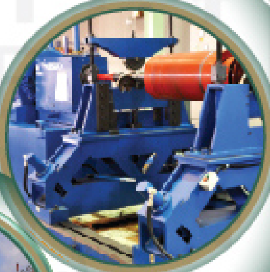
صندوق التنمية الصناعية السعودي
Saudi Industrial Development Fund

# Annual Report for the Fiscal Year

1436 1437H 2015



VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

بسم الله الرحمن الرحيم

The Custodian of the Two Holy Mosques

*King Salman Bin Abdulaziz Al Saud*

His Royal Highness

*Prince Mohamed Bin Naif Bin Abdulaziz Al Saud*

Crown Prince, Deputy Premier and Minister of Interior

His Royal Highness

*Prince Mohamed Bin Salman Bin Abdulaziz Al Saud*

Deputy Crown Prince, Second Deputy Premier
and Minister of Defense

# Vision

To contribute in making Saudi Arabia a global industrial leader by offering financial and advisory solutions.

# Mission

To support and diversify the Saudi economy by helping to shape industrial sectors, developing competitive enterprises, and supporting strategic initiatives.

# Values

- **Proactivity** in development
- **Partnership** in growth
- **Responsibility** in investments
- **Expertise** in advice
- **Success** in Industrialization

# Contents

# Board of Directors

**His Excellency Dr. Tawfiq bin Fawzan Al Rabiah**
Minister of Trade and Industry
Chairman of Board of Directors

**Eng. Saleh bin Ibrahim Al-Rasheed**
Director General of the Saudi Industrial Property Authority (MODON)

**Mr. Abdullah bin Ibrahim Al-Ayadhi**
Assistant Secretary General of the Public Investment Fund

**Dr. Osama bin Hussein Mansouri**
Minister of Economy and Planning Consultant / Expert Planning

**Dr. Aabed bin Abdullah Al-Saadoun**
Undersecretary of the Ministry of Petroleum and Mineral Resources of Corporate Affairs

## Foreword by H.E., THE Minister of Commerce and Industry, Chairman of SIDF Board of Directors

I am delighted to introduce the Annual Report of the Saudi Industrial Development Fund (SIDF) for the fiscal year 1436/1437 H (2015). The report reflects local and foreign investors' strong confidence in the Saudi economy and SIDF's essential role in supporting the industrial sector.

The Saudi economy has continued to achieve positive results for this year, despite the considerable challenges of the slowdown in the global economy and low oil prices which fell to the lowest level in 12 years. These accomplishments are attributed to the Saudi government's ongoing economic reforms which focus on enhancing the efficiency of the national economy and its competitiveness.

With regard to the performance of the non-oil manufacturing sector, it has continued to grow at higher rate, surpassing the average growth rate of GDP, with the gross domestic products of the non-oil manufacturing sector recording a growth rate of 5.78% in 2015 compared to 3.35% for the overlall GDP. This clearly underlines the leadership's support for the industrial sector to enable it to be a fundamental pillar for achieving the desired economic diversification. In this context, SIDF has continued to achieve over this year unprecedented results of loan approvals, both in terms of value and number. SIDF approvals of loans during this year increased in number to 155 loans amounting up to SR11.4 billion, which contributed to the setting up of 135 new industrial projects and expansion of 20 existing industrial projects, with investments in these projects totaling approximately SR 40 billion .

The Saudi government's keenness to expand the industrial base and achieve a balanced economic development Kingdom-wide, especially in the promising regions and cities, and the implementation of the regulations recently approved by the Council of Ministers increasing the loan ceilings to industrial projects located in the promising regions and cities from 50% to 75%, have resulted in an increase in the share of the promising regions to 54% of the total number of loans provided and 43%% of the total value of loans approved during the fiscal year 2015. These figures of total number of loans and their value have never exceeded 14% and 15% respectively prior to the implementation of the Council of Ministers' resolution.

Despite increased industrial value-added per individual, the Kingdom's industrial exports are yet to be expanded, thus it is important to diversify the technical structure of the industrial sector in the Kingdom and increase its competitiveness. This calls for intensified joint efforts of the public and private industrial sectors to boost investments in medium and high-technology industries and enhance the competitiveness of the Saudi industrial exports, particularly in light of the fact that the incentives and facilities provided by the Saudi government are considered to be the best in the region. These incentives and facilities are intended to facilitate the creation of a rewarding and attractive business environment for domestic and foreign industrial investments, the building up of a national industrial base, and the attraction of leading global and local industrial projects in different fields.

Finally, I would like to express my sincere appreciation and gratitude to the Custodian of the Two Holy Mosques, his faithful Crown Prince, and Deputy Crown Prince for their unwavering support for both SIDF and industrial development. I would also like to extend my thanks and appreciation to the SIDF's members of the Board of Directors, its executive management, and employees for their dedicated efforts that have culminated in such outstanding accomplishments. We are confident that what has so far been achieved will lead, God willing, to a prosperous and brighter future for the industry.

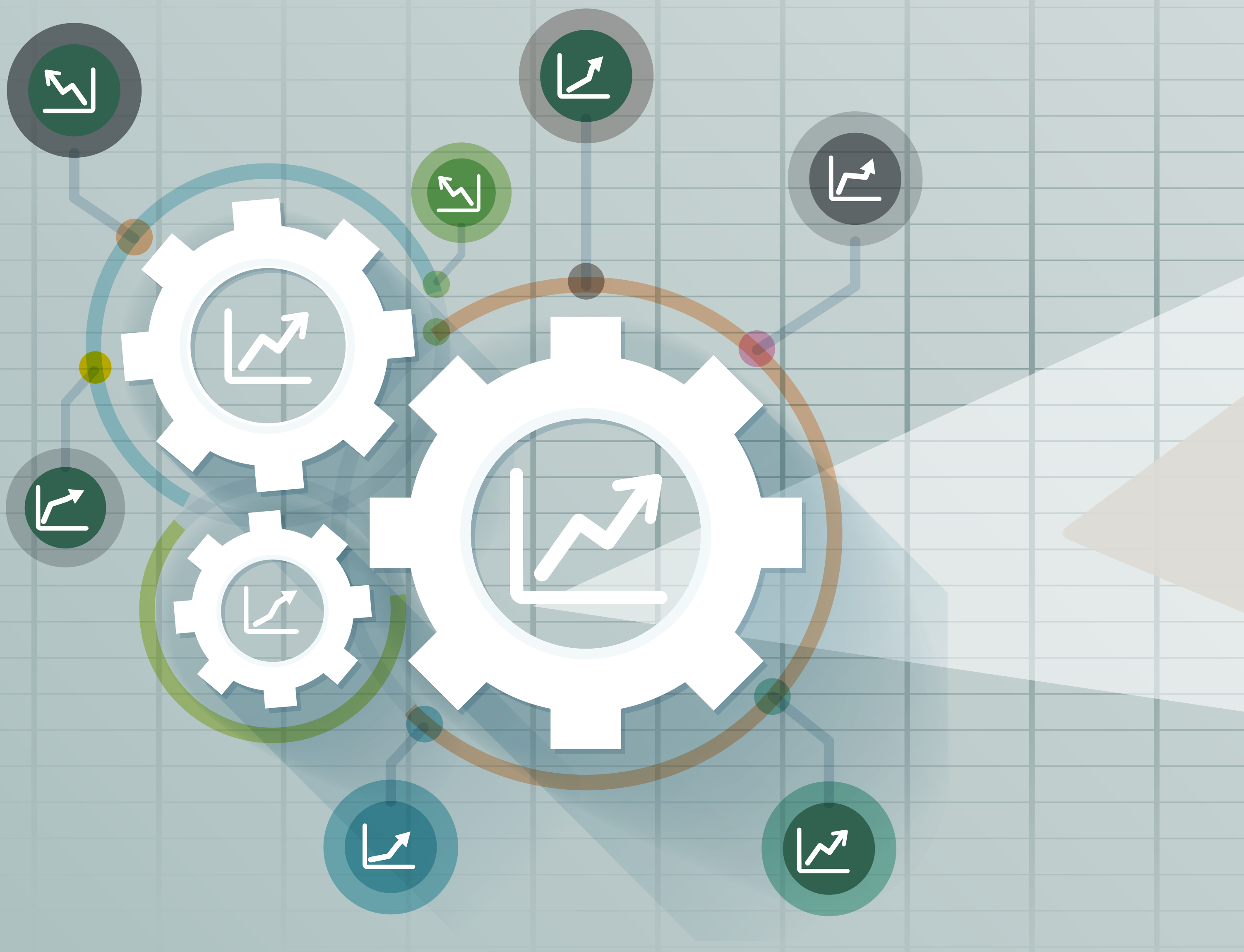
***May Allah guide all of us!***

**Minister of Commerce and Industry**

**Chairman of the SIDF's Board of Directors**

**Tawfiq bin Fawzan Al-Rabiah**

# Preface:
# Trends and Indicators in the Domestic Economy



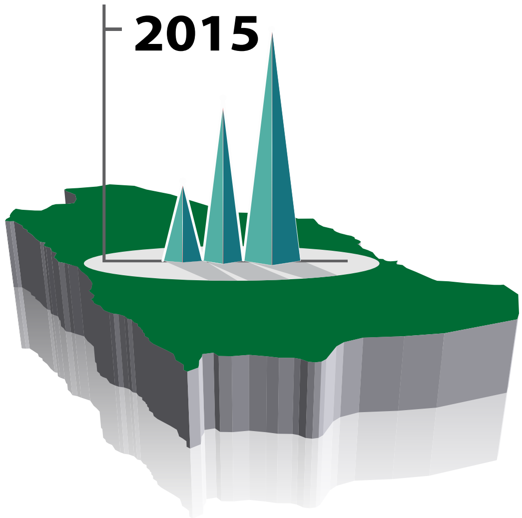
# KSA Economic Review for the Year 2015G:

The Saudi economy continued to grow achieving good results in 2015G, despite the economic and geopolitical challenges, namely the declines in oil prices by more than 45% on average compared to their levels in 2014, affected by the decline in the global economic growth. However, the Kingdom's experience in properly dealing with the oil market cycles and implementing ongoing structural and regulatory reforms have been effective in enabling the Saudi economy to successfully overcome these challenges. According to the Ministry of Finance's statement accompanying the announcement of the state budget, the Kingdom's gross domestic product (GDP) is expected by the General Authority for Statistics to reach SR 2,450 billion in 2015G, reflecting a decline by 13.35% at current prices compared to the previous fiscal year 2014G. The public debt volume is expected to reach around SR 142 billion at the end of fiscal year 2015G, representing 5.4% of expected GDP for 2015G. In terms of constant prices, the overall GDP is now estimated to grow by 3.35% in 2015G.

