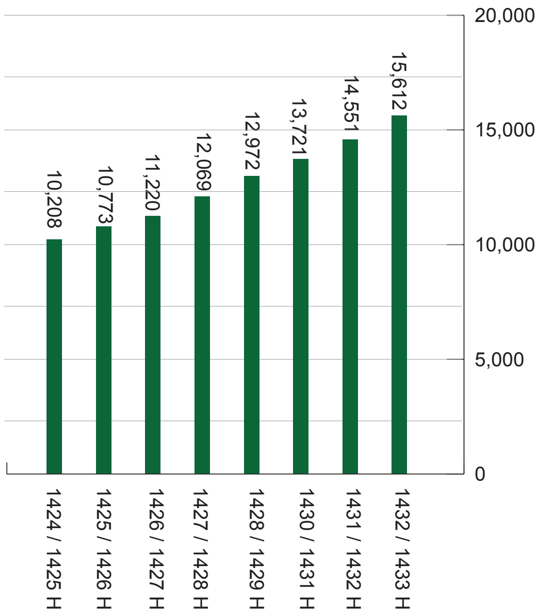
Among the new loans committed to this sector during the year 1432/1433H (2011G), two loans amounting to SR 600 million each were extended to assist in the erection of two plants in Ras Alkhair. One of them is for the production of aluminum molds, T-dies, aluminum sheets, and aluminum rods. The other plant is for the production of can-making flats and can-ends. A third loan of approximately SR 153 million was approved for the setting up of a factory in Khamis Mushait for the production of steel rebar with diameters ranging from 8 mm to 40 mm. A Riyadh-based plant for the manufacturing, rebuilding and maintenance of airplane jet engines was also approved a loan of SR 85 million.

Moreover, expansion loans covered two plants in Jeddah; one for approximately SR 17 million for the production of lighting and power transmission poles, and the other for fiber-optics cables.

## Consumer Industries:
### Cumulative Amount of Loans:

This sector ranked third in terms of the value of approved loans. Since inception of the Fund up to the end of the fiscal year 1432/1433H (2011G), cumulative commitments extended to the sector totaled SR15,612 million representing 16.4% of total loans approved by SIDF.

Figure (7): Cumulative value of Approved SIDF Industrial Loans to the Consumer Industries Sector (SR Millions)




### Projects Approved During 1432/1433H:

During the year 1432/1433 H (2011 G), SIDF approved 25 loans to this sector amounting to SR1,061 million or 21% and 13%, respectively, of the total number and amount of loans approved during the year. Thus, the sector came third in terms of number and fifth in terms of the value of loans approved during the year. The loans committed to this sector financed the construction of 17 new industrial projects and the expansion of 8 existing plants.

Among the new loans committed to this sector during the report year, a loan of SR69 million was granted to a Jeddah-based poultry feed mill. Another loan for SR14 million was committed for the erection of a plant in Kharj for the production of bottled drinking water. A third loan of SR18 million was approved for the construction of a factory in Rabigh for the manufacture of “ready” meals, mincemeat, burgers, sausages, salami, and a variety of meat products.

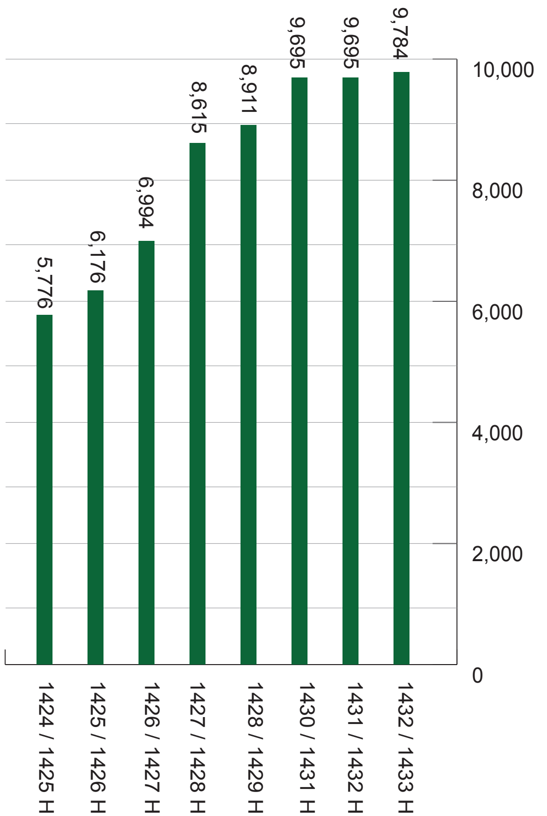
Expansion loans included a SR 191 million loan for the expansion of an Al-Kharj-based plant producing a variety of juice products, UHT milk, and jar-filled cheese. Another plant for the production of chilled and frozen poultry meat, chicken legs leftovers, fat, and feed protein powder was approved a loan of SR 77 million. An expansion loan of SR 221 million was also extended to a Dammam-based factory producing semi-chemical paper floating, test lays, and paper pulp.

## Cement Industry

**Cumulative Amount of Loans:**

Since inception of the Fund up to the end of the fiscal year 1432/1433H (2011G), the amount of loans committed to this sector totaled SR 9,784 million or 10.2% of total loans approved, thereby ranking the sector fifth in terms of the amount of loans committed.

Figure (8): Cumulative value of Approved SIDF Industrial Loans for the Cement Industries Sector (SR Millions)




**Projects Approved During 1432/1433H:**

During the year 1432/1433H (2011G), the Fund approved only one loan for SR 89 million for the expansion of a factory in Muzahemiya producing white cement. Although the Kingdom has attained self-sufficiency in cement in previous years, the Fund is expected to commit new and expansion loans for projects within this sector to keep pace with the steady increase in demand for this product due to the recent Royal Decisions ordaining the construction of 500,000 new residential units and the increase of the REDF loan to SR 500,000.


## Other Building Materials Industries:

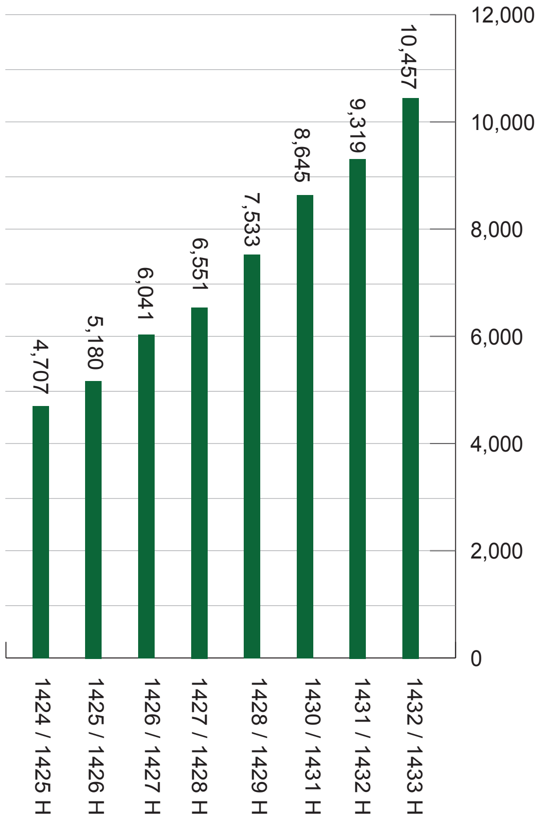
**Cumulative Amount of Loans:**

Up to the end of the year 1432/1433H (2011G),the amount of loans extended to the other building materials sector totaled SR 10,457 million or 11% of total loans approved, thereby ranking the sector fourth in terms of the amount of loans committed.

