Kingdom of Saudi Arabia
Ministry of Finance

Annual Report

for the Fiscal Year 1434/1435H (2013G)

Saudi Industrial Development Fund

IN THE NAME
OF ALLAH,
MOST GRACIOUS,
MOST MERCIFUL

Custodian of the Two Holy Mosques

King Abdullah Bin Abdulaziz Al Saud

His Royal Highness

Crown Prince Salman Bin Abdulaziz Al Saud

The Deputy Premier and the Minister of Defense

His Royal Highness

Prince Muqrin Bin Abdulaziz Al Saud

Second Deputy Premier, Advisor and Special Envoy of the Custodian of the Two Holy Mosques

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.

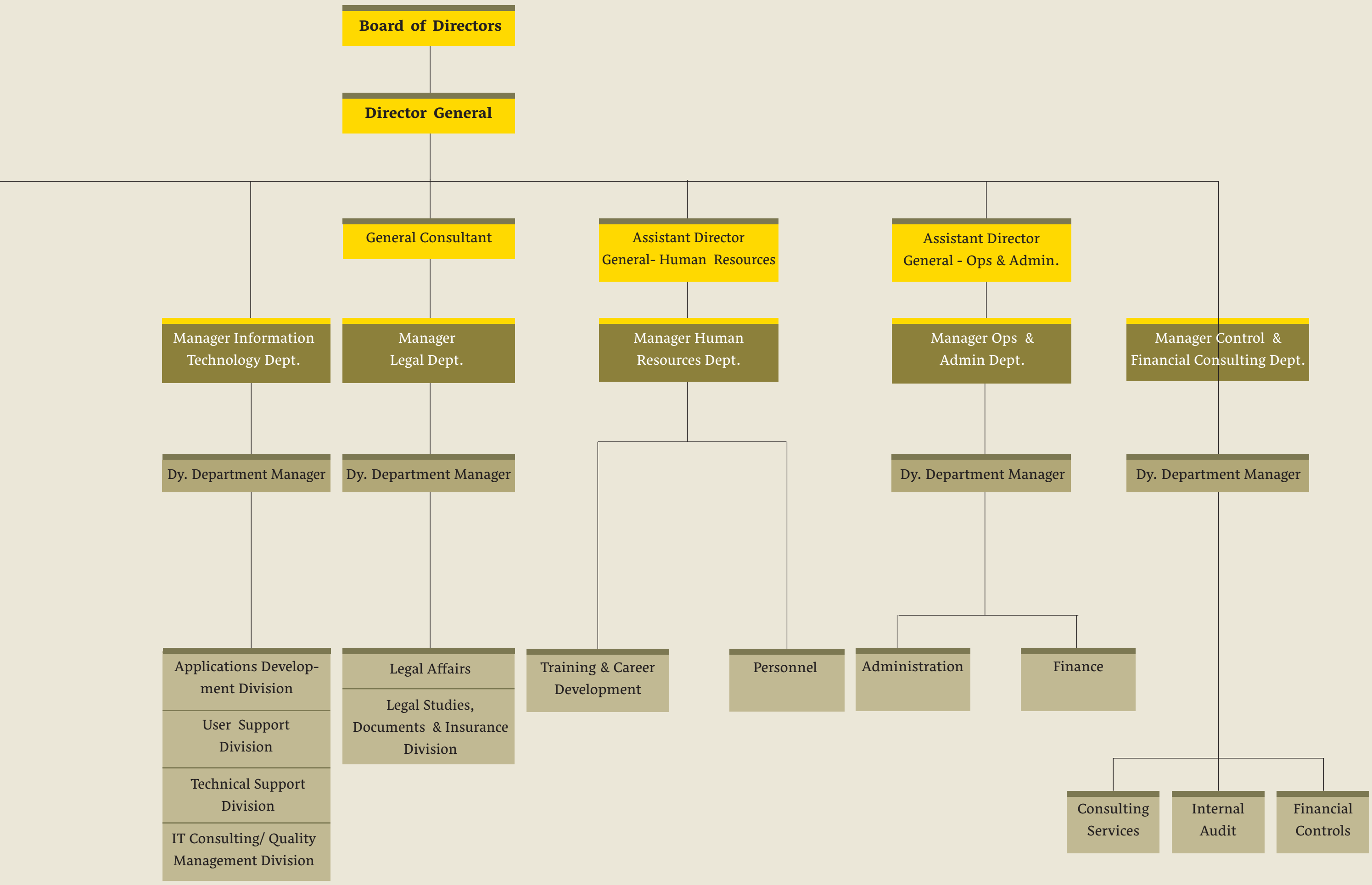
Mission

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.

- Director - SME Loan Guarantee Program
  - Deputy Department Manager
    - Credit Division
    - Legal Affairs Div.
    - Information Technology Unit
    - Financial & Admin. Affairs Division
    - Business Dev. & Public Relations Unit
    - Research Information & Analysis Div.
- Assistant Director General - Projects
  - Manager Projects Studies & Consultancy Dept.
    - Deputy Department Manager
      - Technical Consultancy Div-1
      - Technical Consultancy Div-2
      - Data Analysis & Technical Assistant Div.
      - Industrial Construction Div.
    - Deputy Department Manager
      - Marketing Consultancy Div-1
      - Marketing Consultancy Div-2
      - Statistical & Economic Studies and Information Div.
      - Market Research Div.
  - Manager Credit Department
    - Deputy Department Manager
      - Credit Division - 1
      - Credit Division - 2
      - Credit Division - 5
    - Deputy Department Manager
      - Credit Division - 3
      - Credit Division - 4
      - Credit Division - 6
    - Deputy Department Manager
      - Coordination & Credit Info Analysis Division
      - Customer Services Division
      - Loan Review & Follow-Up Team
      - Audit & Financial Analysis Division

SIDF's Organization Chart



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Foreword by H.E., The Minister of Finance

I am delighted to introduce the Annual Report of the Saudi Industrial Development Fund (SIDF) for the fiscal year 1434/1435H (2013G). The report reflects the strength of the Saudi economy and the confidence displayed by local and foreign investors, in the Kingdom in general, and the industrial sector in particular.

In 2013G, Saudi Arabia was among the top three performing G20 economies despite discouraging indicators and regression in the global economy. The Kingdom's invigorating financial and economic policies, which have stimulated the economy, as well as its pivotal role in global economy stabilization, have been lauded by international economic authorities. The scope of the State budget for the new fiscal year 1435/1436H (2014G) clearly attests to the wide-ranging development policy of the Kingdom's government.

Moreover, the growth rate of the non-oil manufacturing sector has surpassed the average growth rate of GDP for years, thereby underlining the Saudi government's success in its policy of economic diversification, independent of oil price fluctuations. SIDF approvals during the fiscal year 1434/1435H (2013G) increased to 144 loans amounting to SR 6.7 billion. These loans contributed to the establishment of 120 new industrial projects and expansion of 24 existing industrial projects, with investments approximating SR 14.5 billion.

In line with Saudi government development policy (as outlined above) many investors have shown a marked tendency towards investing in less developed regions prompted by the Fund's motivational advantage of investment in such regions, as evidenced by the fact that 50% and 66% of loans and the total amounts they represent, respectively, are for projects implemented in less developed regions. It is worth mentioning that the corresponding figures, prior to the Counsel of Ministers' resolution to raise the financing ceiling for projects in less developed regions from 50% to 75% and extend the loan repayment period from 15 to 20 years, never exceeded 14% and 15%, respectively. Such a positive trend will unquestionably expand the industrial base and ultimately achieve economic development equilibrium throughout all the Kingdom's regions.

On the other hand, the SIDF-managed Small and Medium Enterprises Loan Guarantee Program's (Kafalah) accomplishments reached unprecedented levels in developing, upgrading and supporting Small and Medium Enterprises. During the fiscal year 1434/1435H (2013G), the Program issued 2,515 guarantees totaling SR 1,286 million in favor of 1,173 small and medium enterprises engaged in activities encompassing all economic sectors Kingdom-wide. Accordingly, the cumulative guarantees issued by the Program since its establishment up to the end of last year totaled 7,280 in terms of number and SR 3,590 million in terms of value. These guarantees were issued against cumulative bank's financing of SR 7,184 million in favor of 4,082 small and medium enterprises engaged in activities encompassing all economic sectors Kingdom-wide.

It is worth pointing out that Saudization levels are still modest in local industry despite an undoubted increase in recent years. For this reason, the government and private sectors should co-operate in their efforts to raise Saudization levels to those already attained in many of the Kingdom's major industries.

Finally, I would like to express my sincere appreciation and gratitude to the Custodian of the Two Holy Mosques and his faithful Crown Prince and the Second Deputy Premier - God save them - for their unwavering support for, and enlightened guidance to, industrial development in the Kingdom which, in turn, have created the economic and social environment fundamental to SIDF's leadership in furthering the Kingdom's industrial development.

I would also like to extend my thanks and appreciation to the Chairman and members of the Board of Directors of SIDF together with its executive management and all employees for their dedicated efforts that have culminated in the prodigious accomplishments I have referred to above. I am convinced that SIDF will maintain its total commitment to its objectives, so the years to come will witness unprecedented achievements. My confidence is bolstered by SIDF's fundamental ideology: competent management and thoroughly professional employees with relevant expertise, high qualifications and total dedication.

May Allah guide all of us!

Minister of Finance

Ibrahim Abdulaziz Al-Assaf

Board of Directors

Dr. Abdulrahman Abdullah Al-Hamidy
Chairman of the Board, SIDF

Mr. Abdullah Ebrahim AL-Ayadhi
Assistant Secretary General,
Public Investment Fund

Eng. Saleh Ibrahim AL-Rasheed
Director General of the
Saudi Industrial Property Authority

Dr. Osama Hussain Mansouri
Advisor to H.E. The Minister of Economy
and Planning

Dr. Aabed Abdullah AL-Saadoun
Deputy Minister for Companies Affairs
Ministry of Petroleum and Mineral Resources

Chairman’s Statement

It is with great pleasure I introduce the SIDF annual report for the fiscal year 1434/1435H (2013G). This year marks another milestone in the inexorable advancement of this distinguished and exceptional institution.

SIDF has maintained its prestige as one of the leading executors of industrial development in the Kingdom by implementing its lending functions professionally and efficiently to promote the development phase of the industrial sector. During the fiscal year 1434/1435H (2013G), the Fund approved 144 loans. These approved loans totaled SR 6.7 billion and were committed to inaugurating 120 new industrial projects and the expansion of 24 existing industrial projects. Investment in these projects totaled SR 14.5 billion. During the fiscal year 1434/1435H (2013G), disbursed amounts of loans totaled SR 4.9 billion, and repayments by borrowers amounted to SR 4.4 billion, the latter representing the highest total sum of loan repayments made in any one fiscal year since the foundation of the Fund. Moreover, the figure clearly attests to the vigour of the local industrial sector and the striking success of the project appraisal policies of the Fund.

SIDF’s accomplishments to date can best be assessed from the perspective of the following brief overview: the number of loans approved by the Fund from its inception in 1394H up to the fiscal year-end 1434/1435H (2013G), has totaled 3,624, committed to assisting the implementation of 2,592 industrial projects backed by financial commitments amounting to SR 112.1 billion. These SIDF-financed projects have had a remarkable impact on the development and diversification of the industrial base of the Saudi economy.

The Fund has also managed to cope adequately with the requirements of the development phase of the industrial sector by its immediate implementation of the decision of the Council of Ministers to increase SIDF’s financing limit to industrial projects located in the less developed regions, including certain urban areas to 75% of the eligible financeable cost of the relevant project (up from 50%) and the repayment term limit to a maximum of 20 years (up from 15). These changes aim to achieve uniform development throughout all the Kingdom’s regions. To this end, the approvals to the less developed regions and relevant urban areas accounted for 50% and 66% of the number of loans and total approved allocations, respectively, for the fiscal year 1434/1435H (2013G).
Additional evidence of the Kingdom's successful policy of expansion of its industrial base is the fact that 83% for both the number and total value of loans approved during the current fiscal year relate to new industrial projects.
Furthermore, the Fund has continued to show interest in small-scale industrial projects (usually requiring financing of up to SR 15 million). This sector accounted for 59% of the total number of loans approved for the fiscal year 1434/1435H (2013G).
Likewise, in cooperation with Saudi commercial banks, the Fund-administered Small and Medium Enterprises Loan Guarantee Program (Kafalah) achieved impressive results during the fiscal year 1434/1435H (2013G). The latter include the Program’s approval of 2,515 new guarantees, an increase of 51% on the previous year’s figure and valued at SR 1,286 million, an increase of 36% on the previous year’s valuation. In addition, finance value provided by Saudi commercial banks reached SR 2,348 million, an increase of 33% on the previous year’s provision. These guarantees were issued in favor of 1,173 small and medium enterprises, representing an increase of 28% in the number of beneficiary small and medium enterprises in contrast with the number of recipients in the previous year. These exceptional achievements, especially when assessed in the context of current uncertain global economic situation are undoubtedly due to the progressive directives and the wise leadership of the Custodian of the Two Holy Mosques, the Crown Prince and the Second Deputy Prime Minister, who have invariably accorded to the Fund their unstinting support and guidance.