The private sector has continued to perform remarkably in 2015, achieving positive growth rates. It is expected to grow by 5.83% and by 3.34% at current and constant prices respectively. Furthermore, all economic activities in the non-oil sector recorded positive growth in GDP in 2015G. The telecommunications, transport and storage sector grew by 6.1%, the building and construction sector by 5.6%, the wholesale and retail, restaurants and hotels by 3.86%, the non-oil manufacturing sector by 3.23%, and the finance, insurance, real estate and business services by approximately 2.55%.

Inflation and price levels declined in 2015G, as the cost of living index is estimated by the General Authority for Statistics to increase by 2.2% in 2015G, compared to a rise of 2.7% in 2014G, calculated on the base year of 2007G. Non-oil GDP deflator, a key economic indicator for calculating inflation for the whole economy, is expected to increase by 2.02% in 2015G compared to the previous year.

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 deficit of SR155 billion in 2015G, in contrast with a surplus of SR 288.4 billion in 2014G. Likewise, the trade balance in 2015G is expected to achieve a surplus of SR 235.3 billion, a drop of 65.9% compared to last year's figure, resulting from the decline in the total value of the commodity exports by 40.2%, estimated at SR767,2 billion in 2015G. However, the value of non-oil commodity exports is expected to reach about SR 176.3 billion in 2015G, declining by 18.8%




compared to the last year's figure, representing 22.9% of the total volume of the exported commodities. On the other hand, the total value of commodity imports is expected to reach SR 531.9 billion in 2015G, a decrease by 10.5% from the previous year.

Concerning financial and monetary developments, and in the light of the developments encountered by the Saudi and global economy, 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 its national economy. The money supply, in its broad definition term, achieved a growth rate of 2.5% in the first ten months of the fiscal year 2015G, in contrast to a growth rate of 10.4% over the same period in the previous fiscal year of 2014G.

With reference to the banking sector, commercial banks continued to strengthen their financial position. During the first ten months of 2015G, capital and reserves of the commercial banks rose by 9.6% to SR 271.9 billion while their total claims on public and private sectors increased by 7.9% during the same period. Bank deposits grew by 1.7%, achieving a growth rate of 3.3% on an annual basis, compared with the previous year. Moreover, commercial banks continued to play a vital role in supporting and expanding the private sector's economic activities. Credit provided by commercial banks to various economic activities of the private sector totaled approximately SR 1330 billion during the first nine months of 2015G. However, commercial banks' lending increased to certain subsectors, namely the services subsector to which credit rose by 18%, building and construction by 17%, water, electricity, gas and health services by 8.1%, manufacturing, industry and production by 8%, commercial subsector by 6%, and agriculture and fishery by 1%. Contrastingly, bank credit to mining and quarrying, transport and communications, and financing subsectors declined by 8%, 4.5%, and 2% respectively.

Similarly, the Saudi Industrial Development Fund continued to accomplish an outstanding performance during 2015 by implementing its vital role in the support of all local industrialization activities. SIDF's loan approvals in the fiscal year 2015G remarkably increased to 155 loans worth approximately SR 11.4 billion, a growth of 10% in the number of the approved loans, and by 64% in their value. SIDF continued its developmental role in promoting industrial investment in the promising areas and cities, which received 43% of the total value of the loans provided, and 54% of the number of loans approved in the fiscal year 2015G.

On the other hand, the Saudi Tadawul All Share Index (TASI) declined by 17%, registering 6,912 points at the end of 2015G as opposed to 8,333 at the end of 2014G. The Capital Market Authority (CMA) worked on expanding the market base by enhancing credit and growth opportunities for companies and opening up channels for investment. An additional three companies made partial public offerings at value of SR 3.8 billion. The CMA approved Islamic "sukuks" offering for one company amounting to SR 3.9 billion; and 12 companies have obtained preliminary rights amounting to SR 2.3 billion. The CMA also worked on public offering of more investment funds, as it licensed 26 new investment funds, bringing the total number of licensed funds to 265. Furthermore, in 2015G, the CMA drew up, revised and issued a set of regulations to organize and develop the market, emphasizing the principles of fairness, transparency, disclosure, and investor protection. To this end, the CMA's Board of Directors approved regulations allowing qualified foreign financial institutions to invest in the listed equities, and allowing them and later buy and sell listed stocks on the Saudi Capital Market.

In pursuit of the development and consolidation of structural and organizational reforms intended to strengthen the national economic structure, a number of Royal degrees and directives were issued and implemented, including disbandment of 12 committees, entities and councils; setting up of two councils, namely the Council for Political and Security Affairs, and the Council for Economic and Development Affairs, both intended to promote efficiency of performance and coordination; speed up the decision-making mechanism and follow up their implementation; and draw up future trends. Moreover, the Council of the Ministers approved re-organization of some entities affiliated or administratively supervised by the Ministry of Finance, including the Saudi Industrial Development Fund, which the Council of Ministers directed to be linked to the Ministry of Commerce and Industry (MCI), and its Board of Directors to be chaired by the MCI Minister.

Also, a number of regulations and laws were approved and issued in 2015G. They include Tourism Regulations, Public Funds Handling Regulations, White Land Fee Regulations, and Corporate Law, along with approval for a number of organizations, including the Organization of the Consumer Protection Association; the Saudi Commission for Lawyers; the Saudi Center for Approval of Health Facilities; the Saudi Commission for Job Generation and Anti-Unemployment; the General Authority for Statistics, the National Program to Support Project Management; the Saudi SME Authority; the Martyrs Fund; the Center for Performance Measurement of Government Agencies; and the Centre of Achievement & Rapid Intervention, in addition to initial approval for setting up of a National Center for Strategic Development Studies.

In their assessment of the Saudi economy, a number of reputable international economic institutions and agencies have commended the strength of the Saudi economy. The International Monetary Fund (IMF), in its latest 2015G 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. The report also highlighted the strong position of the Saudi banking sector. IMF Directors 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 regulations and supervision. Moreover, Standard & Poor's international credit rating agency has maintained the sovereign rating of the Kingdom at a high credit rating of (AA-) for long term. Similarly, Fitch rating agency has also maintained its sovereign rating of the Kingdom at (AA) for long term.

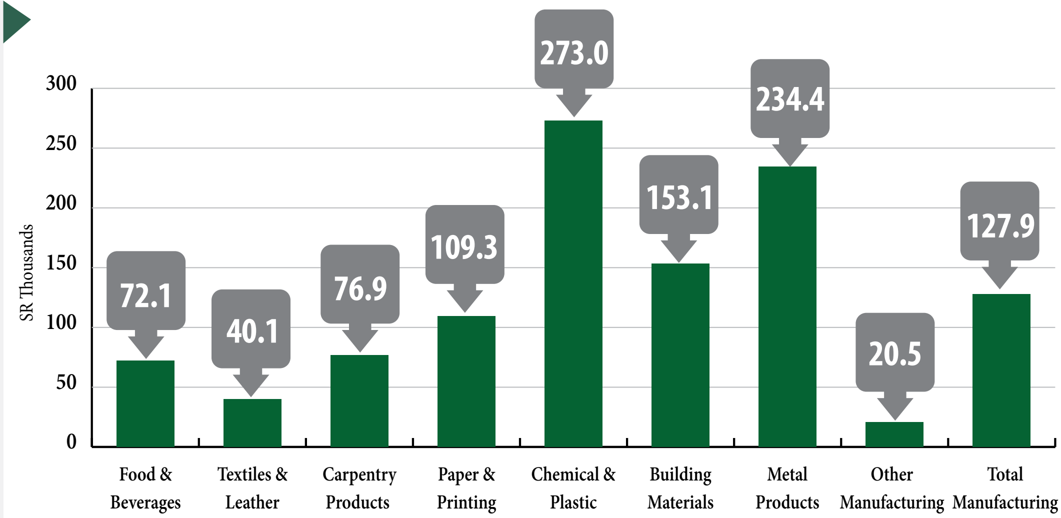
In conclusion, despite the low oil prices and the slow pace of the global economic growth, the Saudi economy continued to perform satisfactorily in 2015G. This attests to the Saudi economy's strength and consolidation, the government's successful economic and structural reforms implemented in pursuit of economic growth and diversification of income sources. These ongoing economic reforms, the continued policies focusing on development, projects rationalizing public expenditure, and diversifying non-oil sources of income are expected to create robust growth in the Saudi economy, particularly the non-oil sector.

## The Kingdom's Industrial Sector's Performance in 2015G:

The moderation of the global economy and the severe drop in oil prices during the year 2015G have reflected negatively on the overall demand for manufactured products. This resulted in a drop of the Saudi non-oil exports, the bulk of which are industrial exports, by about 18.8%, contributing in a decline in the annual growth rate of the manufacturing sector output in the Kingdom from 9.54% in 2014G to 5.78% in 2015G (based on 2010G constant prices).

In the context of the aforementioned general picture of the manufacturing sector, it is worthwhile analyzing briefly some of the performance indicators of the sector. As the data for the year 2015G has not yet become available, we will refer to the available data for the year 2014G. Figures (1,2,3) show performance features by the various manufacturing sectors for the year 2014G. As for the industrial productivity indicator, figure (1) shows the average value added per worker in the various industrial sectors for the year 2014G. During the year 2014G, the Chemical Products Sector ranked first in terms of average value added per worker recording SR 273 thousands. The Metal Products Sector was next with SR 234.4 thousands, followed by the Building Materials Sector with SR 153.1 thousands, Paper and Printing with SR 109.3 thousands, Carpentry and Wood with SR 76.9 thousands, Food & Beverages with SR 72.1 thousands, Textile & Leather with SR 40.1 thousands. Lastly, came the Other Manufacturing Sector with the lowest average value added per worker with SR 20.5 thousands.