**Projects Approved During 1432/1433H:**

During the year 1432/1433H (2011G), SIDF approved 23 loans to this sector amounting to SR 1,138 million or 19.5% and 14% respectively of the total number and amount of loans approved during the year. Thus, the sector came Fourth in terms of number and value of loans approved during the year. These loans supported the establishment of 19 new industrial projects and the expansion of four existing projects.

Figure (9): Cumulative value of Approved SIDF Industrial Loans for the Other Buliding Materials Ssctor (SR Millions)




Among the loans approved to this sector, a loan of SR 314 million was extended for the construction of a Yanbu-based factory for the production of entwined threads, cut strands, entwined fabric, stranded mattresses, powder fiberglass, fiberglass filaments, multi-axial fiberglass plates, and thin non-woven fiberglass plates. Another loan of SR 139 million was extended to a red-brick factory in Jeddah. A third loan of SR 58 million was approved for the construction of a Riyadh-based factory for the production of ready mix concrete.

Expansion loans included one for SR 96 million extended for the expansion of a plant in Yanbu producing gypsum powder and gypsum boards and another for the sum of SR 73 million to support the expansion of a factory in Dammam producing fiberglass used for thermal insulation of central air-conditioning systems and buildings. Moreover, a loan approximating SR 37 was extended to assist in financing the expansion of a Riyadh-based plant producing ceramic tiles.

## Other Industries:

**Cumulative Amount of Loans:**

Since inception of the Fund up to the end of the fiscal year 1432/1433H (2011G), the amount of loans committed to this sector totaled SR 2,228 million or 2.3% of total loans approved, thereby ranking the sector sixth in terms of the amount of loans committed.

**Projects Approved During 1432/1433 H:**

In 1432/1433H, SIDF approved five loans to this sector amounting to SR 1,351 million or 17% of the total value of loans approved. Thus, the sector came third in terms of value of loans approved during the year. The loans committed to this sector financed the construction of four new industrial projects and the expansion of one existing plant. It is expected that this sector will receive further support in the future, particularly now that the Fund has started financing of support and logistic services for the industrial sector of the Kingdom.

Among the new loans approved for the sector during the year, a loan of SR600 million was extended to support a Jubail-based plant offering multiple industrial-complex services. Such services include the production of industrial water for cooling purposes, treated water, water steam, liquified air, compressed air, fuel gas, demineralized water, potable water, and an electrical power supply system. Another loan of approximately SR 26 million was extended to support a project for the construction of a housing compound for Industrial city labor comprising 524 rooms for rent, plus necessary services in the second industrial city of Riyadh. The two loans are in line with SIDF's policy promoting construction of supporting utilities and infrastructure at industrial cities.

**Projects Which Commenced Production During the year 1432/1433H (2011G):**

The number of SIDF-financed industrial projects which started production during the year 1432/1433H totaled 58 industrial projects, including 37 new and 21 expansion projects as follows:

| Sector | Number of Projects which Commenced Production during the Report Year | Projected Number of Workers |
|---|---|---|
| Chemical Industries | 18 | 3,956 |
| Engineering Industries | 16 | 1,665 |
| Other Building Materials Industries | 12 | 1,425 |
| Consumer Industries | 11 | 2,019 |
| Cement Industry | 1 | 239 |
| Total | 58 | 9,304 |

## 2. Distribution of Loans by Region:

A review of the geographical distribution of the number and value of total loans approved by the various regions of the Kingdom reveals the following salient details.

### Riyadh Region:

**Cumulative Amount of Loans:**

The number of loans committed by the Fund towards setting up of industrial projects in the Riyadh region totaled 1,223 loans granted to 855 projects, or, approximately 37% of the total number of loans approved since inception of the Fund up to the end of the year 1432/1433H (2011G). Thus, the Riyadh region ranked first in terms of the number of approved loans. However, the region came second by value of loans committed with a total of SR 19,309 million representing 20% of the value of all loans approved by SIDF.

**Projects Approved During 1432/1433H:**

During the fiscal year 1432/1433H (2011G), SIDF approved 42 loans to industrial projects in the Riyadh region, representing approximately 36% of the total number of loans approved. These loans were extended for the financing of 30 new industrial projects and the expansion of 12 existing ones. The Riyadh region respectively ranked first and second in terms of number and value of these loans, which totaled SR 1,390 million, or 17% of the total value of loans approved during the report year.

### Makkah Al-Mukarramah Region:

**Cumulative Amount of Loans:**

The Fund approved a total of 858 loans with a cumulative value of SR 16,186 million to assist in the erection of 581 industrial projects in Makkah region. Thus, Makkah region ranked third with respectively 26% and 17% by number and value of loans committed by the Fund since its inception up to the end of the fiscal year 1432/1433 H (2011G).

**Loans Approved During the Year 1432/1433H:**

During the year 1432/1433H, the Fund approved a total of 33 loans with a cumulative value of SR 1,188 million for projects located in the Makkah region, or, respectively, 28% and 15% of the total number and value of loans committed by the Fund during the year. Thus, the Makkah region came second by number and third by value of loans approved by the Fund during the year.

### Eastern Region:

**Cumulative Amount of Loans:**

Loans approved by the Fund to projects in the Eastern region totaled 945 committed towards the setting up of 668 projects costing SR 44,243 million, or, respectively, 28% and 46% of the total number and value. Thus, the Eastern region ranked first and second, consecutively, by the value and number of loans approved by the Fund since its inception up to the end of the fiscal year 1432/1433H.


**Loans Approved During the Year 1432/1433H:**

During the year 1432/1433H, the Fund approved 30 loans totaling SR 4,728 million for projects in the Eastern Region. Thus, the region came first and third, respectively, in terms of the value and number of loans committed, as it accounted for 58% of the value of such loans and 25% of their number.

## Al-Madinah Al-Munawarah Region:

**Cumulative Amount of Loans:**

The number of loans approved by the Fund for the erection of 91 projects in this region up to the year 1432/1433H totaled 120 loans amounting to SR 9,399 million, i.e. 4% and 10% of the total number and value of loans approved by the Fund. Thus, Al-Madinah Al- Munawarah region ranked fourth in terms of the number and value of loans committed by the Fund since its inception up to the end of the fiscal year 1432/1433H.

**Loans Approved During the Year 1432/1433H:**

During the year 1432/1433H, the Fund approved four loans for projects in Al-Madinah Al-Munawarah region for a total sum of SR472 million representing 3% and 6% respectively of the total number and value of approved loans. Thus, the Al-Madinah Al-Munawarah came fifth and fourth, respectively, in terms of the total number and value of loan approvals for the year.