In conclusion, I extend my sincere thanks to the Custodian of the Two Holy Mosques, HRH the Crown Prince and the Second Deputy Premier - God save them - for their unwavering patronage of the Fund. I also thank my colleagues on the Fund’s Board of Directors, management personnel and all SIDF staff for the dedication and professionalism, which distinguishes them, qualities that have unquestionably brought about the notable results I have described.

May Allah bless all of us!

Chairman of the Board of Directors

Abdulrahman Abdullah Al-Hamidy


1.356
1.976

Preface: Trends and Indicators in the Domestic Economy

KSA Economic Review for the Year 2013G:

The Saudi economy continued its satisfactory rate of growth in 2013G despite slow economic growth globally. However, due to the enlightened coordinated monetary and fiscal policies of the Kingdom sustained by ongoing structural and regulatory reforms, the Saudi economy has successfully overcome the main difficulties it has had to contend with and continues to grow at favourable rates. According to the Ministry of Finance's statement accompanying the announcement of the state budget, the Kingdom's gross domestic product (GDP) is expected to reach SR 2,795 billion in 2013G, reflecting a growth of about 1.54% at current prices. In terms of constant prices, overall GDP is now estimated to grow by 3.8%. In addition, preliminary estimates indicate that the public debt volume will decline to around SR 75 billion, i.e., less than 2.7% of GDP, by the end of the fiscal year 2013G.

As for the growth of the institutional sectors of the GDP in 2013G, the private sector performance was strongest, and is expected to grow by 9.38% at current prices and 5.5% at constant prices. Moreover, its contribution to the GDP is projected to be about 58.7%. Furthermore, all economic activities in the non-oil Sector recorded positive growth in GDP during 2013G. The Building and Construction Sector is estimated to grow by 8.11%; Communications, Transportation, and Storage Sector by 7.2%; Wholesale, Retail, Restaurants and Hotels Sector by 6.16%; Financial, Business Services, Insurance and Real Estate Sector by 4.86%, and the Non-oil Manufacturing Sector by 4.72%.

Regarding inflation and price levels, the Consumer Price Index (CPI), according to the Central Department of Statistics and Information (CDSI), is estimated to increase by 3.35% in 2013G. The non-oil GDP deflator, a key economic indicator for calculating inflation for the whole economy, is expected to increase by 1.85% in 2013G.

According to the preliminary estimates of the Saudi Arabian Monetary Agency (SAMA), the current account of the balance of payments is estimated to record a surplus of SR 487 billion in 2013G in contrast with surplus of SR618 billion in 2012G, reflecting a decline of 21.2%. Likewise, the trade balance in 2013G is expected to achieve a surplus of SR 802 billion, i.e., a drop of 13.3% on last year's figure as a result of the decline in oil exports and an increasing volume of imports. As regards exports, the total volume of goods is expected to reach SR1,376 billion in 2013G, a decline of 5.5% on last year's figure. However, the value of non-oil exports is expected to reach SR196 billion in 2013G, an increase of 3.9% on last year's figure, representing 14.4% of the total volume of exported goods. On the other hand, the total value of imports is expected to reach SR 574 billion in 2013G, an increase of 8% on last year's figure.

Concerning financial and monetary developments, the Kingdom continued to implement its stable monetary and financial policy with the aim of achieving a suitable level of liquidity to satisfy the requirements of the national economy. The money supply, in terms of its broad definition, achieved a growth rate of 6.6% in the first ten months of the fiscal year 2013G in contrast to a growth rate of 10% over the same period in the previous fiscal year.

With reference to the banking sector, commercial banks continued to strengthen their financial position. During the first ten months of 2013G, capital and reserves of the commercial banks rose by 8.7% to SR 227.6 billion while their total claims on public and private sectors increased by 13%. During the same period, bank deposits grew by 6.5% reaching SR1,342 billion. Moreover, commercial banks continued to play vital role in supporting and expanding the economic activities of the private sector. Total credit extended by banks to the various economic activities in the private sector amounted to more than SR1,107 billion during the first nine months of 2013G. However, commercial banks' performance involving provision of credit to various economic activities was relatively uneven during the said period. For example, credit extended to the Agriculture and Fishing sector increased by 33.3%; Mining and Quarrying sector by 12.6%; Commercial sector by 12%; Manufacturing and Processing sector by 10.7%; Services sector by 5.9%; Building and Construction sector by 5%, and Communications and Transportation sector by 0.5%. In contrast, credit extended to the Water, Electricity, Gas and Health Services sectors declined by 6.3%, and that extended to the Financing sector by 1.1%.

Similarly, the Saudi Industrial Development Fund maintained its high level of commitment to the support of local industry in all spheres of industrial activities. SIDF's loans approvals in the fiscal year 2013G amounted to 144 loans, having an equivalent value of SR 6.7 billion. The share of the less-developed regions and urban areas of the value of these loans

Overall GDP is now estimated to grow by

3.8%

is around 66%. Furthermore, the Small and Medium Enterprises Loan Guarantee Program (Kafalah) administered by the Fund, approved 2515 guarantee documents in 2013G, having an equivalent value of SR 1.3 billion, to guarantee financing of SR 2.3 billion extended by local commercial banks to 1,173 small and medium enterprises.

Besides these positive economic indicators described above, the Saudi General Share Index registered 8,535 points at the end of 2013G as opposed to 6,801 at the end of 2012G. An additional five companies made partial public offerings on the market, bringing the total number of companies registered in the market to 163.

In addition, the Capital Market Authority (CMA) approved Islamic financial bonds (sukuk) offerings for two companies and licensing for 13 new investment funds. Furthermore, it drew up, regularly revised and issued a set of regulations to organize and develop the market, emphasizing the principles of fairness, transparency, disclosure, and investor protection. The CMA has thus laid down prudential rules and amended the authorized persons' regulation. Moreover, CMA has prepared the procedures and instructions related to listed companies with accumulated losses of 50% or more of their capital, to produce an appropriate mechanism for dealing with such companies, effective as of first of July 2014.

In pursuit of the development and consolidation of structural and organizational reforms intended to strengthen the national economic structure, new government entities have been established. Also, regulations and laws pertaining to fiscal, institutional, and organizational reform have been drafted and issued during 2013G. They include the new judicial systems; the organization of the Public Transport Authority; the organization of the General Organization for Military Industries; import licenses guide and procedures; the system of measurement and calibration; the GCC's uniform system of anti-dumping, countervailing and preventive measures, and the GCC's uniform system for the control of crimes relating to Information Technology. Recently, the Cabinet has approved a new anti-terrorism law which criminalizes the financing of terrorism as well as those illegal activities described in the Anti Money-Laundering law.

In their assessment of the Saudi economy, a number of reputable international economic institutions and agencies have underscored the strength of the Saudi economy. The International Monetary Fund (IMF), in its latest 2013G Article IV Consultation report has appraised the consistently strong performance of the Saudi economy emphasizing that the Kingdom has been among the best performers in the G20 economies in recent years. The report also highlighted the Kingdom's support for the global economy through its persistent efforts to stabilize the global oil market. It also predicted a positive trend for the Saudi economy in the immediate future.

The IMF Directors also welcomed the measures taken by the government to strengthen the management of public finances and the measures it continues to implement to support the financial development of the Kingdom's economy by applying a policy of financial regulation and supervision. They approved wholeheartedly the generous share of investment committed to the education sector for the benefit of all Saudi Arabia's citizens. They confirmed that credit growth in the Kingdom is still strong and that the banking system enjoys favourable levels of capital adequacy and profitability. Moreover, Standard & Poor's international credit rating agency has recently raised the sovereign rating of the Kingdom from "stable" to "positive" with a high credit rating of AA-. The Agency commended the Kingdom's efforts to promote and diversify its economy (resulting in the accelerated and real growth of per capita income) as well as its prudent management of financial reserves.

In conclusion, despite the slow pace of recovery in global growth, the Saudi economy performed satisfactorily overall in 2013G. Moreover, according to recent indicators, the Saudi economy is expected to continue to enjoy robust growth well into the future. Its success can be explained by the government's total commitment to the implementation of policies based on economic reform in pursuit of the ultimate goals of sustainable development and vigorous competitive strategies.

Local Industrial Sector's Performance Indicators

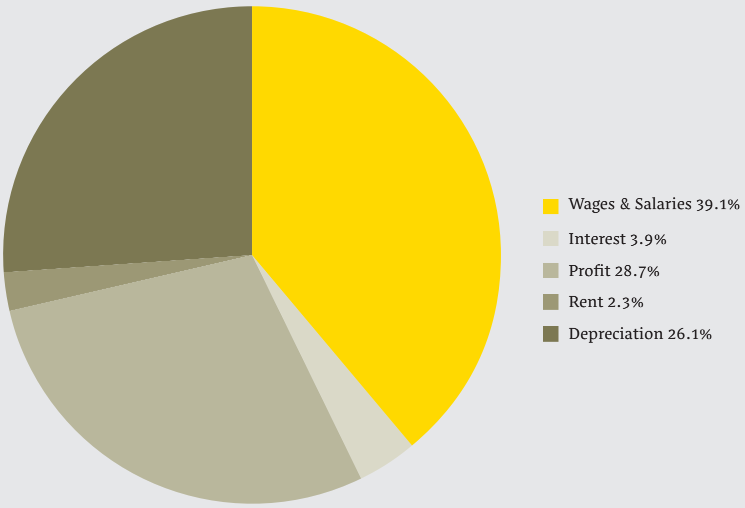
The non-oil manufacturing sector in the Kingdom achieved substantial growth: approximately 4.72%, in 2013G. In addition, the relative contribution of this sector to the country's overall GDP increased to 11.8 % by the end of 2013G in contrast to 11.6% in 2012G, thus accounting for the major share among all the non-oil producing sectors. Furthermore, the industrial sector has contributed greatly to the growth of Saudi non-oil exports to international markets, with an increase of 3.9% on the figure for 2012G, the equivalent of SR 196 billion.

As regards the overall state of the industrial sector outlined above; the performance of certain indicators has to be taken into considerations. Since the data for 2013G is unavailable, reference will be made to that for 2012G. Figures 1, 2 and 3 show, respectively, the estimated distribution of the components of the value added of the Saudi manufacturing sector; the industrial productivity per worker, and the Saudi labor ratio in the main Saudi manufacturing sectors.

As for the distribution of the components of the value added of the Saudi manufacturing sector for the year 2012G, figure 1 shows that Wages & Salaries accounted for 39.1% of the total manufacturing value added; Profits, about 28.7 %; Depreciation 26.1%; Interest rates 3.9% and, finally, Rents, about 2.3%. This distribution pattern, with a high share of profits in the components of value added, highlights the attractiveness of investments in the Saudi manufacturing sector. Accordingly, the sector is expected to attract more investments in future, contributing to strong growth in the country's overall GDP.