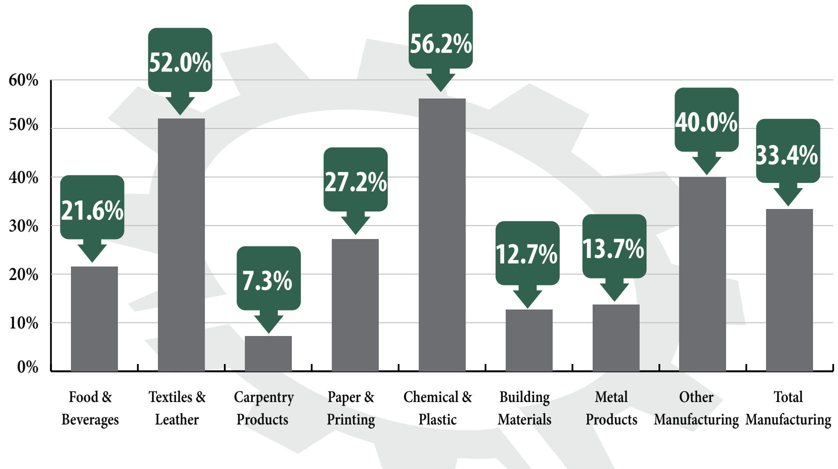
Figure (1): Value Added Per Worker (SR Thousands)




Source: SIDF Manufacturing Database (2014G)

Another indicator of vital importance in the Kingdom, especially in the few past years, is that of the ratio of industrial exports. The government plans attach major significance to consolidating and increasing non-oil industrial exports as a strategic objective for the national economy, to minimize dependence on oil exports. Figure (2) shows the average export ratio as percentage of total sales for the year 2014G. A review of the ratio for the year 2014G, shows that the Chemical Products Sector ranked first with a ratio of 56.2%, followed by the Textile & leather Sector with a ratio of 52%. Then follows the Other Manufacturing Sector (40%), Paper & Printing (27.2%), Food & Beverages (21.6%), Metal Products (13.7%), and Building Materials (12.7%). Carpentry & Wooden Products Sector came last with the lowest average export ratio as percentage of total sales (7.3%).

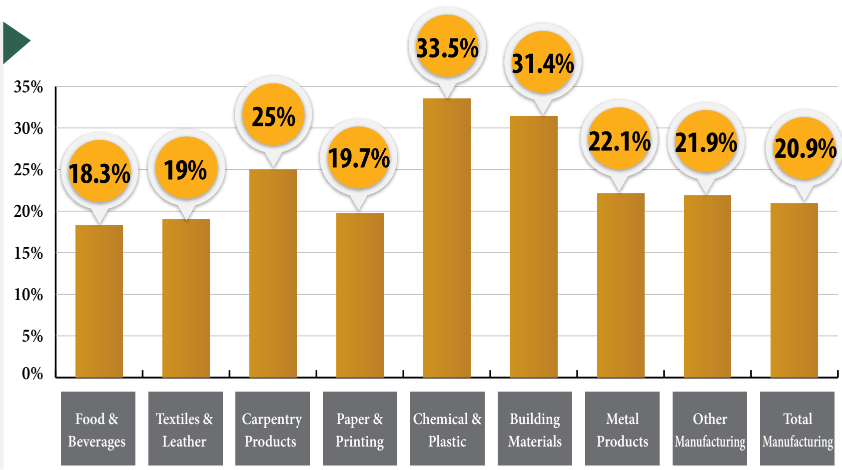
Figure (2) : Industrial Exports Ratio as Percentage of Total Sales




Source: SIDF Manufacturing Database (2014G)

The Saudi labor ratio to total industry labor is a factor that is currently gaining increasing importance at the national level. Figure (3) shows the ratio of Saudi labor to total labor for the various industrial sectors in 2014G. By 2014G levels, the Chemical Products Sector led the other sectors with 33.5% Saudi labor ratio. The Building Materials Sector came next, with a 31.4% Saudi labor ratio. The Carpentry & Wooden products followed with a 25% Saudi labor ratio, Metal Products with 22.1, Other Manufacturing with 21.9%, Paper & Printing with 19.7%, and Textile & Leather with 19%. Finally, Food & Beverages Sector showed a 18.3 % Saudi labor ratio. These Saudi labor ratios are considered moderate where foreign labor still accounts for the bulk of the labor in the industrial sector. Thus, major efforts should be launched in the area of restructuring the manufacturing sector to enable the sector create more attractive jobs for the national workforce.

Figure (3) Ratio of Saudi Labor to Total Labor (2014G)





Source: SIDF Manufacturing Database (2014G)

# SIDF
# Performance Review:

# Lending Activity for the Fiscal Year 1436/1437H (2015G):

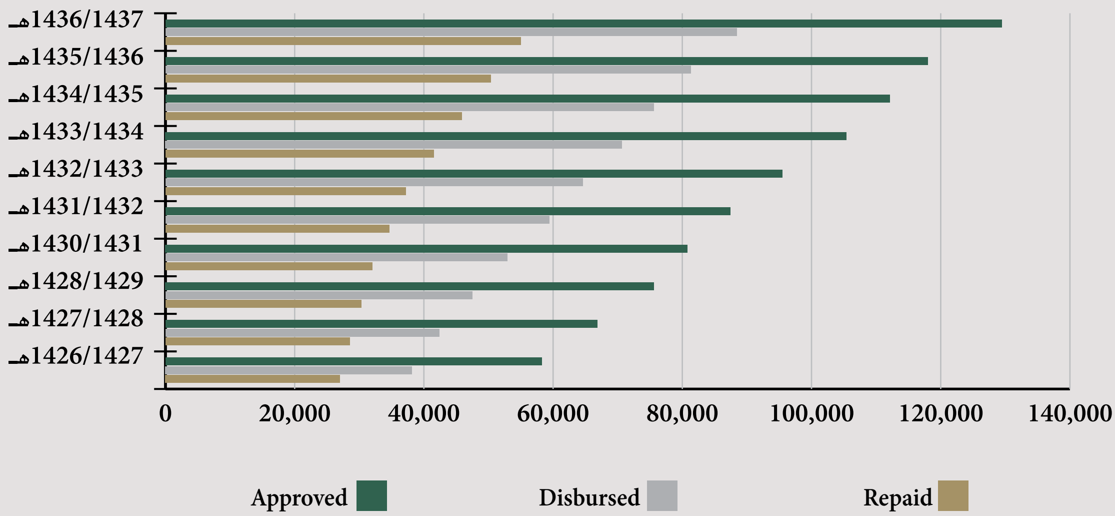
The SIDF FY 1436/1437H (2015G) Report coincides with a royal decree's approval of the Fund being administratively linked to the Ministry of Commerce and Industry (MCI) based on the Council of Ministers' Resolution No. 270 dated 3/6/1436H which promulgated that SIDF be an affiliate to MCI, and the Minister of MCI be chairman of its Board of Directors. A further Resolution No. 9 dated 13/1/1437H ordered that the lending activity of the Saudi Credit and Savings Bank to small and medium enterprises (SMEs) be transferred to SIDF which has been tasked to finance or guarantee financing to SMEs; and that SMEs Loan Guarantee Program (KAFALAH), managed by SIDF, be mandated to guarantee loans provided to SMEs.

SIDF's performance has been remarkably outstanding by all standards during the year covered by the Report, as the loans approved, disbursed and repaid over the year 1436/1437H (2015G) have reached the highest figures ever since the Fund's inception. The number of loans approved by the Fund during the year amounted to 155 worth SR11,438 million, the highest value ever approved in a single year since the inception of the Fund. This represents an increase in both the number and value of approved loans by 6.9%, and 94% respectively, compared to the previous FY 1435/1436H.

These approved loans during the reporting year contributed to setting up 135 new industrial projects and the expansion of 20 existing projects, with total investments of approximately SR40 billion. The value of the amount disbursed during the year stood at SR7,168 million, an increase of 26% of the total disbursed in the previous FY. These disbursements made during the year are of the highest value ever in a single year since SIDF's inception. Similarly, the amount of loans repaid by borrowers during the year totaled SR4,653 million, again the highest value ever in a single year since the Fund's inception. Thus, these figures, in terms of the value of the approved, disbursed, and repaid loans are record figures over a single year.

SIDF approvals during FY 1436/1437H (2015G) signify that new industrial projects' share of SIDF total approved loans was greater and growing at a rapid rate compared to expansion projects' share. During the year, 135 loans were provided to finance new industrial projects, valued at

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



SR10,668 million, accounting for 87% and 93% of the total number and value of SIDF approved loans respectively.

SIDF lending activity during the fiscal year 1436/1437H (2015G) featured a higher percent rate of loans provided to industrial projects located in the promising regions and cities, both in terms of number and value, at 54% and 43% of the total SIDF approved loans respectively. Contrastingly, these percentages were as much as 14% less than the total number of approved loans and 15% of their value before the implementation of the rules under which the Fund's financing to industrial projects located in the less-developed regions and cities was increased from 50% to up to 75% of the project cost, and the repayment period was extended from 15 years to up to 20 years.

A further feature of SIDF achievements during FY 1436/1437H (2015) is the high percentage of loans approved to small industrial projects (With loans up-to SR15 million each), accounting for 55% of the total number of loans approved by the Fund during the FY.

Overall, since its inception in 1394H until FY-end of 1436/1437H, the Fund approved a total of 3924 loans at a value of SR129,425 billion, provided to contribute to the setting up of 2,852 new industrial projects and expansion of 1,072 existing ones Kingdom-wide. Furthermore, the loans disbursed under these approved commitments totaled SR88,444 million, of which SR 54,999 million was repaid. These figures significantly testify to the success of the projects which benefited from the SIDF's loans and the professional expertise advisory services it has provided, particularly in the technical, managerial, financial, and marketing areas.

## 1. Distribution of Loans by Sector:

A review of the major industrial sectors, classified by approved loan value, reveals the following salient features:

### Chemical Industries:

### Cumulative Amount of Loans:

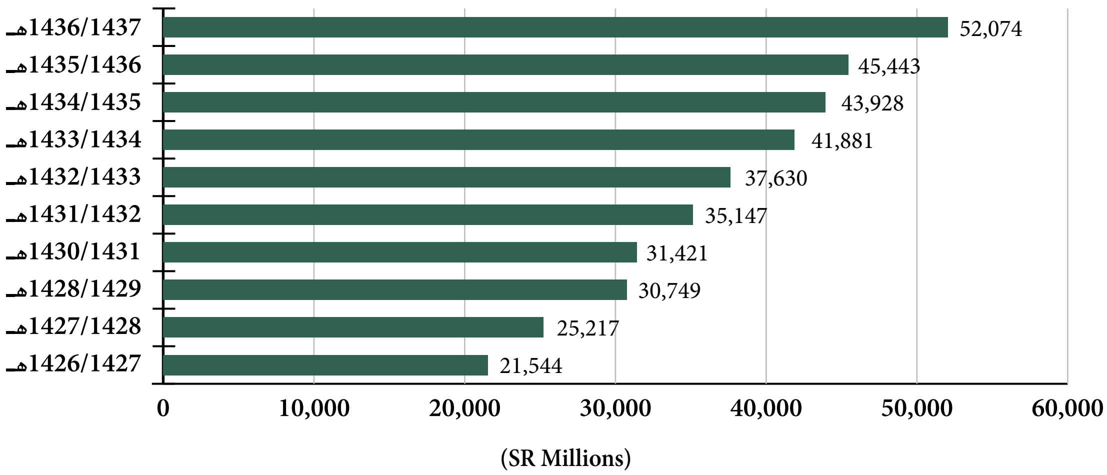
This sector still leads all other sectors in terms of amount of loan commitments since SIDF's inception until the end of the fiscal year 1436/1437H (2015G). Cumulative commitments extended to the sector totaled SR 52,074 million, representing 40% of the total value of loans approved by the Fund during the period.