## Qassim Region:

**Cumulative Amount of Loans:**

The number of loans approved by the Fund for the erection of 55 projects in Qassim region totaled 66 loans totaling SR 1,341 million, i.e. 2% of the total number and value of loans approved by the Fund. Thus, the Qassim region ranked fifth in terms of the number and value of loans committed by the Fund since its inception up to the end of the fiscal year 1432/1433H.

**Loans Approved During the Year 1432/1433H:**

The Fund approved a loan of SR3 million for the erection of a plastic-cup factory in Qassim during the year 1432/1433 H.

## Other Regions of the Kingdom:

**Cumulative Amount of Loans:**

The number of loans extended by the Fund to 121 projects in the other regions of the Kingdom up to the end of the year 1432/1433H totaled 132 loans amounting to SR 4,999 million representing 4% and 5%, respectively, of the total number and value of loans approved by the Fund since its inception up to the end of the report year.

**Loans Approved During the Year 1432/1433H:**

During the year 1432/1433H, the Fund approved eight loans totaling SR 304 million for the construction of four new industrial projects and the expansion of a fifth project in Aseer region, further to two new industrial projects in Al-Jawf and one in Jazan.

## 3. Financing of Joint Venture Projects:

Foreign Direct Investment is considered an effective tool for the attraction and transfer of modern technology to the Kingdom, and creation of new employment opportunities for Saudi citizens, beside its critical role in providing access for national products to penetrate foreign export markets. Since its inception, the Fund has spared no effort in promoting the erection of joint venture projects, particularly with reputable international companies. To achieve this objective, the Fund stands by its firm conviction that all elements of success for these projects are in place. The Fund does not require Saudi partnership in these projects as it also finances projects that are wholly owned by foreign investors. In this context, SIDF treats wholly foreign-owned projects on an equal footing with projects wholly or partly owned by Saudi investors.

The number of joint-venture projects approved by the Fund since its inception up to the end of the fiscal year 1432/1433H (2011G) totaled 646 projects or 27% of all projects approved. Moreover, loans committed to such joint-venture projects amounted to SR 37,890 million or 40% of total SIDF loans. Foreign partners' share in these projects accounted for 35% of their capital.

It is significant that 110 of these projects, with commitments totaling SR 10,760 million, became fully owned by Saudi investors after acquisition of the foreign partners' shares, following their eventual success and full repayment of their debts. The chemical industries sector led all other industrial sectors by value of approved loans due to the huge investments required for projects within the sector. The sector acquired a share of 55% of the value of SIDF cumulative loans, followed by the Engineering Industries sector with 29%, and the Consumer Industries with 10%.

During the report year 1432/1433H (2011G), SIDF approved 27 loans for the establishment of 21 new projects and the expansion of 6 existing ones. Commitments to these projects totaled SR 4,475 million or 55% of SIDF commitments for the year. This high percentage can be attributed to the mega joint venture projects approved by the Fund during the year, requiring substantial investments. Loans for the new joint-venture projects comprised 11 loans to the Engineering Industries sector, eight loans to the Chemical Industries sector and two loans to the Consumer Industries sector.

Joint-venture projects approved during the year provided jobs for 4,187 employees, or approximately 32% of the total employment opportunities provided by all projects approved during the year 1432/1433H (2011G), which totaled 13,062.

## Small and Medium Enterprises Loan Guarantee Program

The SME Loan Guarantee Program (KAFALA) continued its key role in supporting small and medium enterprises Kingdom-wide. Such a role is based on the program's status as a major player in community service, expanding its beneficiary base, and creation of new employment opportunities that would contribute to minimizing unemployment rates in the Kingdom.

The sixth year of the program set the standard for outstanding performance. During the year 1432/1433H (2011G), the program management approved 1,208 guarantees in contrast with 777 guarantees approved in the previous year, i.e., a growth rate of 55%. Guarantees issued during the year totaled SR 635.6 million in contrast with SR 271.4 million for the previous year, or a growth rate of 134%. This dramatic increase came as a result of the resolution of HE Minister of Finance to increase guarantee percentage to 80% of finance up to a maximum of SR 1.6 million per project. Loans provided by commercial banks to Small and Medium Enterprises during the year amounted to SR 1,284 million in contrast with SR 716 million extended during the previous year, i.e., an increase of 79%.

Since its initiation at the beginning of 1426/1427H up to the end of the fiscal year 1432/1433H (2011G), the Small and Medium Enterprises Loan Guarantee Program has issued a total of 3,095 guarantees to 1,991 SME enterprises for a total sum of SR 1,355 million against a total approved financing of SR 3,069.

The Contracting sector led all other sectors with a total of 1,494 guarantees amounting to SR602 million, or 48% of the number and 44% of the value of total guarantees issued by the Program up to the end of the year 1432/1433H (2011G). The Services sector came second with 652 guarantees for SR 314 million, i.e., 21% of the number and 23% of the value of the approved guarantees. The industrial sector ranked third with 546 guarantees valued at SR 259 million representing 18% of the total number and 19% of the value of issued guarantees, respectively. The remaining 403 guarantees, representing 13% of the total number and value of issued guarantees, are distributed among the remaining sectors as follows: Commercial 304, Medical 66, Educational 24, Agricultural 7, and Entertainment 2.

Within the framework of the Program's efforts to achieve a balanced regional development, the Program Management focused on distribution of guarantees in such a way that ensures optimized use of guarantees by the largest possible number of the Kingdom's administrative regions. Riyadh region ranked first in terms of number and value of guarantees issued by the Program during the report year. It received 585 guarantees amounting to SR300 million. The Eastern region came second with 237 guarantees of SR138 million, followed by the Makkah region with 198 guarantees totaling SR99 million. The Aseer region ranked fourth with 50 guarantees. The Najran region came fifth with 35 guarantees. It should be noted that approvals for the report year covered most of the administrative regions of the Kingdom.

As for program subscriber banks, Riyad Bank led all other commercial banks participating in the program in terms of the total number and value of guarantees approved by the Program since its launch in 2006G up to the end of the year 2011G, with 927 guarantees valued SR396 Million, or 30% of the total number of guarantees, and 29% by value. The National Commercial Bank came second with 860 guarantees totaling SR 331 million, or 28% of the total number and 24% of the total value of guarantees issued. The Arab National Bank ranked third in terms of number and fourth in terms of value with 454 guarantees totaling SR181 million, or 15% of the number and 13% of the value of guarantees. Al-Rajhi Bank occupied the fourth place in terms of the total number of guarantees and the third place by value with 442 guarantees totaling SR 207 million, i.e. 14% and 15%, respectively, in terms of the total number and value of guarantees.

The year 1432/1433 H (2011G) witnessed liquidation of 10 guarantees valued at SR 3.9 million in favor of the financing banks. Thus, the number of the liquidated guarantees increased to 38 guarantees totaling SR 17.5 million. Distribution of liquidated guarantees is as follows: 18 guarantees for the Saudi British Bank, 14 guarantees for the National Commercial Bank, 4 guarantees for Riyadh Bank and 2 guarantees for Al-Rajhi Bank.