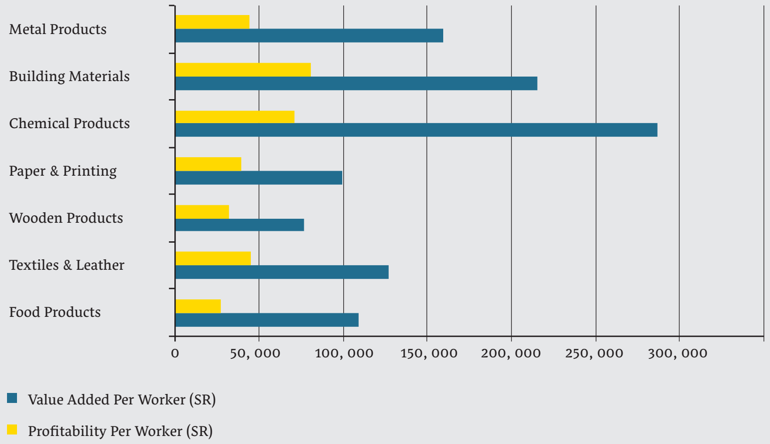
As for the industrial productivity indicator, figure 2 shows the averages of value added and profitability per worker in the major Saudi manufacturing sectors in 2012G. In general, we

Figure 1. Distribution of Components of the Value Added of the Saudi Manufacturing Sector (2012G)



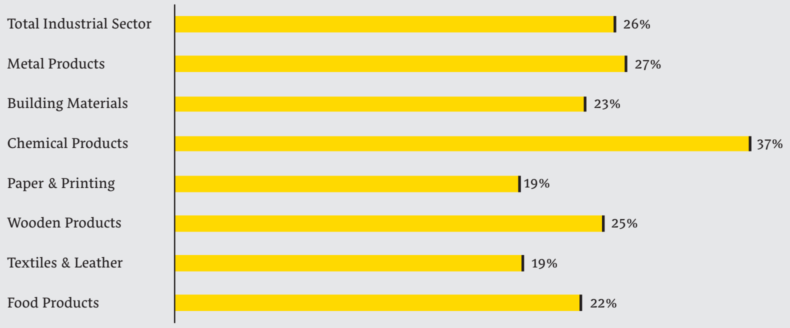
Source: SIDF Manufacturing Database (2012G)

Figure 2. Value Added & Profitability per Worker in the Major Industrial Sectors (2012G)



Source: SIDF Manufacturing Database (2012G)

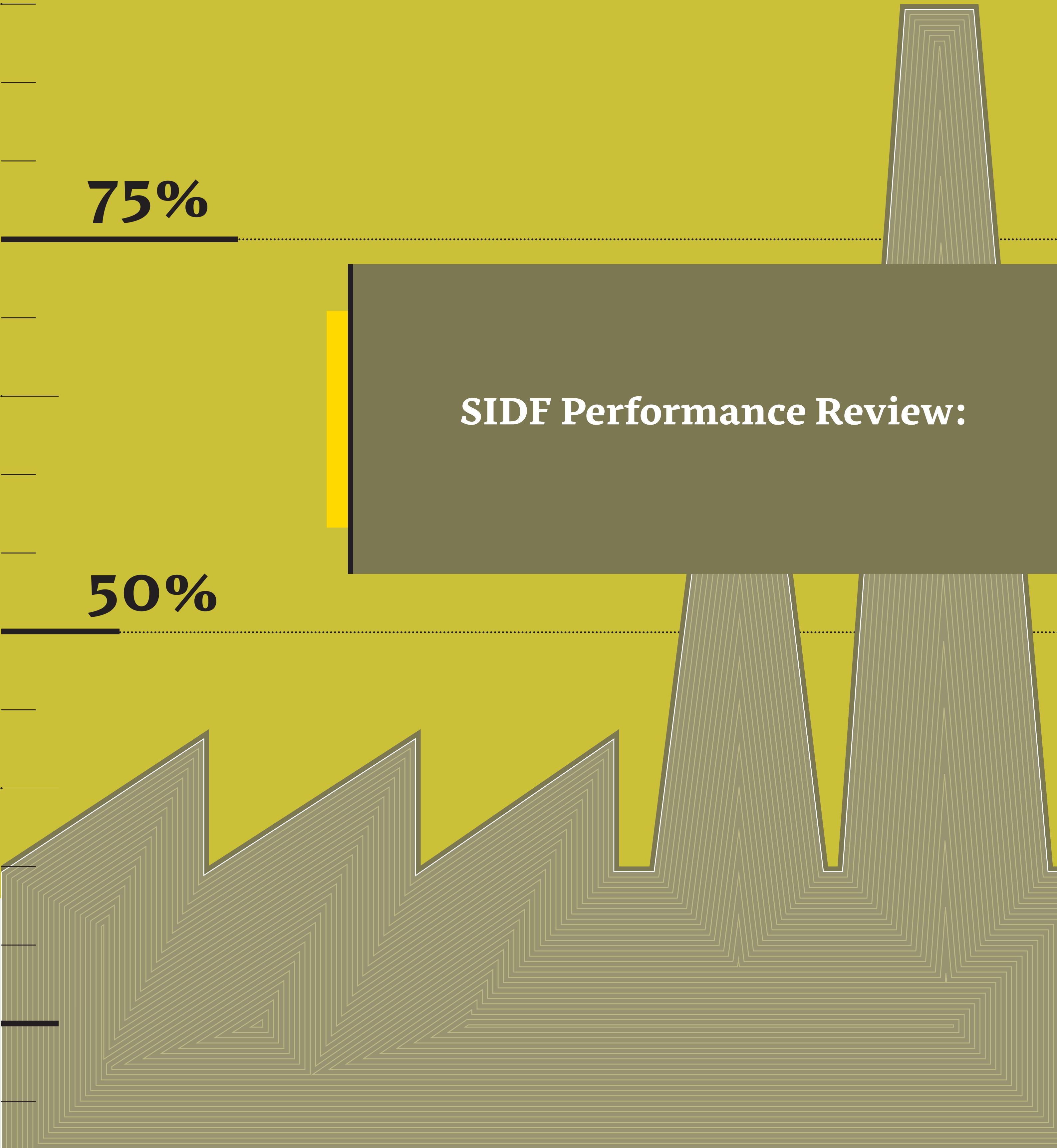
Figure 3. Percentage of Saudi Workers to Total Workers by Major Manufacturing Sectors (2012G)



Source: SIDF Manufacturing Database (2012G).

can observe the high linkage between the value added and profitability per worker at the level of the majority of the manufacturing sectors. The Chemical Products sector ranks first in terms of average value added per worker. The Building Material Sector comes next, though ranked first in terms of average profitability per worker. The Metal Products Sector is in third place, followed by Textiles and Leather; Food Products and Paper and Printing. Finally, the Wooden Products sector, came with the lowest average value added per worker.

Regarding the ratio of Saudi labor to total labor in the Saudi manufacturing sector, this relationship has been steadily gaining increasing importance at national level. Figure 3 shows the Saudi labor ratio to total labor in the major industrial sectors during 2012G: the Chemical Products Sector was ahead of all other sectors, with a Saudi employment ratio of 37%. Then came the Metal Products Sector with 27%; Wooden Products sector with a Saudi employment ratio of 25%; Building Materials, with 23%; Food Products, with 22%, and, finally, came Textiles and Leather; Paper and Printing, each with a Saudi employment ratio of 19%. As for the Manufacturing Sector overall, the Saudi labor ratio of 26% is considered moderate as foreign labor still accounts for the bulk of the labor force. Thus, major efforts should be launched to restructure the manufacturing sector to initiate the creation of more attractive jobs for the national workforce.

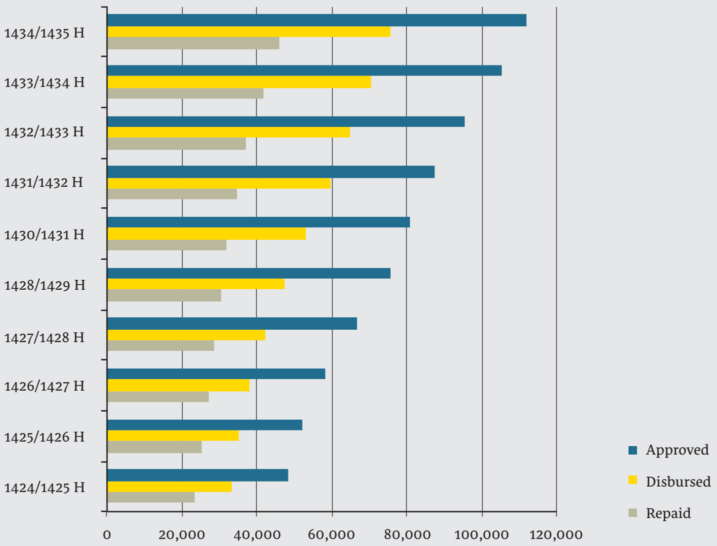


SIDF Performance Review:

Lending Activity for the Fiscal Year 1434/1435 H (2013G):

The fiscal year 1434/1435 H (2013G) witnessed an outstanding performance by SIDF. This is made manifest in the Fund's achievements, particularly in terms of number and value of loans approved for projects in less-developed rural and urban areas, as well as those committed to small-scale industrial projects. These achievements reflect with the State's sound policy of accelerating the pace of development and growth in the relevant localities while maintaining a policy of balanced development among all the regions of the Kingdom, thereby increasing employment opportunities in these areas. Furthermore, these achievements are the natural outcome of SIDF's encouragement of incentives for industrial investment in less-developed areas. Such incentives are made more attractive by increasing the percentage funding of individual loans committed to the financing of projects in these areas and, in addition, increasing the loan repayment period. Thus, SIDF's careful fostering of the small-scale industries sector is a notable feature of the Fund's total achievements during the fiscal year 1434/1435 H (2013G). This progressive approach on the part of SIDF accords fully with the State's development policies towards the same sector and contributes significantly to the Fund's success.

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



During the fiscal year 1434/1435 H (2013G), the Fund approved 144 industrial loans, i.e., an increase of 6% on the number of loans approved in the previous fiscal year. In terms of value, these loans amount to SR 6,680 million. They were extended towards assisting the establishment of 120 new industrial projects and the expansion of 24 existing ones. Investments in these projects totaled SR 14.5 billion. During the report year, disbursements made amounted to SR 4,929 million, and SR 4,360 million was received in repayment of outstanding loans – the highest figure recorded for one year since SIDF's inception.

Overall, since its establishment in 1394H to the end of the fiscal year 1434/1435 H (2013G), the Fund has approved a total of 3,624 loans amounting to SR 112,095 million, which have assisted in the setting up of 2592 industrial projects Kingdom-wide. Under the terms of these commitments, a total of SR 75,592 million has been disbursed and SR 45,886 million repaid by the end of the fiscal year 1434/1435 H (2013G). These figures testify to the success of the projects which benefited from the loans and professional expertise provided by the Fund, particularly in the technical, managerial, financial, and marketing areas.

It is noteworthy that the fiscal year 1434/1435H (2013G) featured a high percentage of loans approved for industrial projects in less-developed rural and urban areas. These loans accounted for, respectively, 50% and 66% of the total number and value of loans approved by the Fund during the year. Since the application of the new rules governing financing up to the end of the fiscal year 1434/1435 H (2013G), total loans extended for projects in less-developed rural and urban areas represented 42% and 38% of the number and value of loans committed by the Fund to all regions of the Kingdom, while such loans granted to projects in less-developed rural and urban areas did not exceed in the past, respectively, 14% and 15% of the total number and value of loans. It is important to bear in mind that the application of the new rules increased SIDF's financing of projects in less-developed rural and urban areas, to a maximum of 75% of the total financeable cost of individual projects (instead of the previous 50%) with a repayment period of 20 years (instead of the previous 15-year period). Therefore, the limit of SIDF's financing of individual projects in less-developed rural and urban areas was raised to a maximum of SR 1.2 billion for joint-stock companies and SR 400 million for sole proprietorship establishments and other companies, which is a clear indication of SIDF's success in putting into practice the State's policy of balanced development throughout the Kingdom.

During the fiscal year 1434/1435H (2013G), the Fund's achievements highlighted its particular attention to the small-scale industrial projects sector. Industrial loans extended to this sector (amounting to SR 15 million per individual project) represented 59% of the total number of loans extended by the Fund during the fiscal year 1434/1435H (2013G). These figures attest to the healthy economic environment in which small industrial projects can operate as well as spreading investment awareness among minor industrial investors. Needless to say, such awareness is only the natural outcome of the professional support SIDF provides for minor industrial investors through the study and evaluation of small-scale industrial projects by competent, professional personnel who are specialists in this field.

Finally, in the fiscal year 1434/1435H (2013G), the Fund's commitments provided ample evidence of the increasing share of new industrial projects in contrast with the expansion of existing industrial projects. The number of loans approved for new projects was 120 with commitments totaling SR 5,542 million, representing 83% of the total number and value of loans approved during the year.

1. Distribution of Loans by Sector:

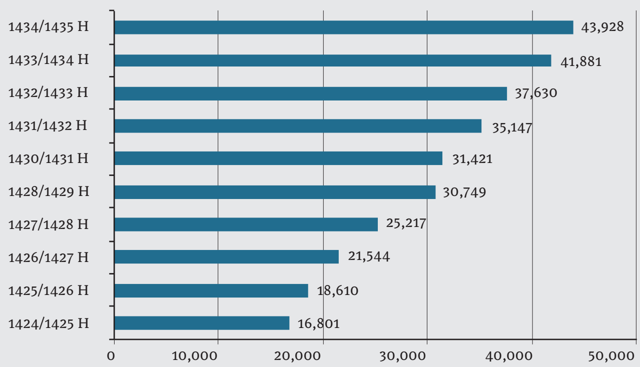
Review of major industrial sectors, by value of loans approved indicated the following salient features:

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 1434/1435 H (2013G). Cumulative commitments extended to the sector totaled SR 43,928 million, representing 39.2% of the total value of loans approved by the Fund during the period.

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



Projects Approved During 1434/1435H (2013G):

During the fiscal year 1434/1435 H (2013G), SIDF approved 39 loans to this sector representing 27% of the total number of loans approved during the year. The total amount committed to this sector was SR 2,047 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 and second in terms of number of approved loans. These loans supported the establishment of 29 new industrial projects and the expansion of 10 existing projects.