### Projects Approved During 1436/1437H (2015G):

During FY 1436/1437H (2015G), SIDF approved 50 loans for this sector valued at SR6,631 million, representing 32% and 58% of the total number and value of loans approved during the year, respectively. Hence, this sector ranks first in terms of number and value of approved loans, which were provided to support setting up of 40 new industrial projects and the expansion of 10 existing ones.

Among the loans committed to this sector in 1436/1437H (2015G) were two loans valued at SR 2,200 million approved during the reporting year to support setting up of two projects in Turaif, one for the production of sulfuric acid and the other for the production of phosphoric acid. Another two loans worth SR1,800 million were also

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




provided to support financing two projects in Ras Al-Khair, one for the production of ammonia and the second for the production of single-and dual-ammonia phosphate. Two more loans of SR 1,418 million were approved for setting up of two projects in Yanbu, one for the production of titanium dioxide and the second for the production of hydrogen gas. Two further loans worth SR250 million were granted for setting up of two factories for manufacturing medicines and pharmaceutical products, one in Riyadh and the other in Hail. In addition, there was a loan of approximately SR167 million intended to support the setup of a plastic pipe and fitting factory in Hail.

The Fund's loans to expansion projects included two loans, one of SR 119 million to finance the expansion of a factory in Riyadh producing sodium hypochlorite, hydrochloric acid and caustic soda, and the other loan of approximately SR116 million to expand a plastic woven bag factory in Jeddah.

## Engineering Industries:

### Cumulative Amount of Loans:

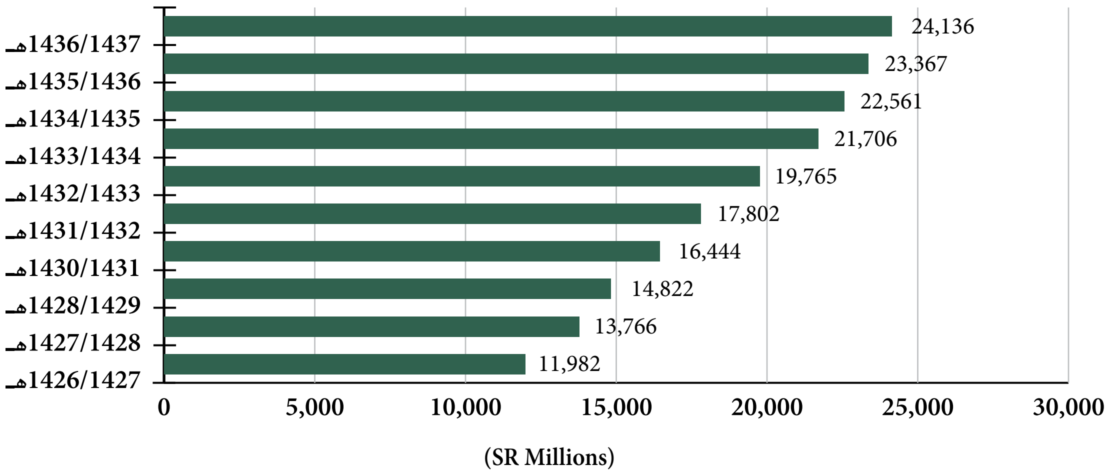
This sector comes second in terms of loans approved since the Fund's inception until FY 1436/1437H (2015G). Cumulative commitments of loans approved to this sector totaled SR 24,136 million, accounting for 19% of the total value of SIDF approved loans.

### Projects Approved During 1436/1437H (2015):

During FY 1436/1437H (2015G), SIDF approved 28 loans to this sector valued at SR 769 million, representing 18% of the total number of loans approved during the year and about 7% of their value. Thus, the sector ranks third and fourth in terms of number and value of approved loans respectively. These loans were provided to support setting up of 24 new industrial projects and the expansion of four existing ones.

New loans approved to this sector during the reporting year included three loans worth SR229 million to set up three steel billets factories, two of which are located in Al-Kharj and the third in Jubail. Three loans worth approximately SR 85 million were also provided for the setting up of three factories in Sudair, one for the production of electricity panel boards, the second for the production of telephone wires, and the third factory for manufacturing playground equipment; in addition to a loan of approximately SR43 million to support setting up of an electrical transformer plant in Bahra.

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




SIDF loans to finance expansion projects in this sector included three loans ; a loan of SR152 million to finance the expansion of a steel pipe fitting plant in Dammam; a loan of SR 39 million to finance the expansion of raw aluminum factory in Riyadh; and a loan of SR17 million to finance the expansion of valve plant in Dammam.


### Consumer Industries:

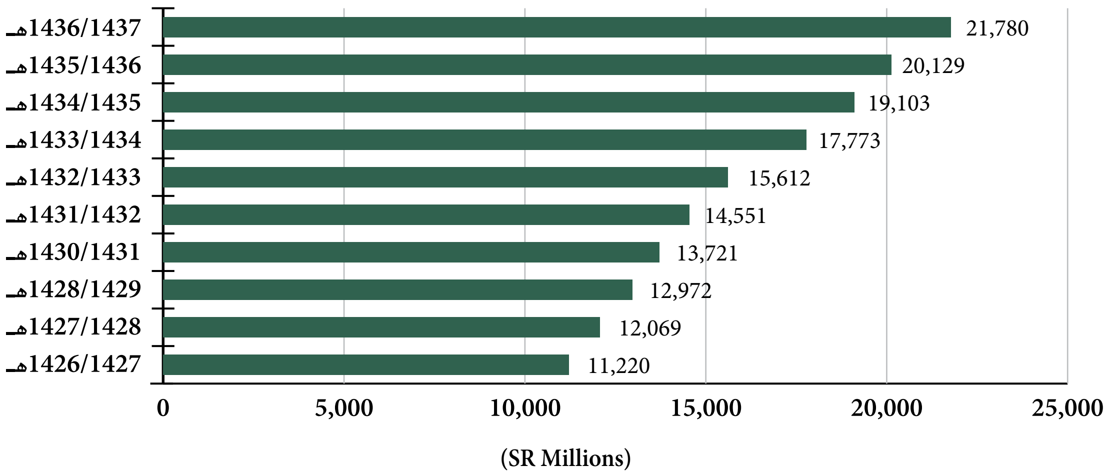
### Cumulative Amount of Loans:

This sector ranks third in terms of the value of the approved loans, to which SIDF's cumulative commitments during the year totaled SR 21,780, accounting for 17% of the total loans approved by SIDF since its inception until the end of the fiscal year 1436/1437H (2015G).

### Projects Approved During 1436/1437H (2015):

During FY 1436/1437H (2015G), SIDF approved 38 loans to this sector valued at SR 1,651 million, accounting for 25% and 14% of the total number and value of the approved loans respectively. The loans committed to this sector during the reporting year contributed to setting up of 35 new industrial projects and the expansion of three existing ones.

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



New loans approved to this sector during the reporting year included a loan worth SR 840 million to finance setting up of a sugar refinery plant in Jizan; a loan of SR 132 million to finance setting up an animal feed factory in Yanbu; a loan of nearly SR 66 million to finance setting up a coffee and nut factory in Sudair; a loan worth about SR60 million for setting up of a cake, Mamoul , chocolate and ice cream factory in Al-Kharj;. In addition, there were three more loans of SR 65 million for setting up three bottled drinking water projects in Waddi Al-Dowassier, Madinah Al-Munwarrah and Shaqra.

SIDF loans to finance expansion projects in this sector included two expansion loans, one of value SR170 million for the expansion of a starch and glucose factory in Al-Kharj; and the other of about SR26 million for the expansion of a croissant factory in Jeddah.


## Cement Industry:

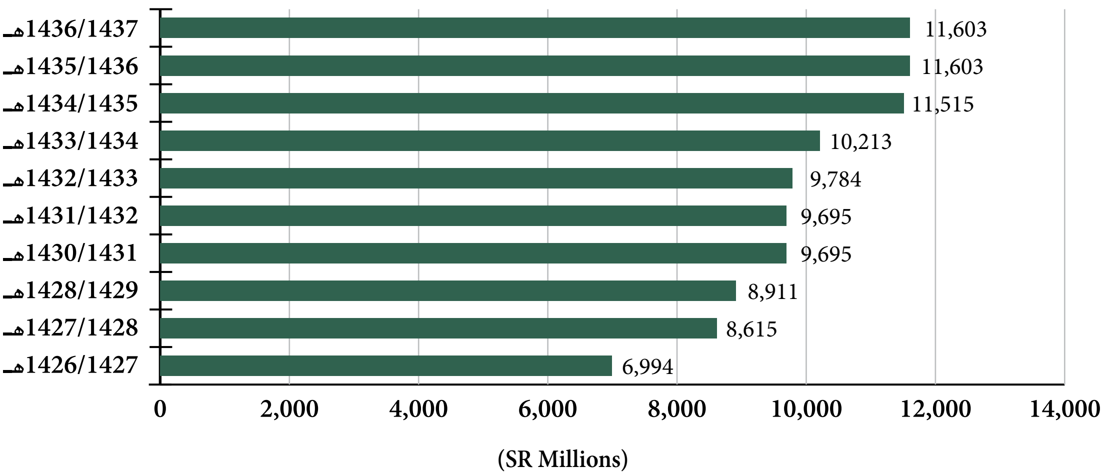
### Cumulative Amount of Loans:

Since SIDF's inception until the end of the fiscal year 1436/1437H (2015G), the cumulative amount of loans committed to the cement sector totaled SR 11,603 million, representing about 9% of the total value of the loans approved by the Fund, thereby ranking fifth in terms of total value of committed loans.

### Projects Approved During 1436/1437H (2015G):

No loans have been committed to the cement sector during the reporting year due to the fact that no investor has applied for a SIDF loan because the local installed capacities of the cement industry are currently sufficient to meet the domestic demand for this commodity.