It is worth noting that the program's activities are not limited only to issuing guarantees for SME enterprises to obtain the required financing. It also provides training, orientation, development and promoting freelance business entrepreneurship among youth. To achieve this goal, training courses and orientation workshops were organized in collaboration with the World Bank, The Institute of Banking established by SAMA, and with the participation of the Saudi banks and chambers of commerce and industry. Training and orientation programs adopted by the program are designed to suit the various segments of the SME enterprises sector, namely, ambitious youth interested in freelancing; proprietors of small and medium enterprises; senior officials of SME project support centers, and staff of the commercial banks participating in the program. Up to the end of 2011G, the program organized 21 activities under the heading“ SME Enterprises Day” in collaboration with the Saudi Chambers of Commerce & Industry and participant local commercial banks to introduce the program and familiarize the SME proprietors with its requirements and business mechanisms. Also, in cooperation with the World Bank, the International Finance Corporation and the Saudi Chambers of Commerce & Industry, KAFALA program conducted 28 training courses named “Basics of Start Up, Operating and Managing Commercial Business”. Trainees totaled 637 comprising 467 male trainees and 170 female trainees. Furthermore, KAFALA program organized 4 training courses for participant banks staff to explain the program’s work mechanisms. Moreover, the program participated in a number of forums, conferences, and exhibitions concerning small and medium enterprises.

Table (1) Number and Value of Approved Guarantees and Number of Enterprises by Financing Commercial Banks

| Bank | 2011G Approved Guarantees | | | | Total Since Launch of the Program | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Guarantees | SR 000 | | Number of Beneficiary Enterprises | Number of Guarantees | SR 000 | | Number of Beneficiary Enterprises |
| | | Value of Guarantees | Value of Finance | | | Value of Guarantees | Value of Finance | |
| Riyad Bank | 357 | 195,436 | 411,175 | 254 | 927 | 396,082 | 932,962 | 663 |
| National Commercial Bank | 270 | 121,692 | 195,334 | 152 | 860 | 330,606 | 609,897 | 510 |
| Al-Rajhi Bank | 224 | 114,314 | 195,332 | 134 | 442 | 207,053 | 431,954 | 308 |
| Arab National Bank | 185 | 91,452 | 269,282 | 77 | 454 | 181,214 | 575,875 | 190 |
| SAMBA Financial Group | 64 | 32,551 | 67,160 | 48 | 124 | 58,167 | 132,105 | 94 |
| Saudi Hollandi Bank | 39 | 33,737 | 47,150 | 33 | 54 | 44,625 | 69,750 | 47 |
| Al-Bilad Bank | 23 | 14,260 | 36,250 | 14 | 29 | 16,855 | 43,420 | 19 |
| Saudi French Bank | 17 | 12,087 | 29,303 | 11 | 68 | 36,234 | 97,665 | 46 |
| Al-Jazira Bank | 11 | 5,948 | 7,650 | 4 | 21 | 9,142 | 21,237 | 9 |
| Saudi British Bank | 10 | 6,781 | 13,545 | 8 | 108 | 68,140 | 143,235 | 98 |
| Saudi Investment Bank | 8 | 7,305 | 11,372 | 7 | 8 | 7,305 | 11,372 | 7 |
| TOTAL | 1,208 | 635,563 | 1,283,553 | 742 | 3,095 | 1,355,423 | 3,069,472 | 1,991 |

## Manpower and Training:

SIDF Management has managed to attract and employ, through its progressive training programs, qualified Saudis to work with the Fund in various SIDF business-related disciplines. SIDF employment process is linked to career development and the career ladder program, covering such areas as financial analysis; auditing; information technology; economics, and statistics studies and research; marketing; documentary accounting and financial sciences; management studies and technical consultancy; information analysis, legal studies, etc.

In the fiscal year (FY) 1432/1433H, 608 in-house and overseas' training programs were provided for Saudi employees, including specialized basic courses; master's degrees; short courses; workshops; seminars and professional conferences, in addition to SIDF in-house training courses. 570 Saudi employees have been trained in accordance with work requirements and timing of in-house and overseas training courses. 144 of those employees have attended specialized basic courses, including master's degrees and intensive English language courses abroad. 288 Saudi employees have attended short courses held abroad; 138 employees attended short courses held domestically, and 224 Saudi employees joined short courses held locally at the Fund. Also included are 81 university-graduate Saudi employees who received practical on-the-job professional training in the relevant Departments of the Fund.

SIDF has capitalized on its good relations with many similar financial institutions inside and outside the Kingdom to further develop the professional skills of SIDF's Saudi staff through effective participation in specialized professional conferences, seminars, and workshops held by these institutions. Such collaboration ensures exchange of professional expertise and experience which have contributed to enhanced skills and improved work capability of Saudi staff - a positive effect that is reflected in the general performance of the Fund.

Based on its advanced financial and administrative systems, SIDF managed to implement its adopted FY 1432/1433H Saudization programs as evidenced by the 116 Saudis who were employed to meet the various requirements of the Fund's Departments within the context of the SIDF approved budget.

**Ali Bin Abdullah Al-Ayed**

**Director General**

# SIDF Loan Application Cycle & SIDF's Organization Chart

## SIDF Loan Application Cycle

The Fund's management is unceasing in its efforts to extend its lending services to national and foreign industrialists with due speed and efficiency. Therefore, it is constantly developing procedures, guidelines and policies to improve the lending activities of the Fund so as to cater for such requirements and keep pace with the lending schemes of similar financial institutions worldwide.