Among the loans committed to this sector in 1434/1435 H (2013G), SR 1,200 million was approved in support of the building of a plant in Jazan for the production of reduced raw titanium oxide. Another loan of SR 86 million was approved for setting up a factory in Sudair City for Industry and Businesses, for the production of insulin hormone. A third loan of SR 80 million was approved for the setting up of a factory in Jubail, for the production of sulfolane, sulphuric acid, liquefied sulfur dioxide and trioxide as well as hydrogen gas. A fourth loan of SR 74 million was approved for the building of a plant in Khamis Mushait for the production of emulsified water-based paints, shiny oil-based paints and industrial paints. A fifth loan of SR 65 million was approved for the setting up of a factory in Jeddah for the production of inflexible PVC pipes and joints and HD polyethylene pipes. Commitments to expansion projects included a loan of SR 62 million extended for the expansion of a Riyadh-based factory producing plastic bottles, bottle-caps and containers from polyethylene terephthalates and HD polyethylene. Another loan of SR 28 million was granted for the expansion of a Jeddah-based plant producing miniature plastic products; disposable plastic cups and trays, and plastic lids. A third loan of SR 22 million was extended for the expansion of a Dammam-based factory producing industrial films. Finally, a loan of SR16 million was granted to a Jeddah-based plant producing woven polypropylene bags; woven polypropylene rolls, and woven polypropylene container-linings.

Engineering Industries:

Cumulative Amount of Loans:

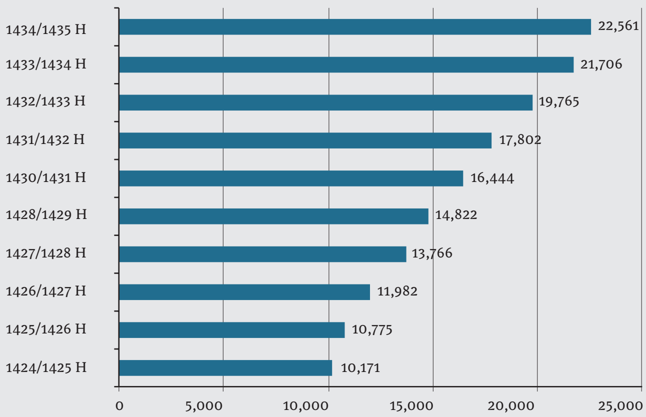
This sector came second in terms of loans approved since inception of the Fund up to the end of the fiscal year 1434/1435 H (2013G). Cumulative commitments extended to the sector totaled SR 22,561 million, the equivalent of 20% of total loans approved by SIDF.

Projects Approved During 1434/1435H (2013G):

In the fiscal year 1434/1435 H (2013G), SIDF approved 28 loans to this sector amounting to SR 855 million representing over 19% of the total number of loans approved during the year and 13% of the value of these loans. Thus, the sector ranked third joint in terms of number of loans, and fifth in terms of value of loans approved during the year. These loans financed the building of 24 new industrial projects and the expansion of 4 existing plants.

Among the loans approved for this sector in 1434/1435 H (2013G), one of SR 64 million was approved in support of the building of a plant in Sudair Industrial City for the production of iron grinding balls; insulation sheets; industrial mills linings, and railway repair spare parts. Another loan of SR 27 million was approved

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



for the setting up of a factory in Dammam for the production of steel billets. A third loan of SR 26 million was approved for the construction of a plant in Dammam for the production of aluminum profiles which are powder treated/coated or treated by electrical precipitation. A fourth loan of SR 24 million was approved for the construction of a factory in Hail for the production of metal mesh from reinforcement bars; galvanized and PVC-coated fences; fencing products, and barbed wire. A fifth loan of SR 22 million was approved for the establishment of a plant in Dammam for the production of pressure tanks; reaction chambers; heat exchangers and condensers, and steel structures and constructions.
Moreover, expansion loans totaled four: one of SR 284 million was extended for the expansion of a Jazan-based factory producing steel billets, reinforcement bars, and rolled steel bars; another, of SR 104 million, was granted for the expansion of a Jeddah-based plant producing beverage cans and lids; a third loan amounting to SR 62 million was extended for the expansion of a Riyadh-based factory producing reinforcement bars, and a fourth loan of SR 49 million was granted for the expansion of a Jeddah-based plant producing different pressure containers and heat exchangers.

Consumer Industries:

Cumulative Amount of Loans:

This sector ranked third in terms of the value of approved loans. Since the inception of the Fund up to the end of the fiscal year 1434/1435H (2013G), cumulative commitments extended to the sector totaled SR 19,103 million, representing about 17% of the total loans approved by SIDF.

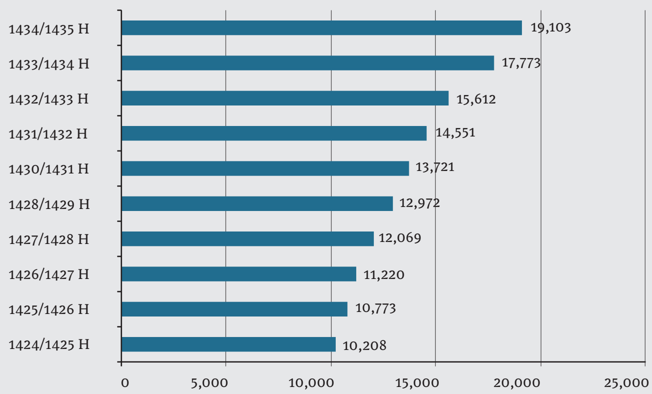
Projects Approved During 1434/1435H (2013G):

During the year 1434/1435 H (2013G), SIDF approved 40 loans to this sector amounting to SR 1,330 million or 28% and 20%, respectively of the total number and value of loans approved during the year. Thus, the sector came first in terms of the number of loans and second in terms of the value of loans approved during the year. The loans committed to this sector financed the construction of 36 new industrial projects and the expansion of 4 existing plants.

Among the new loans committed to this sector during the report year, a loan of SR 300 million was approved for the setting up of a factory in Jeddah for the production of carbonated beverage cans and glass/polyethylene terephthalate bottles as containers for juices, alcohol-free barley water and carbonated beverages' concentrates. Another loan of SR 274 million was approved for the construction of a plant, in Kharj, for the production of baby milk powder. A third loan of SR 77 million was approved for the building of a factory, in Yanbu, for the production of fixed fabrics and unwoven geo-textiles. A fourth loan of SR 72 million was approved for the implementation of a factory, in Jazan, for the production of canned beans. A fifth loan of SR 41 million was approved for the establishment of a plant, in Dowmat Al-Jandal, for the production of bottled water, miniature plastics and plastic bottle caps.

Moreover, expansion loans included a SR 125 million loan for the expansion of a factory, in Al-Khumra (south of Jeddah), producing Kraft paper; multilayered paper and cardboard. An additional two loans totaling SR 57 million were approved for the expansion of two plants in Wadi Al-Dawasser, one producing canned juices; the other producing drinking water canned into

Figure 7. Cumulative value of Approved SIDF Industrial Loans for Consumer Industries Sector (SR Millions)



polystyrene cups and bottled in polyethylene terephthalate bottles.

Cement Industry:

Cumulative Amount of Loans:

Since the inception of the Fund up to the end of the fiscal year 1434/1435 H (2013G), the cumulative amount of loans committed to this sector totaled SR 11,515 million, or, approximately, 10.3% of total loans approved, thereby ranking the sector fifth in terms of the total value of loans committed.

Projects Approved During 1434/1435H (2013G):

During the year 1434/1435 H (2013G), the Fund approved two loans amounting to SR 1,302 million: one for the construction of a factory in Al-Laith for the production of regular Portland cement; salt-resistant cement, and Pozzolana Portland cement, the other for the building of a plant, in Taif for the production of regular Portland cement and Pozzolana Portland cement. The cement sector came sixth and third in terms of number and value, respectively, of loans approved. The ranking of third in terms of value of loans approved, signifies the huge amounts of financing required for cement factories.

Other Building Materials Industries:

Cumulative Amount of Loans:

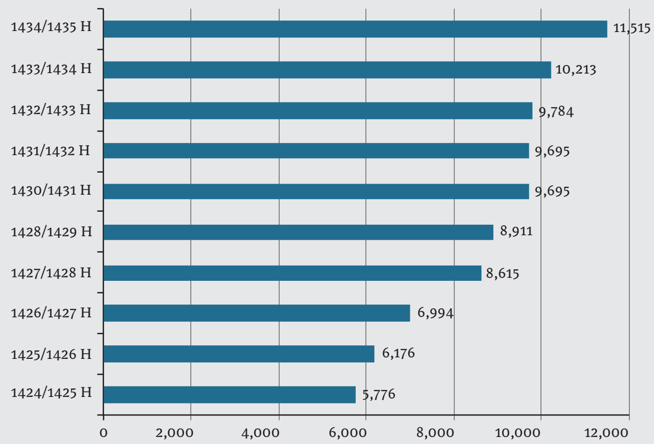
Up to the end of the year 1434/1435 H (2013G), the cumulative amount of loans extended to the "other building materials" sector, since SIDF's inception, totaled SR 12,177 million, or 11% of total loans approved, thereby ranking the sector fourth in terms of the value of loans approved.

Projects Approved During 1434/1435H (2013G):

During the year 1434/1435 H (2013G), SIDF approved 28 loans to this sector, amounting to SR 955 million or 19% and 14% of the total number and value, respectively, of loans approved during the year. Thus, the sector ranked jointly third and fourth, respectively, in terms of number and value of loans approved during the year. These loans supported the launching of 22 new industrial projects and the expansion of six existing projects.

Among the loans approved for this sector during the year 1434/1435H (2013G) , one of SR 316 million was extended for the construction of a plant in King Abdullah Economic City in Rabegh for the production of ceramic and porcelain tiles as well as sanitary ware. Another loan of SR 94 million was approved for the building of a factory, in Yanbu, for the production of rock wool insulators. A third loan of SR 44 million was granted for the establishment of a plant, in Rabegh, for the production of cellular concrete blocks and insulating cellular concrete panels. A fourth loan of SR 42 million was extended for the foundation of a factory, in Sudair Industrial City, for the production of cement and corrugated cement panels. A fifth loan of SR 32 million was approved for the implementation of a plant in Al-Rass for the production of red bricks.
Expansion loans extended included one of SR 84 million for the expansion of a Riyadh-based (Kharj Road) plant producing ceramic sanitary ware; another, of SR 45 million, for the expansion of a Dirab-based (Riyadh) factory producing granite panels and tiles, marble tiles, Riyadh stone, and cut granite. In addition to

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



a loan of SR 14 million for the expansion of a factory in Riyadh producing precast concrete.

Other Industries:

Cumulative Amount of Loans:

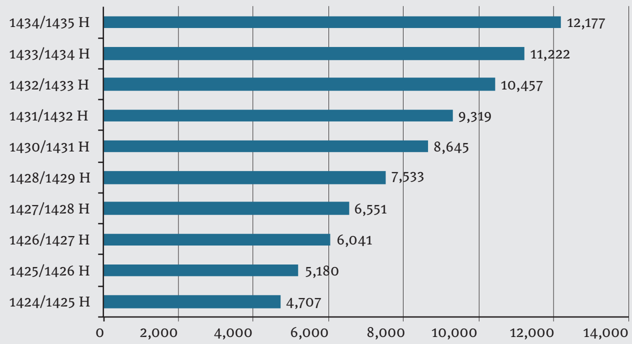
Since the inception of the Fund up to the end of the fiscal year 1434/1435 H (2013G), the cumulative amount of loans committed to this sector totaled SR 2,811 million, or 2.5% of total loans approved, thereby ranking the sector sixth in terms of the amount of loans committed.

Projects Approved During 1434/1435H (2013G):

In 1434/1435 H (2013G), SIDF approved seven loans to this sector amounting to SR 191 million or 5% and 3% of the total number and value respectively of loans approved. Thus, the sector came fifth and sixth in terms of the total number and value, respectively, of loans approved during the year. The loans committed to this sector financed the construction of seven new industrial projects.

Among the new loans approved to this sector, within SIDF's framework for the financing of the support and logistical services of the industrial sector, five loans totaling SR 173 million were extended to finance the construction of five housing complexes in industrial cities located in Riyadh, Jeddah and Dammam, comprising 3,622 housing units/rooms for the accommodation of 15,113 residents. In addition, a sixth loan for the sum of SR 16 million was approved to finance a training center in Dammam Industrial City for factory operatives. Such services and logistical projects are calculated to upgrade the proficiency and productivity of manpower in factories and provide skilled operatives for local manufacturers as well. Furthermore, these housing complexes eliminate the time-consuming need for distribution of the manpower among scattered residential areas, thereby reducing the cost of transport for the workers while providing them with a pleasant communal environment.