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



## Other Building Materials Industries:

### Cumulative Amount of Loans:

The cumulative amount of SIDF loans committed to the "Other Building Materials" Sector until the end of the fiscal year 1436/1437H (2015G) totaled SR 13,279 million, representing 10% of the total value of loans approved by the Fund for industrial projects since its inception. This ranks the sector fourth in terms of value of the loans approved.

### Projects Approved During 1436/1437H (2015):

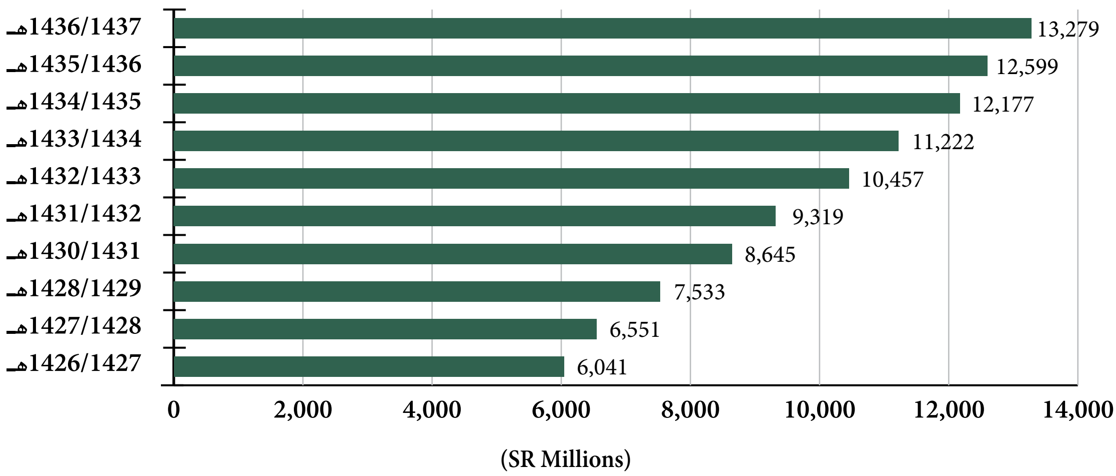
During the year 1436/1437H (2015G), SIDF approved 27 loans for this sector valued at SR680 million, accounting for 17% and approximately 6% of the number and value of the approved loans respectively, bringing the sector to the fourth in terms of number and fifth in terms of value of approved loans. Loans provided to this sector contributed to setting up 24 new industrial projects and expanding of three existing ones.

New loans approved to this sector during the reporting year included two loans worth about SR163 million for establishing two red bricks factories in Durmaa and Al-Kharj; a loan of SR 137 million for a factory producing ceramic tiles for walls and floors in Yanbu; a loan of SR61 million for a plant to produce insulated hollow concrete

blocks in Zulfi; along with four more loans worth about SR53 million to set up four ready-mixed concrete factories in Medina Al-Munarrah, Jizan, Rass, and Sharourah.

SIDF loans to finance expansion projects included three expansion loans totaling SR59 million to finance the expansion of three factories in Riyadh, one for the production of sanitary ware and extension supplies, the second producing dry silica sand, and the third insulated glass.

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



## Other Industries:

### Cumulative Amount of Loans:

SIDF cumulative loans committed to this sector since its inception until the end of the fiscal year 1436/1437H (2015G), totaled SR 6,553 million, representing 5% of the total value of loans approved by the Fund, thereby ranking the sector sixth in terms of value of loans approved.

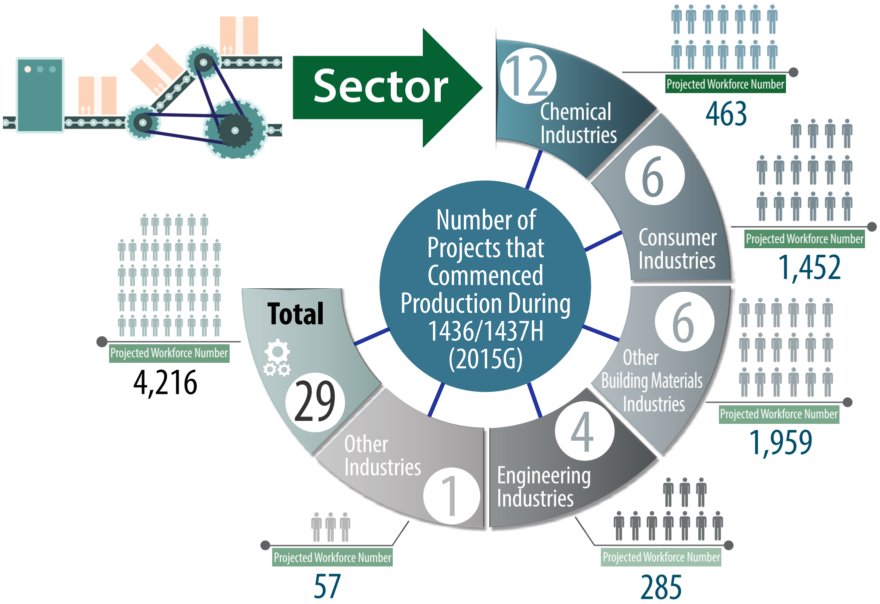
### Projects Approved During 1436/1437H (2015):

During 1436/1437H (2015), SIDF approved 12 loans for this sector valued at SR 1,707 million, accounting for about 8% and 15% of the total number and value of approved loans respectively. This ranks the sector fifth and second in terms of number and value of loans approved during the year respectively. Interestingly, the value of loans approved for this sector has markedly increased due to SIDF's recent trend towards financing industrial cities' infrastructure, industrial support and logistics, and mining industrial projects. SIDF loans provided to this sector during the year were intended to contribute to setting up 12 new industrial projects.

Among the new new loans committed for this sector during the reporting year, consistent with the Fund's endeavor to underpin the industrial support and logistical services projects, SIDF provided a loan of SR900 million for setting up electricity and industrial water plants in Yanbu; a loan of SR660 million for setting up a project for the production and distribution of water in Jubail Industrial city. In addition, there was a loan of SR37 million for pre-built model factories in Riyadh. Another three loans valued at SR 23 million, SR19 million, and approximately SR 13 million were provided to finance establishing a warehouse project located in Jeddah industrial city, an industrial waste plant in Rabigh, and a transport and storage systems project in the second Industrial city in Dammam.

### Projects which commenced Production during 1436/1437H:

SIDF-financed industrial projects which started commercial production during the year totaled 29 projects, 18 of which are new and the remaining 11 are the expansion of already existing projects. Breakdown of these projects are illustrated in the figure below:



## 2. Distribution of Loans by Region:

A 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:

SIDF's cumulative number of loans committed to contribute to setting up of industrial projects in Riyadh region stood at 1,443 loans provided to finance 1,028 industrial projects, accounting for nearly 37% of the total loans approved over the period from the SIDF's inception until the end of the fiscal year 1436/1437H (2015). This places Riyadh region in the first and second ranks in terms of number and value of approved loans respectively. SIDF Loans to industrial projects located in Riyadh region totaled SR 24,465 million, or about 19% of the Fund' total approved loans.

#### Loans Approved During 1436/1437H (2015):

During the FY 1436/1437H (2015), SIDF approved 68 loans valued at SR 1512 million to contribute to setting up of 56 new industrial projects and the expansion of 12 existing ones located in Riyadh region, representing approximately 44% and 13% of the total number and value of loans approved by the Fund. The Riyadh region is ranked first and fourth in terms of number and value of approved loans during the reporting year, respectively.

### Makkah Al-Mukarramah Region:

#### Cumulative Amount of Loans:

SIDF's cumulative number of loans committed to contribute in the establishment of industrial projects in Makkah region stood at 959 loans valued at SR 22,228 million, provided to finance 665 industrial projects. Thus, Makkah region is ranked third in terms of both number and value of loans approved over the period from SIDF's inception until the end of the fiscal year 1436/1437H (2015), representing 24% and 17% of total number and value of loans, respectively.

#### Loans Approved During 1436/1437H (2015):

During FY 1436/1437H, SIDF approved 25 loans valued at SR 365 million to finance the establishment of 22 new industrial projects and the expansion of three existing ones located in Makkah region, accounting for 16% and approximately 3% of the total number and value of SIDF approved loans during the year, respectively. This ranks Makkah region second in terms of number and seventh in terms of value of loans approved during the year.

### Eastern Region:

#### Cumulative Amount of Loans:

SIDF's cumulative number of loans approved by the Fund to finance projects located in the Eastern Region totaled 1051 loans worth SR53,523 million, to contribute in setting up 751 industrial projects, comprising 27% and 41% of the total number and value of approved loans, respectively. Thus, the Eastern Region is ranked first in terms of value and second in terms of number of loans approved by the Fund over the period from SIDF's inception until the end of the fiscal year 1436/1437H. This region's high loan value percentage is attributable to the huge average capital volume invested in industrial projects located in Jubail Industrial City in the Eastern region.

### Loans approved During 1436/1437H (2015):

During the year 1436/1437H, the Fund approved 23 loans valued at SR 3,143 million to contribute in setting up of 19 new industrial projects and the expansion of four existing ones in the Eastern Region. The region is ranked first in terms of value by 27% and third in terms of number of nearly 15% of loans approved during the reporting year.

## Al-Madinah Al-Munawarah Region:

### Cumulative Amount of Loans:

SIDF's cumulative number of loans committed to this region contributed to the setting up of 133 projects by the end of the fiscal year 1436/1437H and totaled 169 loans, amounting to SR 15,311 million. This represented 4% and 12% of total number and value of SIDF approved loans, respectively. The Al-Madinah Al-Munawarah region is ranked fourth in terms of both number and value of loans approved over the period from the SIDF's inception to the end of the fiscal year 1436/1437H (2015). This region's high percentage of loan value, as opposed to loan number, is attributed to the huge average capital invested in the industrial projects located in Yanbu industrial city, which is part of Al-Madinah Al-Munawarah region.

### Loans Approved During 1436/1437H (2015):

During the year 1436/1437H, the Fund approved 12 loans valued at SR 2,725 million to contribute to the setting up of 12 new industrial projects in Al-Madinah Al-Munawarah region, accounting for approximately 8% and 24% of the total number and value of loans approved during the reporting year, respectively. Al-Madinah Al-Munawarah region is placed the 4th in terms of number and 2nd in terms of value of loans approved during the year.

## Jazan Region:

### Cumulative Amount of Loans:

SIDF's cumulative number of committed loans (37 valued at SR 3,819 million) contributed to the setting up of 30 industrial projects in Jazan region, and accounted for approximately 1% and 3% of the total number and value of

approved loans. As such, the Jazan region is ranked fifth in terms of value of the loans approved over the period from SIDF's inception until the end of the fiscal year 1436/1437H (2015).