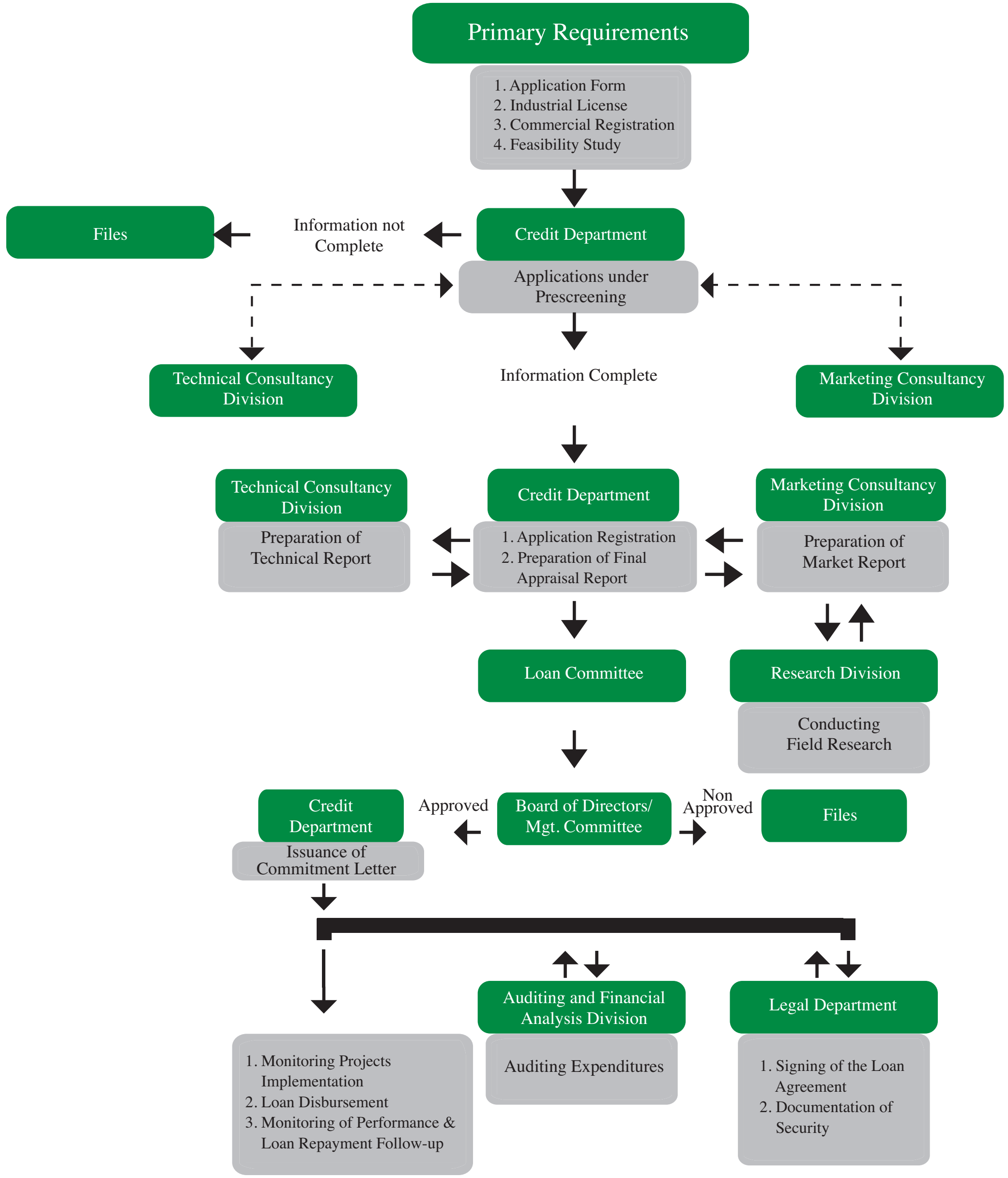
All these efforts are embodied in the Application cycle which is modified from time to time in line with prevailing practices to facilitate the adoption of the latest developments in the fields of administrative organization, financial analysis and technological progress.

The adjacent flow chart shows the Application cycle currently adopted by the Fund. The flow chart shows the processing, appraisal, and implementation follow-up of the projects to be financed. It further highlights disbursement of the Fund's commitment to borrowing projects, and the monitoring of loan maturities' repayment by beneficiary borrowers.

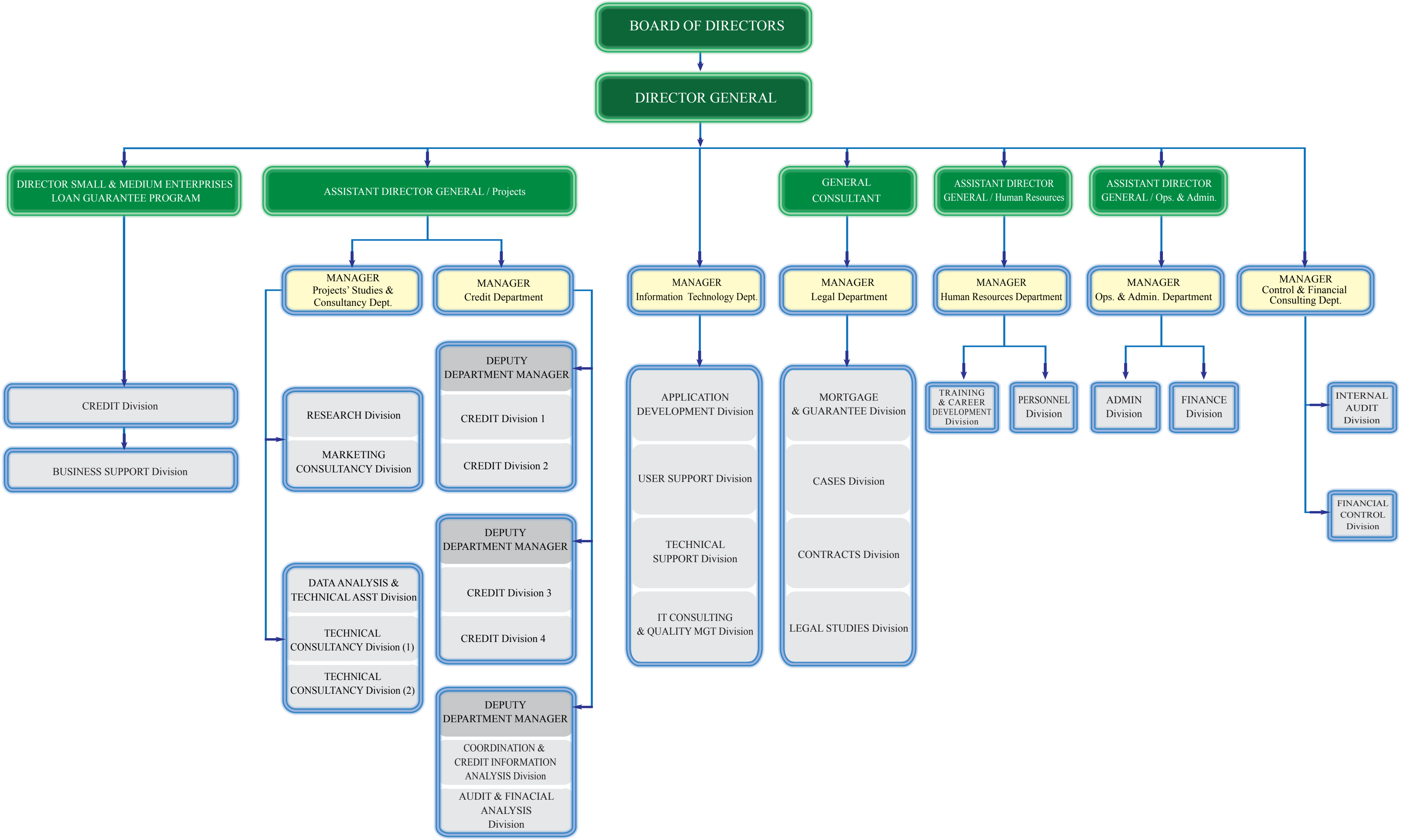
**Note:**

1. The length of the project evaluation period depends on the applicant's cooperation and the timely submission of required information.
2. For expansion projects the foregoing stages also apply, but some are likely to be omitted.