Figure 9. Cumulative value of Approved SIDF Industrial Loans for the Other Building Materials Sector (SR Millions)



Projects Which Commenced Production During the Year 1434/1435H (2013G):

SIDF-financed industrial projects which commenced production during the year 1434/1435H (2013G) totaled 55, including 35 new projects and 20 expansions, as the information in the table below indicates:

Sector	Number of Projects that Started Production during the Report Year	Projected Workforce Numbers
Consumer Industries	21	1800
Chemical Industries	13	1490
Engineering Industries	10	1025
Other Building Materials Industries	9	846
Cement Industry	1	329
Other Industries	1	29
Total	**55**	**5519**

2. Distribution of Loans by Region:

Review of the geographical distribution of the total number and value of approved loans by region Kingdom-wide reveals a pattern of distribution as follows:

Riyadh Region:

Cumulative Amount of Loans:

The cumulative number of loans committed by the Fund towards setting up of industrial projects in the Riyadh region totaled 1,322 loans granted to finance 927 industrial projects, or, approximately, 36% of the total loans approved since SIDF's inception up to the end of the year 1434/1435 H (2013G). Therefore, the Riyadh region was ranked first in terms of number of approved loans but second in terms of value of committed loans which totaled SR 22,060 million, representing about 20% of the value of all loans approved by SIDF.

Loans Approved During the Year 1434/1435H (2013G):

During the fiscal year 1434/1435 H (2013G), SIDF approved 52 loans to industrial projects in the Riyadh region, representing, approximately, 36% of the total number of approved loans. These loans were extended to finance 39 new industrial projects and expansions of 13 existing ones. The Riyadh region was ranked first in terms of number, and third in terms of value of approved loans (which totaled SR 1,204 million), or about 18% of the total value of loans approved during the report year 1434/1435 H (2013G).

Makkah Al-Mukarramah Region:

Cumulative Amount of Loans:

The cumulative number of SIDF-committed loans towards the setting up of industrial projects in Makkah Region totaled 912 loans valued at SR 19,792 million, granted to finance 623 industrial projects. Thus, the Makkah region ranked third in terms of number and value of loans approved since SIDF's inception up to year-end 1434/1435H (2013G), representing 25% and 18% of total number and value of loans, respectively.

Loans Approved During the Year 1434/1435H:

During the year 1434/1435H, SIDF approved 35 loans at a cumulative value of SR 2,932 million for industrial projects located in the Makkah region, representing 24% and, approximately, 44% of the total number and value, respectively, of SIDF-committed loans during the year. Accordingly, the Makkah region came second in rank according to number, and first in terms of value of loans approved by the Fund during the year. These loans were provided to finance the setting up of 27 new industrial projects and expansion of 8 existing ones.

Eastern Region:

Cumulative Amount of Loans:

The cumulative number of loans approved by the Fund to projects in the Eastern Region totaled 1,000 committed towards the setting up of 713 projects valued at SR 48,457 million, representing 28% and 43% of the total number and value of loans, respectively. Thus, the Eastern Region ranked first according to value, and second in terms of number of loans approved by the Fund since its inception up to the end of the fiscal year 1434/1435H. This region's high percentage of the value of loans can be attributed to the high average volume of investment in industrial projects in Jubail Industrial City (located in the Eastern Region).

Loans approved During the Year 1434/1435H:

During the year 1434/1435H, the Fund approved 16 loans valued at SR 371 million for projects in the Eastern Region which ranked fourth in terms of value and third in terms of number of approved loans, accounting for 6% of the value and 11% of the number of loans approved during the report year. These loans were provided to finance the setting up of 15 new industrial projects and expansion of an existing one.

Al-Madinah Al-Munawarah Region:

Cumulative Amount of Loans:

The cumulative number of loans approved by the Fund for implementation of 108 projects in this region up to the end of the year 1434/1435H totaled 144 loans amounting to SR 12,194 million, representing approximately 4% of the total number and 11% of the total value, respectively, of SIDF approved loans. Under these circumstances, Al-Madinah

Al- Munawarah region ranked fourth in terms of both the number and value of loans approved since SIDF's inception up to year-end 1434/1435H (2013G). The conspicuous high percentage of value, as opposed to number, of loans approved for Al-Madinah Al-Munawarah region can be attributed to the extent of investment in industrial projects in Yanbu Industrial City, located in Al-Madinah Al-Munawarah region.

Loans Approved During the Year 1434/1435H:

During the year 1434/1435H, the Fund approved 8 loans for projects in Al-Madinah Al-Munawarah region, valued at SR 237 million, representing approximately 6% and 4% of the total number and value of approved loans, respectively. Thus, Al- Madinah Al-Munawarah region came fourth in rank according to total number, and fifth in terms of total value, of the loans approved for the year. The latter were provided to finance the setting up of 8 new industrial projects.

Jazan Region:

Cumulative Amount of Loans:

The cumulative number of loans approved by the Fund for implementation of 22 projects in Jazan region totaled 29 loans amounting to SR 2,837 million, representing approximately 1% of the total number and 3% of the total value of SIDF approved loans. Accordingly, Jazan region ranked fifth in terms of the value of loans approved from SIDF's inception to year-end 1434/1435H (2013G).

Loans Approved During the Year 1434/1435H:

During the year 1434/1435H, the Fund approved 4 loans for 3 new industrial projects and the expansion of an existing one in Jazan region, valued at SR 1,500 million. Therefore, Jazan region came fifth jointly in rank according to total number but second, in terms of total value of loans approved for the report year, representing, approximately, 3% and 22% of the total number and value of approved loans, respectively. Jazan region is considered a less developed region, so it has benefited considerably from the application of the new decision to increase SIDF lending limits to less developed rural and urban areas, from 50% of the project cost to 75%, and extend loan repayment terms from 15 years to 20 years.

Qassim Region:

Cumulative Amount of Loans:

The cumulative number of loans approved by the Fund for the implementation of 63 projects in Qassim region totaled 74 loans amounting to SR 1,463 million. Thus, the Qassim region ranked fifth in terms of number and sixth in terms of value of loans committed by the Fund from its inception to the end of the fiscal year 1434/1435H, representing 2% and 1% of the total number and value of loans approved by the Fund, respectively.

Loans Approved During the Year 1434/1435H:

During the year 1434/1435H SIDF approved 6 loans amounting to SR 86 million for the setting up of 6 new factories in the Qassim region. Under these circumstances, Qassim region came joint fifth in rank in terms of number of loans but seventh in terms of value of loans approved during the report year, representing 4% and 1% of total number and value of the committed loans, respectively.

Other Regions of the Kingdom:

Cumulative Amount of Loans:

The cumulative number of loans extended by the Fund to finance 136 projects in the other regions of the Kingdom up to the end of the year 1434/1435H totaled 143, amounting to SR 5,292 million, representing 4% of the total number and 5% of the value of loans approved from SIDF's inception to the end of the report year.

Loans Approved During the Year 1434/1435H:

During the 1434/1435H, the Fund approved 23 loans totaling SR 350 million for the setting up of 22 new industrial projects and one expansion project. 6 of these projects are located in Asir; 5 in Najran; 5 in Hail; 5 in Al-Jouf, and one on the Northern Boarders, representing about 16% and 5% of total number and value of approved loans during the report year, respectively.

3- Financing of Joint Venture Projects:

Since its inception, the Fund has spared no effort in promoting the implementation of joint venture projects, particularly with reputable international companies. In this regard, the Fund relies on its conviction that the fundamental requisites for the success of these projects are in place in the Kingdom. SIDF firmly believes that direct foreign investment is an effective tool for the attraction and transfer of modern technology to the Kingdom and the creation of new employment opportunities for Saudi citizens, besides playing a key role in providing access for national products to foreign export markets. Therefore, SIDF does not require Saudi partnership in these projects as it also finances projects that are wholly owned by foreign investors. In these circumstances, SIDF treats wholly foreign-owned projects on an equal footing with projects wholly or partly owned by Saudi investors.

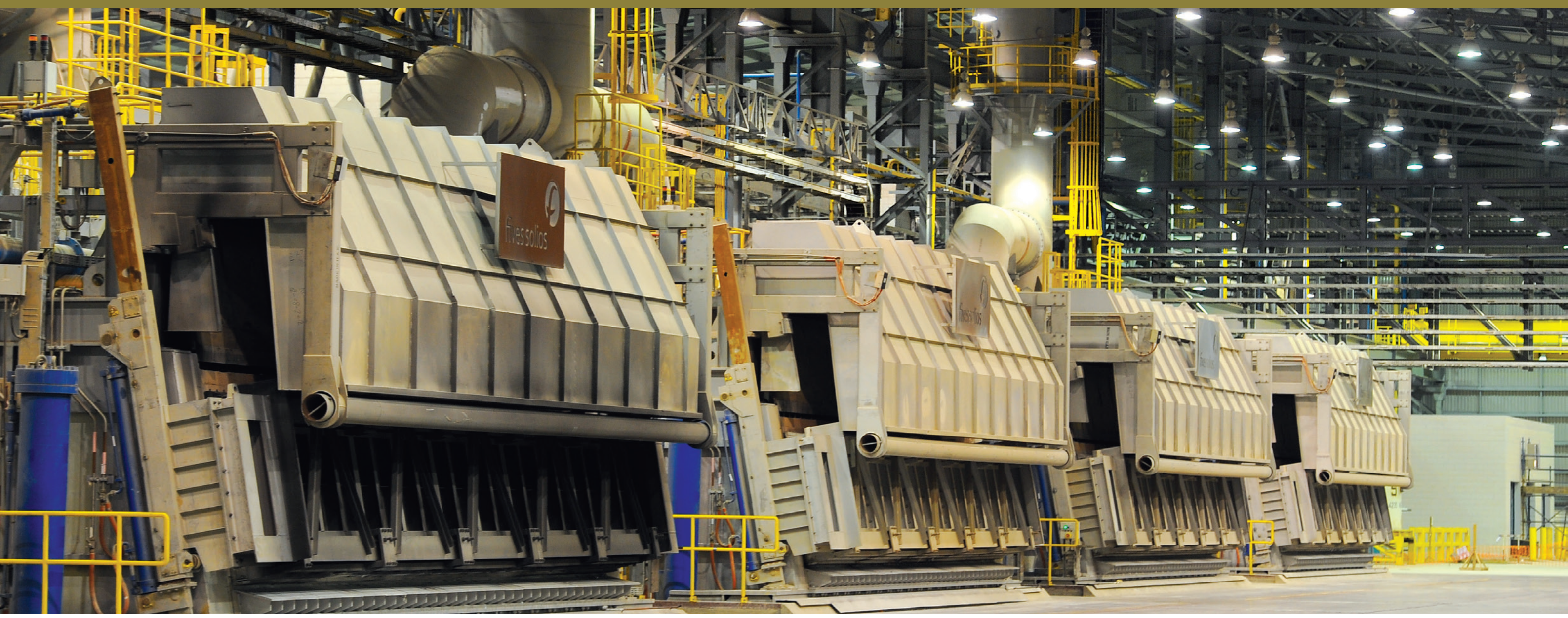
The number of joint-venture projects approved by SIDF since its inception up to the end of the fiscal year 1434/1435H (2013G) totaled 676 projects or 26% of all projects approved. Moreover, loans committed to such joint-venture projects amounted to SR 42,162 million or around 38% of total value of SIDF loans while foreign partners' capital share in these projects represented 34%.

It is worthwhile noting that 119 of these projects, for which a total of SR 10,746 million was committed in loans, have now become fully owned by Saudi investors after their acquisition of the foreign partners' shares, subsequent to their eventual success and full repayment of their debts.

The chemical industries sector surpassed all other industrial sectors in terms of the value of loans approved by SIDF from its inception to the end of the fiscal year 1434/1435H (2013G) due to the huge volume of capital invested in this sector's projects. The chemical industries sector's share accounted for 53% of SIDF approved loans, followed by the engineering industries sector's share (29%) and consumer industries sector's share (9%).

During the report year 1434/1435H (2013G), SIDF approved 13 loans for the setting up of 10 new industrial joint-venture projects and expansion of 3 existing ones. Loans committed to these projects totaled SR 1,054 million or around 16% of SIDF commitments for the year. Loans for the new joint-venture projects comprised 3 loans to the engineering industries sector; 3 to the consumer industries sector; 2 to the chemical industries sector; and 2 to the building materials sector.

Joint-venture projects approved during the year created new job opportunities for 1,972 employees, or 17% of the total employment opportunities provided by all projects financed by SIDF during the year 1434/1435H (2013G), totaling 11,442 job opportunities overall.



Small and Medium Enterprises (SMEs) Loan Guarantee Program (KAFALAH):

The SME Loan Guarantee Program (KAFALAH) has maintained its ongoing 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 the service and development of the community; expansion of the beneficiaries' base, and creation of new job opportunities that contribute to a reduction of unemployment in the Kingdom.