### Loans Approved During 1436/1437H (2015):

During the year 1436/1437H, the Fund approved 3 loans valued at SR 861 million to set up three new industrial projects in the Jazan region, which placed the region seventh jointly and fifth in terms of number and value of loans approved during the reporting year, respectively, accounting for about 2% and 7% of number and value of approved loans, respectively. The Jazan region, as it is classified a promising region, has greatly benefited from the new regulations which stipulate that SIDF lending limit to less developed regions and cities be increased from 50% up to 75% of a project's cost; and the loan repayment period be extended from 15 to 20 years.

## Northern Borders Region:

### Cumulative Amount of Loans:

SIDF's cumulative number of approved loans (12 valued at SR 3,222 million) contributed to the setting up of 12 industrial projects. As such, the Northern Boarders region is ranked 12th and 6th in terms of number and value of loans approved over the period from SIDF's inception until the end of the fiscal year 1436/1437H (2015) respectively.

### Loans Approved During 1436/1437H (2015):

During the year 1436/1437H, the Fund approved three loans valued at SR 2,205 million to contribute to the setting up of three new industrial projects in the region, which placed the region seventh jointly and third in terms of number and value of loans approved during the reporting year, respectively. This region, classified as a promising area, has also benefited considerably from the new regulations which increased SIDF's lending limit and extended the loan repayment period for industrial projects located in less developed regions and cities.

## Hail Region:

### Cumulative Amount of Loans:

SIDF's cumulative number of committed loans (35 valued at SR1,962 million) contributed to setting up 34 industrial projects in this region. As such, the Hail region is ranked 7th in terms of both number and value of loans approved over the period from SIDF's inception until the end of the fiscal year 1436/1437H (2015).

### Loans Approved During 1436/1437H (2015):

During the year 1436/1437H, the Fund approved five loans valued at SR 406 million to set up five new industrial projects in the region, which is placed sixth in terms of both number and value of loans approved during the reporting year.

## Qassim Region:

### Cumulative Amount of Loans:

SIDF's cumulative number of loans committed (87 valued at SR1,609 million) contributed to setting up 75 industrial projects in this region. As such, Qassim region is ranked 5th and 8th in terms of number and value of loans approved over the period from SIDF's inception until the end of the fiscal year 1436/1437H (2015), representing 2% and 1% of number and value of approved loans, respectively.

### Loans Approved During 1436/1437H (2015):

During the year 1436/1437H, the Fund approved seven loans valued at SR 92 million to contribute to setting up six new industrial projects and the expansion of one existing project in the region, which placed the region fifth and eighth in terms of number and value of loans approved during the reporting year, respectively.

## Other Regions of the Kingdom:

### Cumulative Amount of Loans:

SIDF's cumulative number of loans committed (131 valued at SR 3,286 million) up to the end of the fiscal year 1436/1437H contributed to setting up 124 projects in the Other Regions of the Kingdom, representing 4% of total number and value of loans approved over the period from SIDF's inception until the end of reporting year.

### Loans Approved During 1436/1437H (2015):

During the year 1436/1437H, the Fund approved nine loans totaling SR 129 million to contribute to setting up of nine new industrial projects located in the other Kingdom's regions, specifically five projects in Asir; three in Najran and one project in Tabouk.

### Geographical Distribution of SIDF Loans by the end of Fiscal Year 1436/1437H (2015G)

| Region | Number of Approved Loans | Value of Approved Loans (SR Million) |
|---|---|---|
| Riyadh | 1443 | 24,465 |
| MakKah | 959 | 22,228 |
| Madinah | 169 | 15,311 |
| Qassim | 87 | 1,609 |
| Eastern Region | 1051 | 53,523 |
| Hail | 35 | 1,962 |
| Jazan | 37 | 3,819 |
| Northern Borders | 12 | 3,222 |
| Other Regions | 131 | 3,286 |
| Total | 3924 | 129,425 |

## 3. Financing of Joint Venture Projects

Since its inception, SIDF has spared no efforts in promoting the implementation of industrial joint venture projects; particularly with reputable international companies. SIDF firmly believes that Foreign Direct Investment (FDI) is considered an effective tool for the attraction and transfer of modern technologies to the Kingdom and the creation of new employment opportunities for Saudi citizens. In addition, FDI has a crucial role in providing access for national products to foreign export markets. Therefore, the Fund does not require Saudi partnership in these projects, as it also finances projects that are wholly owned by foreign investors. In this context, SIDF treats wholly foreign-owned projects on an equal footing with projects wholly or partly owned by Saudi investors.

The number of joint venture projects approved by the Fund since its inception up-to the end of the FY 1436/1437H totaled 702 projects, accounting for 25% of total number of approved projects. The value of loans committed to these JVs, totaled SR 49,170 million, representing 38% of the total value of SIDF approved loans. Foreign partners' capital shares in these projects represent 33%.

It is worth mentioning that the ownership of 128 projects of these JVs, for which SIDF provided loans amounting to SR5,862 million, have been wholly transferred to the Saudi investors who acquired their foreign partners' capital shares in these JVs, after operating successfully, and generating enough cash flow to repay their debts in full.

The Chemical Industries sector surpassed all industrial sectors in terms of value of loans approved for JVs over the period from SIDF's inception to the end of FY 1436/1437H, due to huge volume of capital invested in the projects in this sector. Thus, SIDF approved loans to this sector accounted for about 57%, followed by the Engineering Industries sector ( 25%) , and the Consumer Industries sector (8%).

During the reporting year 1436/1437H, SIDF approved 15 loans to contribute in setting up 14 new industrial joint venture projects. and the expansion of one existing project. The value of these loans totaled SR 5,022 million, representing about 44% of the total Fund's approved loans during the year. Seven loans were provided to finance projects in the Chemical Industries sector; five loans to the Engineering Industries sector, and one loan each for the Building Materials and the Other Industries sectors.

The SIDF-financed joint venture projects during the FY 1436/1437H created 3,223 new jobs, representing 28% of the total number of jobs provided by the projects financed by the Fund during the year 1436/1437H (11,504).

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

The SMEs Loan Guarantee Program (KAFALAH) has maintained its ongoing key role in supporting small and medium enterprises Kingdom-wide. This role is based on the Program's status as a major player in the service and development of the community; the expansion of the beneficiaries' base, and the creation of new job opportunities that contributes to reducing unemployment rates in the Kingdom.

The Program's performance was remarkably exceptional in the FY 1436/1437H (2015G), during which KAFALAH Management approved 4,007 guarantees in contrast with 3,612 guarantees in the previous year, a growth rate of 11%. These approved guarantees have benefited 1643 SMEs compared to 1,497 SMEs in the previous year, representing an increase of 10%. The value of these guarantees totaled SR 1,820 million compared to SR 1,688 million in the previous year, representing a growth of 8%. Credits provided by KAFALAH's participating commercial banks to SMEs during the year amounted to SR 3,723 million in contrast with SR 3,462 million in the previous year, an increase of approximately 8%.

The Construction/Building and Contracting sectors led all other sectors. 2,362 guarantees were issued to this sector at a value of SR 966 million, representing 59% and 53% of the total number and value of guarantees issued by the Program during the FY 1436/1437H (2015), respectively. The Commercial Sector came second with 737 guarantees worth SR 333 million, accounting for 18% of the total number and value of the guarantees, followed by the Finance and Business sector to which 336 guarantees were issued at a value of SR 152 million, accounting for 8% of the total number and value of guarantees. Then came the Industrial Sector with 283 guarantees valued at SR 184 million, representing 7% and 10% of the total number and value of guarantees issued, respectively. The remaining 289 guarantees, which accounted for 7% and 10% of total number and value of issued guarantees respectively, were issued to different sectors, namely 137 guarantees to Recreation and Tourism, 96 guarantees to Public, Individual and Social services, 43 guarantees to Transport, Warehousing and Cooling, 10 guarantees to Electricity, Gas, Water and Related Businesses, two guarantees to Mining, Petroleum and Related Businesses, and one guarantee to Agriculture, Fisheries and Related-Businesses.

In pursuance of its aim of achieving balanced regional development, the Program Management has been keen to ensure optimal use of KAFALAH guarantees in all administrative regions Kingdom-wide. The Riyadh region came first in terms of number and value of guarantees issued by the Program during the reporting year. 1,874 guarantees were issued to this region at a value of SR 811 million, followed by the Eastern region with 792 guarantees valued at SR 421 million, third was the Makkah Al-Mukarrama region with 602 guarantees totaling SR 268 million. The Assir region ranked fourth with 156 guarantees issued totaling SR 74 million, followed in fifth place by the Al-Madinah Al-Munawarah region with 143 guarantees valued at SR 60 million; the Qassim region ranked sixth with 132 guarantees valued at SR 62 million; the Najran region ranked seventh with 114 guarantees valued at SR 44 million. The remaining 194 guarantees valued at SR 80 million were issued to the other regions, including the Al-Baha region with 48 guarantees, the Al-Jouf region with 36 guarantees, the Jizan region with 33 guarantees, the Northern Borders regions with 28 guarantees, the Tabouk region with 25 guarantees, and the Hail region with 24 guarantees. It is worth observing that the Program's guarantees issued during the FY 1436/1437H (2015) have covered all the Kingdom's regions.

As for KAFALAH participating banks, the National Commercial Bank (NCB) led all other participating banks in terms of total number of guarantees approved by the Program during the year, with 2,138 guarantees valued at SR 716 million, representing 53% and 39% of the total number and value of approved guarantees, respectively. Riyadh Bank comes second with 494 guarantees totaling

SR 331 million, representing 12% and 18% of the total number and value of issued guarantees, respectively. Arab National Bank (ANB) ranks third with 367 guarantees totaling SR 167 million, representing 9% and 11% of the total number and value of guarantees, respectively. In fourth place comes Al-Rajhi Bank with 330 guarantees totaling SR 193 million, accounting for 8% and 11% of the total number and value of issued guarantees, respectively. The Program issued 678 guarantees to other banks amounting to SR 414 million, accounting for 17% and 23% of the total number and value of issued guarantees respectively.

Since the Program's launch on the year 1426/1427H (2006G) until the end of the FY 1436/1437H (2015G), KAFALAH Management has issued a total of 14,899 guarantees to 7,222 SMEs, at a total value of SR 7,098 million in contrast with the total approved financing of SR 14,371 million.