### Loan Application's Processing Flow Chart



# SIDF's Organization Chart



## CONTROL AND FINANCIAL CONSULTING DEPARTMENT (C&FCD)

Control and Financial Consulting Department (C&FCD) is among the most important departments of the Fund. It is responsible for planning and control; ascertaining the validity of SIDF assets protection procedures and periodical audit procedures in fulfillment of the General Management's objectives pertaining to command, control and provision of financial and administrative consultancy services to SIDF-financed projects when required. C&FCD's duties include:

- Participation and consultation with other SIDF departments in preparing policies and regulations for completion of various business activities prior to receiving the approval of the General Management.

- Developing effective methods for preparation of SIDF annual budget; assessing the impact of organizational structures, and devising plans to work within them. These functions are reflected in financial results and annual cash flows. They are also instrumental in controlling actual budget performance and preparing periodical analytic reports.

- Developing the SIDF's accounting system; updating description of the accounts in line with work requirements; preparing adequate accounting and control applications to ensure compatibility with the methods used in the preparation of financial statements.

- Coordinating with relevant departments in relation to adequacy of loan securities and addressing this issue in the financial statements.

- Carrying out internal audit and financial controls in the light of approved regulations and policies and developing methods to work within their parameters.

- Coordinating with relevant departments in providing consultancy and management services to SIDF's clients and developing effective plans and programs to be implemented.

- Coordinating with the external auditor to audit the SIDF's annual closing accounts thereby ensuring the completion of audit work requirements for the preparation of the final account and the External Auditor's report.

These functions are performed by the Department's Financial Control Division, Internal Audit Division and Consulting Services Unit and are carried out by experienced staff. The Department is keen to train fresh Saudi graduates, in cooperation with the Training and Career Development Division of the Human Resources Department by means of a specific training program lasting approximately three years calculated to make them professionally qualified for efficient work performance in the Department.

### 1. Financial Control Division (FCD)

The principal functions of the Financial Control Division (FCD) are the preparation of accounting systems; the monitoring of accounting systems applications and verification of the proper procedure and accuracy of financial operations' registration. FCD drafts the annual budget and takes appropriate follow-up action concerning implementation of necessary measures in accordance with the statement of deviations and their causes. FCD also ensures the issuance of the final accounts approved and certified by the External Auditor. FCD carries out its tasks via following three integrated units:

- **Financial Follow-up Unit:** Its chief function concerns the design and maintenance of the accounting system through the charter of accounts and procedures for revenues and expenditures distribution. The Unit's objective is to display the financial operations in a professional manner and provide the relevant information required for the decision-makers. The Unit also issues and reviews accounting policies that support the financial control process to facilitate the issue of reliable financial statements that can be reviewed and rectified by the External Auditor.

- **Planning and Control Unit:** It is entrusted with the task of planning and preparing the budget and ensuring the timely completion thereof as per the directives of the General Management. The Unit also applies the control procedures necessary to ensure implementation of the approved budget items as planned. It prepares and submits quarterly reports on task accomplishment in accordance with the approved objectives as well as analyzing any variances and recommending the appropriate action be taken in each case.

- **Assets Quality Control Unit:** Its major function is to ensure proper and accurate recording and routing of financial operations to the relevant accounts, which reflect the nature of these operations. The Unit also coordinates with relevant departments to check the adequacy of loan guarantees and address this issue in financial statements. In addition, it ensures the relevant quality of the elements of the financial position via periodic reviews and evaluates any possible exposure effects, which, in turn, may affect SIDF efficiency or its financial strength.

**2. Internal Audit Division (IAD)**

The Internal Audit Division reviews financial and administrative transactions to ensure that they are in compliance with the policies and procedures established and approved whether by the SIDF Board of Directors or the General Management. IAD also reviews the efficiency of these policies and procedures and proposes amendments that enhance performance effectiveness. Internal audit is carried out by two independent units which are responsible for the achievement of the objectives for which the Division was established pursuant to the requirements and approvals of the Board of Directors and General Management. The chief functions of these two Units are as follows:

- **Operations Audit Unit:** It reviews financial and administrative procedures in accordance with the approved regulations to ensure control and entry process of the financial transactions and to save documents associated with them, according to the objectives and plan of action approved by the Board of Directors. The Unit also recommends adequate remedies for weaknesses, if any, and their implementation in avoidance of any systems' deficiencies and to ensure optimal use of SIDF's assets and resources.

- **Information Technology Audit Unit:** It reviews the financial and administrative IT systems and ensures that the deliverables of these systems of financial and administrative reports meet the purposes and requirements of the automated system. Moreover, it seeks to achieve the system's objectives and provides the decision makers with the necessary data in line with the SIDF approved regulations.

**3. Consulting Services Unit (CSU)**

The SIDF charter stipulates in Article 2, paragraph 3 that SIDF "offer, if needed and when possible, economic, technical or administrative advice to the industrial institutions within the Kingdom". As the strategic study's deliverables conducted by the Fund has recommended for re-structuring for higher effectiveness, the SIDF General and Executive Management is currently working on redefining its products and assessing its needs for professional staff and approving its training courses. This will enable it to exercise its functions and achieve its objectives in professional and effective ways both for existing projects or problem loans as well as the small and medium enterprises.

# Industrial Study: KSA Compound Feed Industry

Industrial Study

## KSA Compound Feed Industry

### The Product

Quality of feed is regarded as a cornerstone in determining the output of animal production. On a practical level, in most of today's intensive farming methods, feed and nutrition have encompassed the traditional concept of simply satisfying the livestock's physiological needs. They have also become more of an art and an applied science with the primary purpose of transforming animals feed into products i.e. meat, milk, eggs…etc, more efficiently and economically.

Accordingly, most farms have shifted from using traditional fodder to using compound feed which is a processed mixture containing essential nutrients (i.e. carbohydrates, proteins, fats, minerals and vitamins) in specific inclusion rates and manufactured in mash, pellet or crumble forms to suit animals' digestive systems.

Compound feed is sub-classified into numerous formulations according to the type of animal, age, and health condition. For example, poultry compound feed is manufactured in three basic types according to age: starter, grower and finisher; the inclusion rates for each of these three sub-categories vary according to type of poultry (i.e. layer/ breeder/ broiler).

## Market Overview

The Kingdom's market demand for animal feed during the past twenty years has been fueled by the increasing number of investments in livestock due to governmental support covering local market demand for meat and other by-products. With the increase in number of livestock and the Kingdom's lack of year-round grazing pastures to support their feed requirements, the government had resolved to import barley and support its prices by subsidy.

With the increase in size of livestock population over time, the Kingdom had become the major global buyer for barley; thus, in 2010, the Kingdom had consumed 52% of barley reserved for global trade.

Given the size of the Kingdom's demand and its high dependency on this product, while international prices of barley have seen several increases over the years, governmental interventions have been necessary to adjust the rate of subsidy paid on imported barley to keep prices within an attainable range. Furthermore, the incremental cost of subsidies over the years have become a heavy burden on the Kingdom's economy especially with the increase in levels of imports. To alleviate this burden, the Saudi government initiated a policy to end the dependency on barley by encouraging the use of compound feed which is more efficient in terms of cost and production yield. The policy is based on two strategies: - (i) encourage domestic investment in compound feed manufacturing and (ii) provide subsidies on major raw materials used in the production of compound feed to control prices.