2013G, the 8th year of the Program, has been characterized by an exceptional performance on the part of SIDF. During the fiscal year 1434/1435H (2013G), the Program management approved 2,515 guarantees in contrast with 1,670 guarantees approved in the previous year, at a growth rate of 51%. Guarantees issued during the year totaled SR 1,286 million in contrast with SR 949 million for the previous year, an increase of 36%. Loans provided by KAFALAH participating commercial banks to SMEs during the year amounted to SR 2,348 million in contrast with SR 1,768 million extended during the previous year, an increase of 33%.

The construction/building, contracting sector led all other sectors with a total of 1,465 guarantees amounting to SR 661 million, representing 58% of the number of guarantees and 51% of the value of guarantees issued by the Program during the fiscal year 1434/1435H (2013G). The commercial sector came second with 365 guarantees for SR 188 million, accounting for 15% of both the number and value of the guarantees. The industrial sector ranked third with 264 guarantees valued at SR 188 million, representing 10% and 15% of the number and value of guarantees, respectively. The finance and business sector came fourth with 192 guarantees valued at SR 101 million, accounting for 8% of both the number and value of guarantees. The remaining 229 guarantees, which account for 9% and 11% of the number and value of guarantees, respectively, were distributed among the following sectors: Public and Individual Social Services: 120 guarantees; Transportation, Storage and cooling: 89; Electricity, Gas and Water: 9; Mining and Petroleum 7, and Agriculture and Fisheries: 4 guarantees.

In pursuance of its aim of achieving balanced regional development, the Program Management is keen to ensure optimal use of KAFALAH guarantees by all administrative regions Kingdom-wide. The Riyadh region ranked first in terms of number and value of guarantees issued by the Program during the report year: 1,108 guarantees valued at SR 611 million. The Eastern region came second with 650 guarantees valued at SR 327 million, followed by Makkah Al-Mukarrama region with 413 guarantees totaling SR 194 million. Najran region ranked fourth with 68 guarantees valued at SR 31 million, followed by Assir region with 63 guarantees totaling SR 36 million. The remaining regions received 213 guarantees amounting to SR 87 million. It is significant that approvals for the report year covered most of the administrative regions of the Kingdom.

As for KAFALAH participating banks, the National Commercial Bank (NCB) led all other participating banks in terms of the total number of guarantees approved by the Program during the year, with 1,048 guarantees valued at SR 341 million, representing 42% and 27% of the total number and value of approved guarantees, respectively. Riyadh Bank came second with 473 guarantees totaling SR 318 million, representing 19% and 25% of the number and total value of guarantees issued, respectively. Arab National Bank (ANB) ranked third in terms of number of guarantees, with 278 guarantees totaling SR 136 million, representing 11% of both the number and value of guarantees. The remaining banks received 716 guarantees totaling SR 491 million, accounting for 28% and 38% of the number and value of guarantees, respectively.

Since the Program's launch on 1426/1427H (2006G) up to the fiscal year-end 1434/1435H (2013G), the KAFALAH Management has issued a total of 7,280 guarantees to 4,082 SMEs, totaling SR 3,590 million in contrast with total approved financing of SR 7,184.

During the year 1434/1435H (2013G), 20 guarantees were liquidated at a value of SR 8.2 million in favor of the participating banks. Thus, the number of liquidated guarantees increased to 63, valued SR 26.7 million from the Program's launch up to the end of 2013G. Distribution of liquidated guarantees is as follows: 25 guarantee for NCB; 18 for SABB; 14 for Alrajhi Bank; 4 for Riyad Bank; one guarantee for Albilad Bank and one guarantee for ANB. The number of guarantees liquidated between the launch of the Program and the fiscal year-end 1434/1435H (2013G) accounted for 0.87% of the total number of approved guarantees.

The Program Management's efforts have resulted in the restructure of the procedures for the issuance of guarantees. KAFALAH participating banks have created innovative initiatives to deal more effectively with SME owners; launched frequent promotion campaigns to promulgate the Program's idea Kingdom-wide, in addition to the successful organization of the Saudi International SMEs Forum held in Riyadh on 18-19/7/1434H. As a result of these efforts, KAFALAH has been awarded the SME Award by Mohammed Bin Rashid Establishment for Small and Medium Size Enterprises, recognizing SIDF as the preeminent development fund for the year 2013G in the Arab world, the culmination of the Program's striking progress in encouraging Saudi banks to finance SMEs.

Another impressive aspect of the Program's activities is the fact that they are not limited to the issuing of guarantees for SMEs, but also embrace training, education, and awareness-raising of SME owners and KAFALAH stakeholders. These training exercises are conducted in collaboration with the International Finance Corporation (IFC), a member of the World Bank Group; the Institute of Banking [established by Saudi Arabian Monetary Agency (SAMA)], together with the participation of Saudi Banks and Chambers of Commerce and Industry. Efforts are under way in coordination with the World Bank to develop appropriate training strategies for SME owners.

The table below shows the number and value of approved guarantees, value of financing, and number of beneficiary enterprises by Commercial Bank creditors

Number and Value of Approved Guarantees and Number of Beneficiary Enterprises by Commercial Bank Creditors

Bank	Approved Guarantees 2013 G				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	
National Commercial Bank (NCB)	1048	340,919	592,075	355	2429	872,520	1,513,582	1094
Riyad Bank	473	317,984	621,002	290	1788	987,308	2,084,160	1226
Arab National Bank (ANB)	278	135,787	356,460	103	990	435,635	1,276,915	379
Al-Rajhi Bank	225	132,819	214,474	127	857	481,251	864,597	567
Al-Jazira Bank	162	81,118	111,328	64	247	120,377	175,328	97
Saudi Hollandi Bank	135	137,517	203,630	113	244	238,952	352,123	206
SAMBA Financial Group	76	45,012	76,364	38	268	148,207	290,703	178
Al-Bilad Bank	65	50,686	96,293	46	152	103,807	209,703	105
Saudi Investment Bank	24	18,194	30,603	14	74	51,700	96,836	43
Saudi French Bank	20	17,912	33,133	14	101	65,186	151,229	70
Saudi British Bank (SABB)	9	7,557	12,763	9	130	84,925	169,524	117
TOTAL	**2,515**	**1,285,505**	**2,348,125**	**1,173**	**7,280**	**3,589,868**	**7,184,189**	**4,082**

Manpower and Training:

SIDF Management has managed to attract and employ, through its effectively designed training programs, suitably qualified Saudis to work at the Fund in various positions and specializations. SIDF's employment procedures are closely linked to career development and the career ladder program, covering such areas as financial analysis, auditing, information technology, economic and statistical studies, marketing, documentary accounting/ financial sciences, management, technical consultancy/ studies, information analysis, legal studies, etc.

During the fiscal year 1434/1435H, 589 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. 525 Saudi employees have been trained in accordance with work requirements and scheduled dates of in-house and overseas training courses. 138 of those employees have attended specialized basic courses abroad, including master's degrees and intensive English language courses. 313 Saudi employees have attended short courses held abroad; 74 have attended short courses provided in the Kingdom, and 589 Saudi employees participated in short courses provided by and conducted at the Fund.

SIDF has invariably capitalized on its good relations with many similar financial institutions within and outside the borders of the Kingdom to develop further the professional skills of SIDF's Saudi staff through effective participation in specialized professional conferences, seminars, and workshops conducted by these institutions. Such collaboration ensures valuable exchange of professional expertise and experience which, in turn, contribute to improving the skills and augmenting the work capability of Saudi staff-positive developments reflected in the overall impressive performance of the Fund.

In keeping with contemporary advanced financial and administrative systems in the Kingdom, SIDF has successfully implemented the Saudization programs it had adopted in the year 1434/1435H as evidenced by recruitment of 185 Saudi employees to fill various vacancies in the Fund's departments in accordance with SIDF's approved budget.

Director General

Ali Abdullah Al-Ayed

SIDF Loan Application's Cycle

The Fund's management is unceasing in its efforts to extend its lending services and professional expertise to national and foreign industrialists promptly and effectively. Therefore, it is constantly developing procedures, guidelines and policies to improve the lending activities of the Fund so as to cater to a wide range of requirements and keep pace with the lending practices of similar financial institutions worldwide.
To sum up, the foregoing efforts are embodied in the adopted 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 flow-chart below shows the Application cycle currently adopted by the Fund: processing, appraisal, and implementation/ follow-up procedures relating to the projects to be financed. It also indicates disbursement of the Fund's commitments to borrowing projects, and the monitoring of loan maturities' repayment by beneficiary borrowers.

Loan Application's Processing Flow-Chart

Notes:

1. The duration of the project evaluation period is determined by the applicant's cooperation and his prompt submission of essential information.
2. For expansion projects the outlined steps also apply though some may be omitted.

Primary Requirements

1. Application Form
2. Statement of Personal Net worth
3. Industrial License
4. Feasibility Study

Credit Department (Customer Services Division)

Initial Acceptance of Application for Prescreening

Information not Complete → **Files**

Marketing Consultancy Division

Information Complete

Technical Consultancy Division

Marketing Consultancy Division

Preparation of Market Report

Credit Department

1. Application Registration
2. Preparation of Final Appraisal Report

Technical Consultancy Division

Preparation of Technical Report

Market Research Division

Conducting Field Research

Loan Committee

Data Analysis & Technical Assistance Division

Environmental Safety Report

Industrial Construction Division

Preparation of Buildings & civil works Report

Files ← Not Approved ← **Board of Directors/ Mgt. Committee** → Approved → **Credit Department**

Issuance of Commitment Letter

Legal Department

1. Signing of the Loan Agreement
2. Documentation of Guarantees & Mortgage

Auditing and Financial Analysis Division

Auditing Expenditures

1. Monitoring Project's Implementation
2. Loan Disbursement
3. Monitoring of Performance
4. Loan Repayment follow-up

In Focus:
Credit Department

Credit Department

The Credit Department is responsible for the approval of loans to the private industrial sector projects inside the Kingdom. It is efficiently organized and staffed with highly-qualified professionals to help attain its objectives and fulfil its functions, including the following:

- Receiving loan applications and analyzing feasibility studies and the credit-worthiness of projects and sponsors. In the event of positive decisions, appropriate recommendations are submitted for approval by the Management Committee or the Board of Directors, depending on the size of the proposed project loan.
- Monitoring projects implementation and analyzing their performance through regular site visits and an effective loan review reporting system throughout the loan tenure from implementation commencement until repayment of final loan maturity.
- Furnishing sponsors with financial, technical, marketing and administrative consultations, whenever needed.
- Observing the performance of all industrial sectors on occasion and setting out policies to support them.

The Credit Department consists of five specialized credit divisions, in addition to: the Coordination and Credit Information Analysis Division; Audit and Financial Analysis Division; Customer Services Division; Loan Review and Follow-up Team. All are managed by the Department Manager assisted by three deputies as described hereafter:

Credit Divisions:

There are currently five credit divisions, each led by a division manager. They include 13 sector-specific teams, each headed by a team leader.

The functions of credit divisions include acceptance of loan applications and analysis of feasibility studies prior to the submission of recommendations for approval by the Management Committee or the Board of Directors. They also monitor the implementation of financed projects and analyze their performance via regular site visits and an effective loan review reporting system throughout the loan tenure.
In addition, the credit divisions act as intermediaries between customers and other divisions in the Fund to provide them with financial, administrative, marketing and technical data as well as information technology consultations. Furthermore, they study a wide range of industrial sectors and recommend lending policies to improve their performance and viability.

Coordination and Credit Information Analysis Division:

The Coordination and Credit Information Analysis Division acts as coordinator between the Credit Department and other SIDF departments. It also provides professional assistance to the relevant divisions in the Credit and Projects' Studies and Consultancy departments in collecting and analyzing credit information as well as providing them with credit-worthiness information about borrowers. Moreover, the division saves and updates projects data and ensures application of the latest information technology developments in collaboration with the Information Technology Department. It is also responsible for the working out and monitoring of the department budget and eliciting information required by government departments.

Audit and Financial Analysis Division:

The Audit and Financial Analysis Division audits costs submitted by borrowers to ensure that they conform with the costs approved by the Fund, and are supported by relevant, authentic documentation which are sufficiently audited to protect the rights of the Fund and ensure the adequacy of control procedures relating to the cost of the project during its implementation. The division also provides professional financial consultations to credit divisions and borrowers in the following cases:

- Investigation of certain specific transactions,
- Assistance with drafting of financial statements for clients, based on accounting records,
- Review of clients' financial, costing and internal control systems,
- Evaluation of clients' financial management and accounting staff,
- Advice to clients concerning their choice of adequate accounting systems,
- Recommendations regarding application of appropriate accounting standards.