During the year 1436/1437H (2015), 37 guarantees were liquidated at a value of SR 20.1 million in favor of KAFALAH participating banks. Thus, the number of liquidated guarantees increased to 137, a total value of SR 70.4 million over the period from the Program's launch until the -end of the FY 1436/1437H. Distribution of liquidated guarantees is as follows: 50 guarantees for NCB; 39 for the Alrajhi Bank; 19 for SABB; 13 for Riyad Bank; four for Saudi Hollandi Bank; three each for the Bank Al Jazira, Al Bilad Bank, and Arab Bank; and one each for the Samba Financial Group, Saudi French Bank, and Saudi Investment Bank. The liquefied guarantees disbursed by the Program accounted for 0.92% and 0.99% of total number and value of the guarantees issued over the period from KAFALAH's launch until the end of the FY 1436/1437H.

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 | 2015 G Approved Guarantees | | | | Total Since Launch of the Program | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Guarantees | SR 000 | | Number of Beneficiary Enterprises | Number of Guarantees | SR 000 | | Number of Beneficiary Enterprises |
| | | Value of Guarantees | Value of Finance | | | Value of Guarantees | Value of Finance | |
| National Commercial Bank (NCB) | 2138 | 716,042 | 1,707,068 | 619 | 6,406 | 2,226,213 | 4,753,459 | 2,265 |
| Riyad Bank | 494 | 330,959 | 658,169 | 301 | 2,783 | 1,664,373 | 3,426,120 | 1851 |
| Arab National Bank (ANB) | 367 | 166,638 | 334,328 | 206 | 1,612 | 710,764 | 1,868,855 | 688 |
| Al-Rajhi Bank | 330 | 192,683 | 327,798 | 164 | 1,577 | 873,428 | 1,534,859 | 906 |
| Al-Jazira Bank | 119 | 79,088 | 104,370 | 67 | 494 | 282,406 | 390,339 | 232 |
| SAMBA Financial Group | 168 | 52,101 | 90,257 | 40 | 596 | 253,802 | 469,712 | 261 |
| Saudi Hollandi Bank | 108 | 101,728 | 159,440 | 89 | 508 | 492,481 | 735,906 | 420 |
| Saudi Investment Bank | 83 | 36,899 | 64,947 | 32 | 203 | 114,460 | 214,686 | 96 |
| Saudi British Bank (SABB) | 70 | 30,814 | 55,120 | 28 | 240 | 131,852 | 249,525 | 163 |
| Al-Bilad Bank | 71 | 48,849 | 109,808 | 48 | 299 | 200,425 | 419,625 | 205 |
| Saudi French Bank | 59 | 64,618 | 111,976 | 49 | 181 | 147,435 | 308,157 | 135 |
| TOTAL | 4,007 | 1,820,419 | 3,723,281 | 1,643 | 14,899 | 7,097,639 | 14,371,243 | 7,222 |

# Human Resources and Training:

## Recruitment and Training:

SIDF Management has managed to attract and employ, through its effectively designed training programs, suitably qualified Saudi cadres to work at the Fund in various positions and specialties. 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, and legal studies, etc.

During the fiscal year 1436/1437H, 518 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. 870 Saudi employees have been trained in accordance with work requirements and scheduled dates of in-house and overseas training courses. 102 of those employees have attended specialized basic courses abroad, including master's degrees and intensive English language courses. 219 Saudi employees have attended short courses held abroad; 30 have attended short courses provided in the Kingdom, and 248 Saudi employees participated in short courses provided by and conducted at the Fund, along with 28 Saudis from various Saudi universities who have been provided on-the-job professional and practical cooperative training at various SIDF' Departments.

SIDF has invariably capitalized on its good relations with many similar financial institutions and participated in professional activities inside and outside the Kingdom to further develop the professional skills of SIDF's Saudi staff through effective participation in specialized and professional conferences, seminars, and workshops organized and conducted by these institutions. Such collaboration ensures a valuable exchange of professional expertise and experience which, in turn, has been instrumental in improving the skills and capabilities of Saudi cadres which have positively reflected in the overall impressive performance of the Fund.

In keeping with contemporary advanced financial and administrative systems, SIDF has successfully implemented the Saudization programs it had adopted for FY 1436/1437H as evidenced by recruitment of 49 Saudi employees to fill various vacancies in the Fund's departments in accordance with SIDF's approved budget.

## Human Resources Department Initiatives

In line with the direction of the SIDF Board of Directors and Senior Management regarding activation of the Human Resources Department's role in favor of the Fund and its employees by applying the modern banking management in accordance with the advanced professional standards, the Human Resources Department accomplished many tasks as shown below:

1. Review and update all human resources policies to keep up with the latest developments in various relevant fields. Such policies will be available to all SIDF employees through open meetings and intranet.
2. Amend the procedures used in preparing the budget for jobs, employees and training to spare time and effort, and use modern technical measurements in preparing the budget.
3. Accomplish Human Resources Department tasks and procedures by all department staff using the latest technologies.
4. Archive and enter employees data accurately to facilitate the use of such information in various applications and requirements of the Department.
5. Amend performance reports to insure fairness and transparency in relation to annual increases, bonuses and promotions.
6. Supervisory and leadership job classifications at the Fund are amended to address the employment bottlenecks and the phenomenon of getting familiar and fit with the supervisory and leadership positions, along with how to handle remunerations and entitlements fairly and objectively for all levels of supervisory and leadership job categories.
7. Enhance communication among employees by creating an office to answer all inquiries and comments regarding Human Resource Department functions.
8. Utilize communication channels to spread knowledge, welcome returnees from overseas training courses, and publish all policies and procedures related to employees as internal announcement and through Yamer.
9. Coordinate with other departments to ensure the Fund's strategies are implemented properly.
10. Monitor amendments and impacts made by changes to the Saudi Labor Law, as well as the amendments approved by the SIDF Board's executive management.

## Overview on SIDF Strategy :

Since the seventies, the Fund has been considered one of the fundamental pillar supporting the industrial activity in the Kingdom. The Fund has helped the development of some of the important sectors such as the Petrochemical and Mining with more than SR 129 billion extended to 2,852 projects throughout the Kingdom. Looking into the future, the Fund has reformulated its vision and mission in order to develop economic, energetic, innovative and competitive systems to help the Kingdom of Saudi Arabia to become a global industrial leader.

### Vision:

- Help the Kingdom to become an advanced industrial country by providing financial and advisory solutions.

### Mission:

- Support and diversify the local economy by structuring the industrial sectors, the development of competitive enterprises and the support of strategic initiatives.

### Values:

1. **Proactive** in Development.
2. **Partnership** in Growth.
3. **Responsibility** in Investment.
4. **Experience** Advice .
5. **Success** in Industrialization.

**Currently, the Fund has 29 Initiatives underway in order to achieve its strategy. They are broken down into 9 projects:**

1. Enhancing governance.
2. Initiating strategic steering and performance measurement.
3. Raising the value-added by increasing products and services.
4. Improving credit and risk departments.
5. Diversifying financing resources.
6. Developing human resources.
7. Transforming digitally.
8. Activating change management.
9. Supporting the SME program.

**The Fund's Products (existing and new):**

- **Existing products:** Project financing & provision of consulting services.
- **Proposed products:**

**1- Short term:**

- Documentary Credits.
- Credit facilities (Murabaha).
- Guarantees.
- Expanding advisory services.

**2- Long term:**

- Corporate finance.
- Capital markets.
- Bonds.
- Mezzanine financing.

## • Disbursement procedures:

The Fund is currently working on the development and automatization of its procedures to serve clients efficiently. One of the key procedures is the development of a disbursement process by automating its procedures and creating a separate division for management of disbursement. Assessment of the division's performance is based on processing speed. Moreover, the Fund has created a new disbursement method which is opening credits to import machinery. This method provides machinery to factories in a shorter time and at a lower cost.

**Abdulkarim bin Ibrahim Al-Nafie**

عبدالكريم

**Director General**

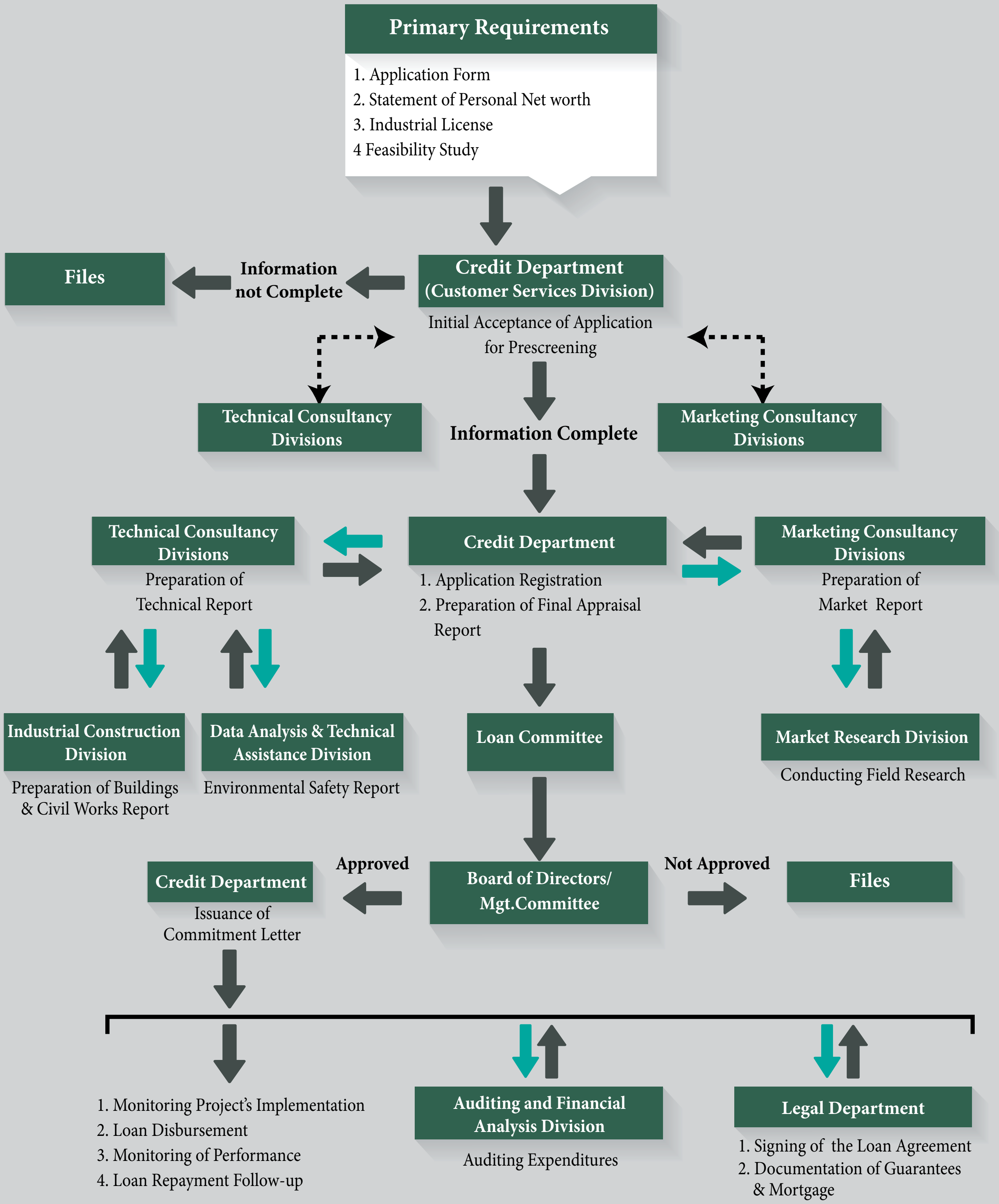
# SIDF Loan Application's Cycle:

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

All these 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 overleaf shows the Application cycle currently adopted by the Fund. The flow chart shows processing, appraisal, and implementation/ follow-up procedures relating to the projects to be financed. It also indicates disbursement of the Fund's commitment to borrowing projects, and the monitoring of loan maturities' repayment by beneficiary borrowers.