## Local Production of Compound Feed

With governmental support and increased consumer awareness of the superior properties of compound feed over traditional fodder, at present, the number of active known compound feed producers in the Kingdom has reached 46 producers with an accumulative installed production capacity of 6.1 million Tons per Annum (TPA) during 2010G. In the same year, the actual volume of production of these companies reached 4.9 million TPA, thus achieving a utilization rate of 80%.

Local Production of Compound Feed (Tons per Annum)

| Type of feed | 2008 | 2009 | 2010 |
|---|---|---|---|
| Cattle | 1,600,577 | 1,696,084 | 1,997,673 |
| Poultry | 2,510,326 | 2,782,770 | 2,872,206 |
| Total | 4,110,903 | 4,478,854 | 4,869,879 |

As can be seen in the above table, the greater part of compound feed production in the Kingdom during 2010 had been directed towards satisfying the poultry farms' requirements, which accounted for 59% of the market demand, and the balance was used for other farm animals.

The total production achieved during the past three years, from 2008 to 2010, shows a significant increase of approximately 9% per annum. However, on an individual product level, a higher momentum can be discerned in the production of ruminant animal feed than in that for poultry. This clearly indicates that the Kingdom has reached a satisfactory level in self-sufficiency in poultry production and the success of the previously mentioned governmental plan in shifting the demand of animals from barley to compound feed.

**Market Demand on Feed**

It is estimated that during 2010-G the Kingdom's total demand for all types of feed (fodder & compound feed) reached about 11 million TPA. Of that amount about 56% was allocated to traditional fodder, and the balance, 44%, to compound feed supplied by domestic production.

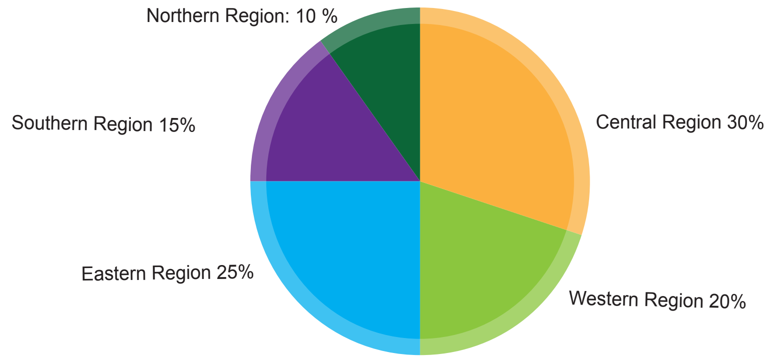
Local Demand for Animal Feed (Tons per Annum)

| Product type | 2008 | 2009 | 2010 |
|---|---|---|---|
| Compound Feed* | 4,111,726 | 4,479,799 | 4,870,879 |
| Other Feed | 6,504,630 | 5,185,755 | 6,125,432 |
| Total Animal Feed (Tons) | 10,616,356 | 9,665,554 | 10,996,311 |
| Growth % | - | (9%) | 14% |

* includes local production plus very limited import volume of specialty compound feed.

Based on available data on the distribution of livestock in the Kingdom, it is evident that the greatest demand is in the Central, Eastern and Western regions which together represent 75% of the Kingdom's total demand. The distribution of the Kingdom's feed demand (fodder & compound feed) by region is shown in the adjacent graph:

Figure 10: Distribution of the Kingdom's Feed Demand by Region 2010G




## Future Outlook on Compound Feed Demand

The future demand for compound feed is expected to grow at an average of 5% per annum. This is due to several factors which include (i) the increasing livestock population, (ii) government support through subsidies which cover a good portion of the cost of raw materials used in compound feed production. (iii) Governmental plans to shift local demand from imported fodder, mainly barley, to locally produced compound feed.

Projected Demand for Compound Animal Feed (Tons per Annum)

| Product Type | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Compound Feed | 5,125,644 | 5,394,795 | 5,679,201 | 5,979,787 | 6,297,535 | 6,612,412 |

In spite of the above opportunities for expansion, compound feed producers must still resolve a number of problematic issues which hinder their activities and future growth, namely:

1. Shortage of local raw materials' supply, especially barely & wheat bran.
2. Continuous fluctuations in the international prices of raw materials.
3. Continuing reliance of animal owners on barley as feed for ruminants.

# Subject Under Scrutiny: The e-Government Program - "Yesser"

## Subject Under Scrutiny:

### The e-Government Program - “Yesser”

**Introduction:**

The Government of Saudi Arabia accords high importance to the e-government concept and the transformation process that leads to its realization. It strongly believes in the huge benefits such a concept can bestow on the national economy. Accordingly, it has issued a Supreme Royal Decree, number 7/B/33181, dated 10/7/1424H (7/9/2003G) which includes a directive to the Ministry of Communications and Information Technology to formulate a plan for providing government services and transactions electronically.

Transformation to an information society cannot be achieved without comprehensive collaboration and concerted efforts to realize the set objectives. Therefore, the Ministry of Communications and Information Technology (MCIT) established the e-Government Program - “Yesser” in 2005 in conjunction with the Ministry of Finance and the Communications and Information Technology Commission (CITC).

**“Yesser” Program Objectives:**

The e-Government Program - “Yesser” - was launched with the following objectives:

- Raising the public sector’s productivity and efficiency.
- Providing better and more user-friendly services for individual and business customers.
- Increasing return on investment (ROI).
- Providing required information in a timely and highly accurate fashion.

**“Yesser” Program Philosophy:**

“Yesser” principal role is enabling the implementation of e-government. It reduces, as much as possible, centralization in e-government implementation while ensuring the minimum level of coordination between government departments.

**The Work Plan:**

The Program produces five-year e-Government plans. It is then the responsibility of government organizations to implement these plans, including business process re-engineering as per the principles laid down by the e-Government Program.

**Envisaged implementation plan for Saudi Arabia’s e-government initiative:**

The user-centric version envisaged for Saudi Arabia’s e-government initiative can be summarized by the following vision statement:

***“Everyone in the Kingdom will be able to enjoy - from anywhere and at any time - world class government services offered in a seamless, user friendly and secure way by utilizing a variety of electronic means.”***

## SIDF cooperation and e-Government Program “Yesser”:

### 1. Pre-Screen Assessment:

In Sha’ban 1430H (August 2009G), SIDF invited “Yesser” to conduct a Pre-Screen Assessment of SIDF regarding its potential for offering e-government services according to “Yesser” standards. The conclusion of the pre-screen assessment was that SIDF had some liabilities that needed to be addressed before SIDF would be in a position to offer e-government services in line with “Yesser” standards.

Following the pre-screen assessment, an agreement was signed between SIDF and the Ministry of Communications and Information Technology on 23/03/1431H (9/3/2010G) with the aim of boosting cooperation between the two parties and to enable SIDF to shift to the adoption of an e-transaction system. This will enable SIDF to set up and execute its plans and works mechanism electronically in terms of communicating with the Fund’s clients; the activation of linking SIDF with relevant government departments through linking and integration channels and through the Government Secure Network (GSN), an affiliate to MCIT.