Customer Services Division:

The Customer Services Division maintains contact and coordinates with current and potential SIDF customers by adhering to government policy on e-transactions. Consequently, all customers will be dealt with electronically. More importantly, customer-awareness will be greatly improved prior to the submission of their loan applications. This division also organizes and documents application submissions and ensures that essential data and documentation required are submitted with applications to facilitate prompt processing. Customer service personnel also aim to achieve customer satisfaction by carrying out their tasks professionally and promptly, in a spirit of cooperation and equanimity. Additional duties include problem-solving, responding to customers' needs and concerns, and submitting suggestions to the management with a view to raising levels of productivity and efficiency.

Loan Review and Follow-up Team:

This team prepares the agenda and records minutes of the Loan Committee and the Loan Review Committee, in addition to carrying out the following duties:

- Reviewing listed Board Letters,
- Reviewing Board minutes,
- Reviewing the reports of the Loan Review Committee before meetings,
- Inputting Committee meetings minutes to the SIDF IT system.

Industrial Study:
Pharmaceutical Industry

Pharmaceutical Industry

The Product:

Pharmaceuticals are defined as chemical substances with medical properties intended for curing, treatment or prevention of disease. Pharmaceuticals are usually classified as follows:

- According to their therapeutic properties,
- On the basis of Legal issues relating to their use,
- Intellectual property regulations.

According to the World Health Organization (WHO) Classification System, pharmaceuticals in general are divided into 16 classes based on their therapeutic properties. From a legal perspective, pharmaceuticals are classified as "Over-the-Counter" (OTC) products which are sold without restriction as they are considered safe if consumed according to the prescribed dosage. The dispensing and consumption of "Prescription Only" medicines are subject to medical supervision. In the context of intellectual property rights, pharmaceuticals are classified on the basis of patent status, as either "patented" or "generics" products. Due to the high cost incurred in the R&D phase in product development, patented products are protected, for a specific period, by law based on unique product features such as molecular structure, or the manufacturing process used in their production. Generics are bioequivalent medicines that contain the same active ingredients as an original drug but are sold at cheaper prices.

Market Overview:

The pharmaceutical industry is one of the leading capital-intensive industries globally in which development depends on two main axils: -

- Sophisticated technology, which requires skilled and qualified personnel to work in the advanced laboratories and research facilities.
- Substantial levels of expenditure on research and development (R&D).

Due to its direct links with the quality of life of human beings and their productivity, the pharmaceutical industry is of crucial importance for the development of a healthy and productive nation.

Accordingly, expenditure on health is one of the main priorities for the Saudi government: total expenditure on public health and social services amounted to SR 61 and 71 billion in 2012G and 2013G,respectively, representing 9% of total government budget expenditure during the period referred to. Health services in the Kingdom are divided into two main sectors: Public & Private. The public sector includes the Ministry of Health and 18 hospitals run by government and semi-government institutions such as The National Guard; Ministry of Defense; Ministry of the Interior; Social Insurance, etc. It is estimated that, during 2012G, public hospital services accounted for approximately 70% of all the healthcare services in the country and the remainder by private sector hospitals.

The public health services sector obtain their pharmaceuticals from local and foreign manufacturers mainly via two tendering procedures:

- The GCC's Secretariat General of Health (GCC/SGH) tender which allows public health organizations in the GCC countries to buy in bulk from pre-qualified suppliers and gain significant cost savings. The majority of pharmaceuticals in the Kingdom are obtained through this source.
- Direct purchase or tenders submitted by individual organizations; however, this procedure involves a low portion of total demand.

Local production:

There are 17 licensed pharmaceutical products producers in the Kingdom. Despite the existence of substantial demand and a generous level of government support for this industry, local participation in meeting market demand is low and concerned mainly with the production of generic drugs.

It is estimated that during 2012G local factories' sales of pharmaceuticals reached SR 3.6 billion, of which SR 2.7 billion (74%) was generated via domestic sales and SR 944 Million via exports. Local sales accounted for 17% of the total Kingdom market demand value in 2012G.

Table 1. Domestic Factories Sales Value (SR Million)

Target Market	2010	2011	2012
Local	2,264	2,475	2,668
Growth (%)	-	9%	8%
Export	681	816	944
Growth (%)	-	20%	16%
Total	**2,945**	**3,291**	**3,612**
Growth (%)	-	12%	10%

Imports:

Imports comprise the largest share of consumer demand in the Kingdom. In 2012G they accounted for 83% of the Kingdom's total market demand. The majority of pharmaceuticals are imported from Europe and the USA; representing 81% of the Kingdom's total import value in 2012G. The remaining balance of imports come from a wide range of countries, among them the GCC countries which supported 5% of the Kingdom's total imports.

Table 2. The Kingdom's Import Value 2010G -2012G

Year	2010	2011	2012
Import value (SR Million)	10,490	11,669	12,890
Growth (%)	-	11%	10%

Local Demand:

The Kingdom's market demand for pharmaceuticals has increased substantially over the past ten years as a result of the government's policy of maintaining a consistently high standard of health services in the Kingdom. In the case of public services, continuous expansion and renovation have been undertaken to meet the ever-increasing demands of a growing populations. Currently, it is estimated that public hospitals provide about 70% of medical services in the Kingdom.

As for the private sector, the range of services provided has been rapidly increasing in recent times in keeping with the government's decision to introduce compulsory medical insurance for all foreigners working in the private sector. This policy was implemented in 2004 and was fully applied by 2010. At present, it is estimated that this sector accounts for 30% of medical services provided in the Kingdom.

It is estimated that expenditure on pharmaceuticals in the Kingdom during 2012G amounted to SR 15.6 billion, an increase of 10% on the previous year's figure; moreover, it is expected to grow by 6% to SR 16.5 billion, in 2013G.

In the future, demand for pharmaceuticals is expected to continue to increase by approximately 6% per annum, for the following reasons:

- rapid population increase,
- growing numbers of the elderly citizens,
- continuous improvement in health services,
- increase in the number of people with medical insurance,
- improved standard of living for everyone due to greater health awareness,
- the high prevalence of non-communicable or lifestyle-related diseases such as diabetes, obesity and hypertension.
- increase of per capita income.

Despite the fact that the public health sector is the largest service provider in the Kingdom, in terms of consumption value, its share is actually small, the result of price cuts achieved via economy of scale purchase via the GCC/SGH tender system.

Conclusion:

The Kingdom of Saudi Arabia has the largest pharmaceutical market in the GCC, and demand is expected to grow rapidly in the future. Furthermore, exports to other GCC countries and neighboring countries in Asia and Africa are expected to increase. This development presents a valuable opportunity for investors to expand existing pharmaceutical factories and establish new ones in the Kingdom.

Table 3. The Kingdom's Demand for Pharmaceuticals: 2010G-2013G

Year	2010	2011	2012	2013 (Est.)
Annual Demand (SR Million)	12,754	14,144	15,558	16,500
Growth (%)	-	11%	10%	6%

Table 4. The Kingdom's Projected Demand for Pharmaceuticals: 2014G -2017G

Year	2014	2015	2016	2017
Projected Demand (SR Million)	17,500	18,500	19,600	20,800
Growth (%)	-	6%	6%	6%

Subject Under Scrutiny:
Automotive Industry in the Kingdom: Prospects and Implications for the Domestic Economy

Automotive Industry in the Kingdom: Prospects and Implications for the Domestic Economy

Introduction:

The Saudi government has launched many initiatives in order to diversify the country's economic base and the sources of national income. Among these initiatives are the current plans for auto-manufacturing in the Kingdom, given particular emphasis in the 9th Development Plan (2010G – 2014G). The project is regarded as one of the pillars of the National Industrial Cluster Development Program, an important division of the National Industrial Strategy for industry. The government's initiative aims to upgrade the local industrial sector's composition and structure while increasing the productivity of the Saudi economy, thereby reducing the adverse effects of oil price fluctuations. Among the key economic factors behind the localization of the automotive industry is the fact that it will reduce expenditure on the import of foreign cars, transfer useful technology and create lucrative job opportunities.

The Kingdom provides a large consumption market for all types of vehicles. According to the Central Department of Statistics and Information, in 2012G, the Kingdom imported about 981,000 new vehicles, at a total cost of SR 77 billion, about 13% of the Kingdom's total imports. Such prohibitively high import costs put tremendous pressure on Saudi Arabia's balance of payments and restrict economic growth. Hence, the localization of this industry is a strategic option to help diversify income sources; meet part of local demand; lessen the financial burden of imports; transfer technology; upgrade the local industry structure; provide job opportunities, and augments the value added of domestic products.

It is important to bear in mind that the Kingdom is not a beginner in the automobile industry and the manufacture of components. It can point to extensive experience in the automotive assembly industry including buses, fire-engines, ambulance and hydraulic garbage trucks. In addition, the Kingdom also has experience in the manufacture of truck bodies, car parts and components such as gear boxes, oil filters, radiators, exhaust pipes, tires, batteries, laminated windshields, etc. According to the Ministry of Commerce and Industry, more than 251 car assembly and components factories are currently operating in the Kingdom, representing a total finance of SR 7 billion besides providing job opportunities for nearly 27,000 workers.

Rationale behind the Establishment of an Automotive Industry in the Kingdom:

The principle arguments for localization of an auto industry may be summarized as follows:

Technology Transfer:

The auto industry is regarded as one of the world's major industries. It encourages technological innovation and knowledge transfer, whether directly or indirectly. The direct method functions either through the global branches of the big international auto- manufacturing companies or through the purchase of production rights. On the other hand, the indirect method fosters the mutual exchange of knowledge and experience among workers in the auto industry. Moreover, the auto industry is renowned for its progressive and ongoing Research and Development Policies. Thus, it would have a significant positive impact on related industrial and scientific sectors within the Kingdom.

Industrial Integration:

The auto industry relies to a great extent on the input provided by numerous small and medium scale industries. Also, it requires the services of a large number of those institutions that help to strengthen links with input producers as well as offering assistance in the marketing and maintenance of its products. Furthermore, the auto industry is known for its ability to create industrial clusters. Various official studies strongly suggest that the success of one auto-industry related project contributes to an increase in investment in its support industries. Thus, a group of factories located in the same zone would facilitate integration, leading, in turn, to a significant drop in manufacturing costs and an attendant increase in overall productivity. The latter can be achieved through a number of effective strategies including rapid transfer of expertise and experience among workers and the growth of a favorable socio-economic infra-structure in the area.

Creation of Job Opportunities:

In contrast to many other industries, the auto industry is characterized by generation of high rates of direct and indirect investment and job opportunities. As mentioned above, the creation of one job opportunity on the auto industry's production line, generates a minimum of 5 job opportunities in the manufacturing of car components and parts. Moreover, the auto industry relies heavily on highly proficient human capital, remunerated with above-average wages in contrast with other industries.

Increasing Value Added:

The auto industry is distinguished by its high Economic Multiplier; its successful integration with other industries such as energy, petrochemicals, steel & aluminum, etc., as well as its ability to attract trained skilful personnel who stimulate growth in the value added of these industries, factors which reflect positively on the overall economy.

Contribution to the Development of a Diversified Industrial Structure:

The industrial sector in the Kingdom is characterized by the dominance of the chemical industries which account for about 54% of total industrial investments. Hence, the need for diversification of the structure of Saudi industry is imperative. Such diversification could be attained by developing inter-linked industries, such as the auto industry. The latter is well-known for interdependence on, and inter-linkage with, a wide range of complementary small and medium scale industries.
Nevertheless, the contribution of the majority of the Kingdom's private sector's industries (with the exception of the petrochemical sector and some engineering industries) to the Saudi economy overall is small, mainly due to the poor productivity levels of these industries because of their dependence on low and/or medium level technologies. As productivity levels are commensurate with wages levels, it is not surprising that the private sector finds it difficult to attract Saudi workers. However, the auto manufacturing industry can provide a timely solution with its advanced technology and interdependence with numerous complementary small and medium scale industries. In short, the auto industry can accomplish the objectives of diversifying and expanding the Kingdom's industrial base at the same time.

Overview of World Automotive Industry:

Globally, the automotive (and car components) industry is regarded as one of the world's major industries. According to the World Trade Report 2013G issued by the World Trade Organization (WTO), auto industry products account for about 7% of global exports. Moreover, throughout its history, the auto industry has invariably been among the world's fastest growing industries and among the highest in maintaining its share of world trade. Besides, the auto industry has made an impressive recovery from the drop in productivity recorded in 2009 brought about by the impact of the global recession. The industry produced about 84.1 million vehicles in 2012G, with a projected growth rate of 3% in 2013G. In addition, currently, the auto industry employs about 9 million workers worldwide, accounting for about 5% of total employment in the global manufacturing sector. According to the "Organization Internationale des Constructeurs d' Automobiles" (OICA), world demand for motor vehicles increased annually by 2.8% during the period 2005G – 2012G while world production of vehicles increased by an annual growth rate of 3% during the same period.