### 2. Strategy Plan Project for SIDF for the e-Government Transformation:

The project was started with the formation of a project steering committee consisting of members from both SIDF and the “Yesser” Program and other support teams working with the project steering committee.

The chief implications of the project charter are as follow:

**a) Project Description:**
The project describes the interrelationships between business processes, information, applications and underlying infrastructure for the organization, and provides best practices for technology purchase, design and deployment. The e-Government Transformation Strategic Plan structures and governs the adherence to SIDF’s technology strategy and provides a managed environment for the introduction of Enterprise Architecture.

**b) Project Goal:**
The major goal of this project is to analyze and document SIDF’s current “As-Is” IT landscape. Utilizing the inputs from SIDF’s vision and strategy combined with industry best practices, a target “To-Be” IT landscape definition is developed. A roadmap is then developed for the evolution of the current IT landscape to the target state.

Accordingly, “Yesser” and SIDF commenced the project by conducting a detailed study of the following:

- Business Architecture.
- Application Architecture.
- Data Architecture.
- Technology Architecture.

**The final list of deliverables is as follows:**

- **Project Charter:** Listed the Project scope, description and plan.
- **Pre-Assessment Report:** Study the current enterprise systems and their architecture; identify major challenges; define a high-level enterprise architecture scope, and estimate the e-Government Transformation Strategic Plan development effort.
- **Architecture Vision:** Integrated the SIDF guiding principles with the relevant Saudi government legislation and industry best practices; also, developed a classified list of guiding principles to be used in the subsequent phases of the project.
- **Baseline Architecture:** A detailed articulation of the Baseline Architecture for the purpose of developing SIDF's e-Government Transformation Strategic Plan. It will serve as a representation of the SIDF's current state.
- **Target Architecture:** Determine SIDF Enterprise Architecture and the SIDF's future state.
- **GAP Analysis:** Review the current SIDF IT systems and compare with the target state architecture.
- **Request for Proposal (RFP):** Prepare the RFP for managing SIDF Lending program to industrial projects established by the private sector in the Kingdom,

## 3. Some SIDF Achievements Complying with "Yesser" Standards:

- SIDF has gained 79.33% in the 2nd measurement for e-government transformation series – a level classified as "Good": Ranking SIDF in the top 20 government organizations. In the 3rd measurement, SIDF achieved 82.03%, classified as "Superior Level"
- Completed the design and implementation of the internal and external SIDF web site, which contains several e-government services such as:

a. Loan Application,
b. Loan Enquiry (Existing Clients),
c. Bank Enquiry,
d. Clearance Certificate (Internal Service),
e. Recruitment,
f. New SIDF Projects bid tenders
g. A link between SIDF and Ministry of Commerce and Industry for client Enquiry.

# SIDF Lending Activity Charts

## SIDF Lending Activity Charts:

Table (1) : Number of Newly-Approved SIDF Industrial Projects by Minor Sector

| Sector | 1432/1433H | Cumulative Total |
|---|---|---|
| Consumer Products | 17 | 641 |
| Food | 7 | 297 |
| Beverages | 3 | 58 |
| Textiles | 5 | 69 |
| Leather & substitutes | 0 | 24 |
| Carpentry products | 0 | 14 |
| Wooden furniture | 0 | 53 |
| Paper products | 2 | 90 |
| Printing | 0 | 36 |
| Chemical Products | 22 | 585 |
| Chemicals | 12 | 279 |
| Oil & gas products | 2 | 34 |
| Rubber Products | 0 | 17 |
| Plastic Products | 8 | 255 |
| Building Materials | 19 | 385 |
| Ceramic Products | 0 | 13 |
| Glass Products | 4 | 63 |
| Other Building Material | 15 | 309 |
| Cement | 0 | 30 |
| Engineered Products | 24 | 683 |
| Metal Products | 17 | 408 |
| Machinery | 0 | 88 |
| Electrical Equipment | 4 | 130 |
| Transport Equipment | 3 | 57 |
| Other Manufacturing | 4 | 47 |
| Total | 86 | 2,371 * |

* Of which 467 loans were terminated.

Table(2) : Value of Approved SIDF Industrial Loans by Minor Sector (SR millions)

| Sector | 1432/1433H | Cumulative Total |
|---|---|---|
| Consumer Products | 1,061 | 15,612 |
| Food | 550 | 7,906 |
| Beverages | 34 | 1,615 |
| Textiles | 225 | 2,298 |
| Leather & substitutes | 0 | 133 |
| Carpentry products | 0 | 205 |
| Wooden furniture | 0 | 368 |
| Paper products | 252 | 2,872 |
| Printing | 0 | 215 |
| Chemical Products | 2,483 | 37,630 |
| Chemicals | 1,813 | 29,379 |
| Oil & gas products | 62 | 3,176 |
| Rubber Products | 0 | 477 |
| Plastic Products | 608 | 4,598 |
| Building Materials | 1,138 | 10,457 |
| Ceramic Products | 37 | 1,369 |
| Glass Products | 422 | 2,985 |
| Other Building Material | 679 | 6,103 |
| Cement | 89 | 9,784 |
| Engineered Products | 1,963 | 19,765 |
| Metal Products | 1,730 | 14,718 |
| Machinery | 0 | 872 |
| Electrical Equipment | 107 | 3,117 |
| Transport Equipment | 126 | 1,058 |
| Other Manufacturing | 1,351 | 2,228 |
| Total | 8,085 | 95,476* |

* Of which SR 13,749 million was terminated or reduced.

Table - (3) : Number of Newly Approved SIDF Industrial Projects by Province

| Province | 1432/1433H | Cumulative Total |
|---|---|---|
| Riyadh | 30 | 855 |
| Makkah | 24 | 581 |
| Madinah | 3 | 91 |
| Qassim | 1 | 55 |
| Eastern Province | 21 | 668 |
| Asir | 4 | 36 |
| Tabouk | 0 | 9 |
| Hail | 0 | 17 |
| Jizan | 1 | 19 |
| Najran | 0 | 12 |
| Al-Baha | 0 | 9 |
| Al-Jouf | 2 | 16 |
| Northern Frontier | 0 | 3 |
| Total | 86 | 2,371* |

* Of which 467 loans were terminated.

Table - (4) : Value of Approved SIDF Industrial Loans by Province (SR Millions)

| Province | 1432/1433H | Cumulative Total |
|---|---|---|
| Riyadh | 1,390 | 19,309 |
| Makkah | 1,188 | 16,186 |
| Madinah | 472 | 9,399 |
| Qassim | 3 | 1,341 |
| Eastern Province | 4,728 | 44,243 |
| Asir | 264 | 870 |
| Tabouk | 0 | 496 |
| Hail | 0 | 132 |
| Jizan | 17 | 1,337 |
| Najran | 0 | 956 |
| Al-Baha | 0 | 28 |
| Al-Jouf | 23 | 230 |
| Northern Frontier | 0 | 949 |
| Total | 8,085 | 95,476* |

* Of which SR 13,749 million was terminated or reduced.

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