Outlook for the Automotive Industry in the Kingdom:

Local and Regional Demand:

Information provided by the Central Department of Statistics and Information, reveals that the Kingdom imported, on average, about 679,000 motor vehicles per annum in the period 2005G–2012G, with an annual growth rate of 9.5%. It is worthy of note that, in 2012G, the Kingdom's total imports of vehicles reached the impressive figure of 981,000 vehicles, valued at SR 77 billion. Accordingly, the Kingdom has the largest automotive industry market in the Middle East. The high demand for vehicles is expected to continue bearing in mind the rising population growth rates in the Kingdom (3.7% annually), above the world average, in addition to the high purchasing power and the high proportion of the young population (15 – 24 years): 21%.

As for regional demand, automotive sales in the Middle East region have continued to increase at an average annual growth rate of 5.7%. As is the case in the Kingdom, the countries of the region are characterized by a high population growth rate

World Demand and Production of Motor Vehicles by Geographical Region in 2012G

Region	Production (million vehicles)	Percentage of Total	Demand (million vehicles)	Percentage of Total
Europe	19.814	23.6%	18.650	22.8%
North America	15.795	18.8%	17.490	21.4%
South America	4.229	5%	6.107	7.5%
Asia & Pacific Ocean	42.662	50.7%	35.357	43.3%
Middle East & North Africa	1.181	1.4%	3.324	4%
The rest of Africa	419	0.5%	811	1%
TOTAL	**84.100**	**100%**	**81.739**	**100%**

Source: «Organization Internationale des Constructeurs d' Automobiles» (OICA) overall of 2.3%. Within the Middle East region, the Kingdom is regarded as a major re-exporting center for vehicles and repair parts, due to its unique geographical location. The latter is a major advantage for the Kingdom. With an annual growth rate of 13% for the period 2005-2012G, the value of re-exported vehicles and repair parts amounted to SR 6 billion in 2012G. These figures present a strong argument for localization of an automotive industry in the Kingdom.

Basic Resources:

The Kingdom can boost substantial quantities of natural raw and basic materials which would greatly abet the establishment of a range of industries that could lend support to auto-manufacturing, for example, an abundance of mineral resources; energy resources available at reasonable costs, and huge potential for industries providing input to the auto industry. Moreover, the Saudi Basic Industries Company (SABIC), a primary pioneer in the field, currently produces a variety of plastic products and raw materials used in auto manufacturing. Furthermore, in addition to its existing steel and plastic plants, SABIC is planning to produce additional materials such as synthetic rubber used in tire manufacturing and rubber hoses, which are essential for auto manufacturing. In addition, the joint venture between the Saudi Arabian Mining Company, Ma'aden, and ALCOA, considered as one of the largest aluminum projects worldwide, will undoubtedly help to realize the Kingdom's ambitions to establish an auto industry. This can be explained by the fact that aluminum is a major input resource with enormous potential for innovation in auto manufacturing, which increasingly makes use of light-weight solid metal parts.

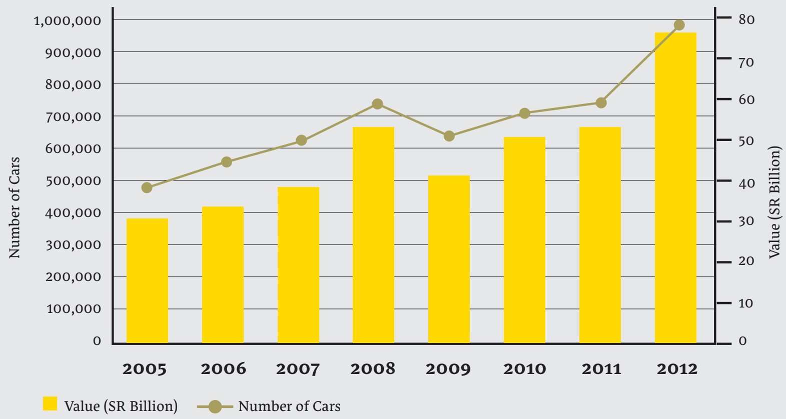
Supporting Industries:

The Kingdom has an advanced industrial sector and infra-structure in contrast to its neighboring countries, which would constitute a distinct advantage for the country in the establishment of an auto manufacturing industry. According to the Industrial Directory of the Ministry of Commerce and Industry, about 251 factories engaged in manufacturing car components and parts are currently operating in the Kingdom. These products include gear boxes, axles, shock absorbers, tie rods, radiators, laminated wind shields, batteries, constant velocity axles, brake pads, etc. In addition, there are several support factories such as those producing car paints, car seats, bumpers and accessories. In this respect, the number of SIDF financed car components and parts factories by the end of 2012G was about 65, with a total loan value of about SR 1.5 billion.

Government Support & Financial Resources:

The non-availability of long-term financial resources poses a formidable obstacle for the establishment of such a capital-intensive industry as the auto industry in any country. However, the Saudi economy is privileged to be the beneficiary of substantial revenues which would undoubtedly help to overcome this obstacle. Furthermore, local private and public financial institutions in the Kingdom have a good reputation for financial stability and solvency.

The Kingdom's Imports: Quantity & Value of Vehicles During the Period 2005G – 2012G



Source: Central Department of Statistics and Information

Additional government support towards the establishment of an auto manufacturing industry in the Kingdom will be required and are crucial to its success. Government support should not be limited to the finance; rather, it should include the provision of an adequate infra-structure (Auto Zone); seek to attract international partners; set up research and development centers, and upgrade the qualifications of personnel. Massive government spending on projects calculated to improve the infra-structure in recent years and the ensuing increase in demand for transportation equipment and supply of related spare parts are important factors to consider in attracting investments to auto manufacturing in the Kingdom.

Challenges Facing Auto Manufacturing in the Kingdom:

Despite the many opportunities and incentives for auto manufacturing in the Kingdom, the industry faces a number of challenges, among them are the following:

Limited Market Size:

The local market volume is obviously limited when set against the scale of global export markets; hence, economies of scale might not be attained. As a capital-intensive industry, the auto industry has to reach mass production levels in order to generate profitable returns for investors. However, the limited scale of the local market doesn't allow for mass production; nor can sizeable profitable returns on investment be expected. Nevertheless, a possible solution to this challenge could be described as gradual entry into the auto industry, either by targeting a particular market segment or focusing on particular types of vehicles such as cargo and public transport vehicles, or by integrating with international auto manufacturers to produce selected components (as is the case in a number of other countries). On the other hand, among alternative potential solutions might be the possibility of negotiating with neighboring governments such as those of GCC, Arab and Middle East countries to target specific regions.

International Competition:

The economic benefits of the auto industry have made it a focal point of interest in those countries seeking to localize it by attracting international companies by offering various incentives. However, because of stiff international competition, WTO regulations and quality control restrictions newly-established motor vehicle companies may not be able to make satisfactory profits which would enable them to develop and succeed. Hence, providing more incentives than those provided by other countries constitutes a major success factor for advancement of the auto manufacturing industry in the Kingdom. Providing such incentives requires continuous reviewing of investment laws and regulations, particularly foreign investment regulations, related to the industry and its support industries, with particular emphasis on those related to taxes and exemptions.

Advanced Technology:

In spite of rapidly increasing use of modern, sophisticated technology throughout the Kingdom, the current technological levels of local industries are not on a par with those required for the auto industry in highly-industrialized countries. This situation clearly calls for the establishment of scientific research centers specializing in the auto industry and its support industries. To this end, the authorities should encourage the establishment of local research centers to enter into partnerships with relevant international technology/science centers and institutions.

Infra-structure:

The relative high degree of industrial development in the infra-structure in the Kingdom, in contrast with that of other countries in the region is certainly preferential factor. However, there is still a long way to go before it can match the levels of international standards. For example, the local transportation network needs to be improved, particularly the trains services, not to mention services provided by the Kingdom's ports, electricity suppliers, telecommunication companies, etc., to create a favorable environment while reducing costs for an auto industry. Any delay in establishing support projects, or their abandonment, such as the planned aluminum and petrochemical industries and/or improvements to the infra-structure, will adversely affect the success of auto manufacturing in the Kingdom.

Human Capital:

The prospects of success for the auto industry in the Kingdom depends on the continuity and effectiveness of the recent educational initiatives adopted in the Kingdom, particularly those related to the scientific, engineering and vocational areas. It also requires the establishment of specialized training centers in collaboration with international motor car manufacturing companies.

Support Industries:

The majority of companies currently operating in the industrial sector of the Kingdom have the potential to support the proposed auto industry; however, improvements are essential in terms of adequate resources, modern technology, and quality demands to enable them to compete with their international competitors in the auto industry, who may offer lower prices and better quality. Obviously, large industrial projects engaged in manufacturing motor vehicles cannot be expected to enter into business relationships with low quality local industries.

Conclusion:

Prospects for the success of auto manufacturing in the Kingdom are favorable. However, there are formidable challenges. Nevertheless, the success of the petrochemical industry in the Kingdom is a striking example of what can be achieved. Initially, the petrochemical industry took many risks and faced great challenges, but, with determination and effective management, the Royal Commission for Jubail and Yanbu has gradually created an industry in the Kingdom on an equal footing with industrially advanced countries also competing in the petrochemicals sector. Therefore, the setting up of a unit specializing in the localization of an auto manufacturing in the Kingdom is of paramount importance. This unit should consist of both public and private sectors. It should commence operations by establishing the necessary infra-structure required for the auto industry and develop realistic plans with measurable, applicable objectives. Moreover, the success of the petrochemical industry in the Kingdom, underlines Saudi Arabia's potential as a choice location for a viable auto-manufacturing industry.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SIDF Lending Activity Charts

SIDF Lending Activity Charts:

1) Table showing number of newly-approved SIDF industrial projects by minor sector

Sector	1434/1435H(2013G)	Cumulative Total
Consumer Products	**36**	**706**
Food	17	335
Beverages	10	70
Textiles	4	73
Leather & substitutes	-	24
Carpentry products	-	17
Wooden furniture	-	55
Paper products	4	95
Printing	1	37
Chemical Products	**29**	**638**
Chemicals	11	301
Oil & gas products	1	36
Rubber Products	2	20
Plastic Products	15	281
Building Materials	**22**	**419**
Ceramic Products	1	14
Glass Products	1	65
Other Building Material	20	340
Cement	**2**	**33**
Engineered Products	**24**	**737**
Metal Products	19	450
Machinery	1	90
Electrical Equipment	3	138
Transport Equipment	1	59
Other Manufacturing	**7**	**59**
Total	**120**	**2592 ***

* Of which (501) loans were terminated.

2) Table showing value of approved SIDF industrial loans by minor sector (SR millions)

Sector	1434/1435H(2013G)	Cumulative Total
Consumer Products	**1,330**	**19,103**
Food	600	10,482
Beverages	438	2,077
Textiles	112	2,410
Leather & substitutes	-	133
Carpentry products	-	217
Wooden furniture	-	387
Paper products	168	3,170
Printing	12	227
Chemical Products	**2,047**	**43,928**
Chemicals	1,578	34,241
Oil & gas products	10	3,389
Rubber Products	17	804
Plastic Products	442	5,494
Building Materials	**955**	**12,177**
Ceramic Products	400	1,769
Glass Products	130	3,516
Other Building Material	425	6,892
Cement	**1,302**	**11,515**
Engineered Products	**855**	**22,561**
Metal Products	785	17,131
Machinery	14	913
Electrical Equipment	43	3,259
Transport Equipment	13	1,258
Other Manufacturing	**191**	**2,811**
Total	**6,680 ***	**112,095****

* Approved for financing 120 new projects and expanding 24 existing ones.
** Of which SR(15,847) million were terminated or reduced.

3) Table Showing Number of Newly Approved SIDF Industrial Projects by Province

Province	1434/1435H(2013G)	Cumulative Total
Riyadh	39	927
Makkah	27	623
Madinah	8	108
Qassim	6	63
Eastern Province	15	713
Asir	6	45
Tabouk	-	11
Hail	5	26
Jizan	3	22
Najran	5	18
Al-Baha	-	9
Al-Jouf	5	21
Northern Frontier	1	6
Total	**120**	**2,592***

* Of which (501) loans were terminated.

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

Province	1434/1435H(2013G)	Cumulative Total
Riyadh	1,204	22,060
Makkah	2,932	19,792
Madinah	237	12,194
Qassim	86	1,463
Eastern Province	371	48,457
Asir	128	1,040
Tabouk	-	536
Hail	69	1,234
Jizan	1,500	2,837
Najran	51	1,147
Al-Baha	-	28
Al-Jouf	93	323
Northern Frontier	9	984
Total	**6,680 ***	**112,095****

* Approved for financing 120 new projects and expanding 24 existing ones.
** Of which SR(15,847) million were terminated or reduced.

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