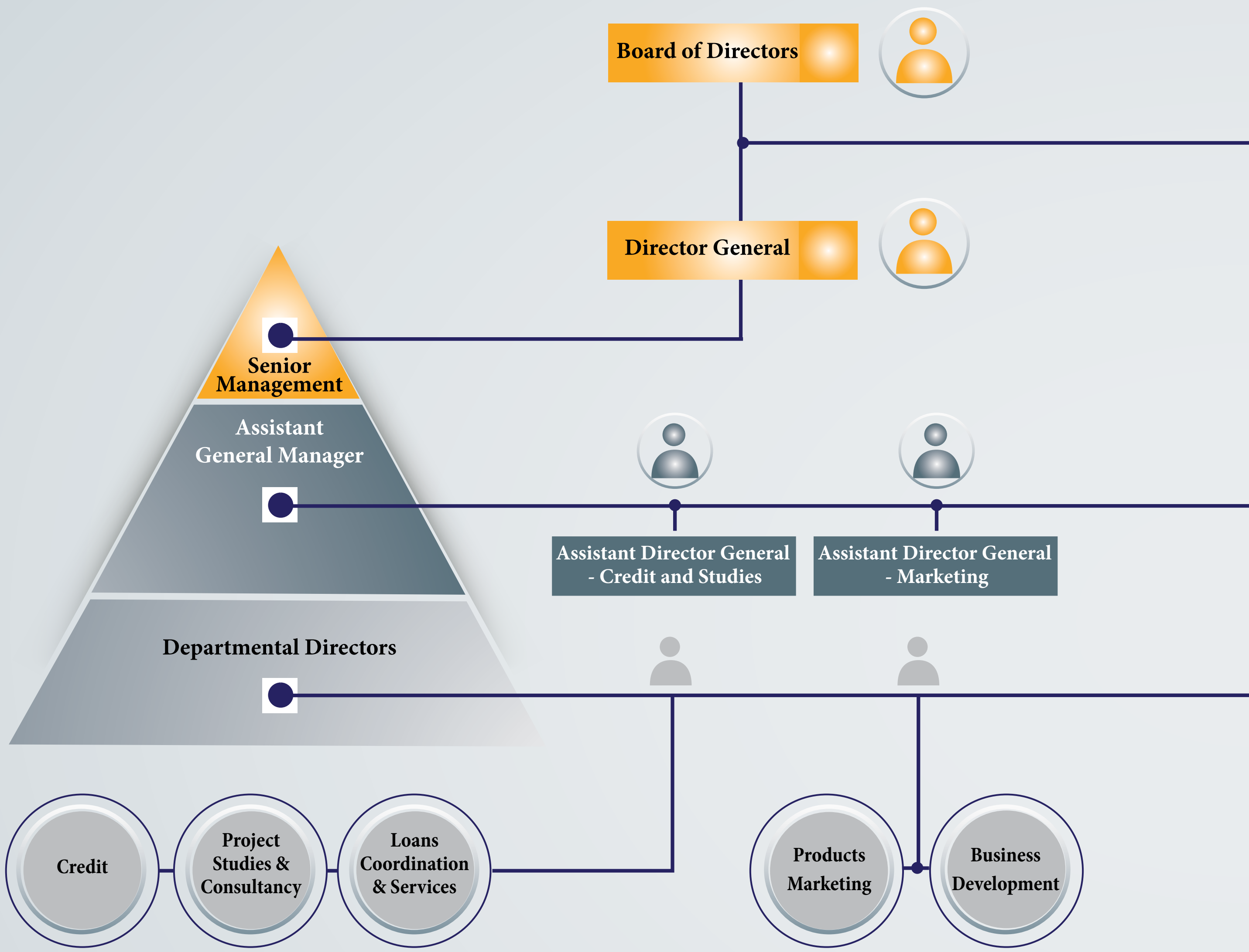
# Loans Application's Processing Flow Chart




**Note:**

1. The duration of the project evaluation period is determined by the applicant's cooperation and the timely submission of required information.
2. For expansion projects the stages outlined above also apply though some are likely to be omitted.

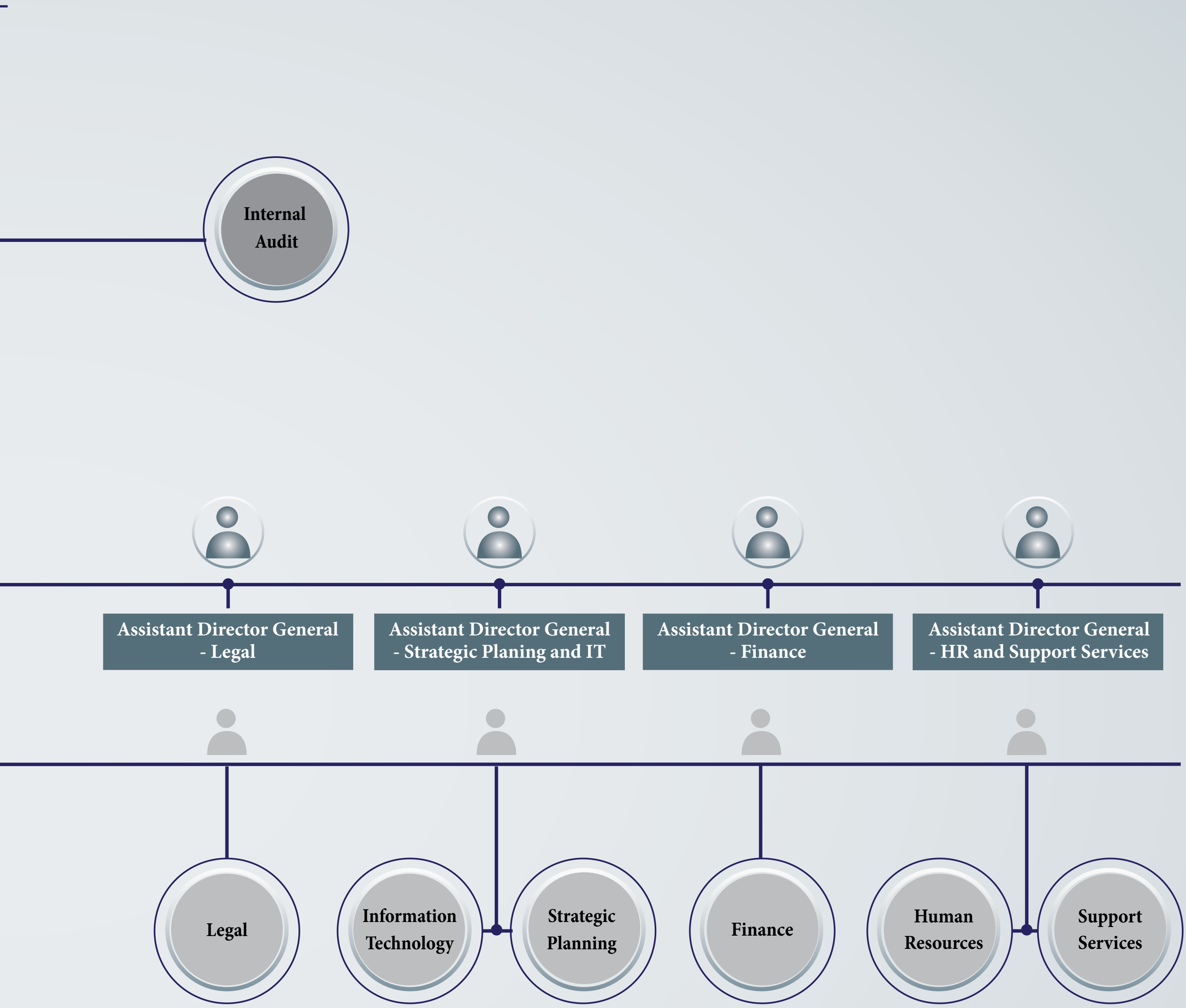
# SIDF’s Organization Chart




In line with the Board of Director’s vision of pursuing latest management advances in respect of the organizational structure of departments, consistent with the SIDF business requirements, and with the intention to essentially improve the Fund’s functionality in achieving its vital objectives of industrial support, the Board has approved the restructure of certain existing departments and the creation of new ones during the fiscal year 1436/1437H. These Board approvals include:

**First**, creation of new Product Marketing Department (PMD) to promote marketing of SIDF products according to well-designed plans. PMD is intended to reflect the deliverables produced by SIDF activities; display and publicize them in various events and through modern marketing means and techniques, along with gatherings, seminars, conferences, media and audio-visual social networks.

**Second**, creation of new Business Development Department (BDD) with the task of introducing new methods for further development of SIDF core businesses in accordance with the latest and recognized professional standards, and in consistence with SIDF future vision for effective performance and higher productivity.




**Third**, creation of new Strategic Planning Department (SPD) which is entrusted to develop a well-conceived and regulatory strategic plan for the Fund in coordination with the Assistants Director-General and Managers of Departments.

**Fourth**, restructure of certain Departments with the intention that specialized tasks are being focused on and implemented effectively. To this end, Operations & Administration Department has been divided and re-titled Finance Department (FD) and Support Services Department (SSD). Similarly, the Arabic title of Human Resources Department (HRD) is modified.

**Fifth**, five new senior positions of Assistant Director General have been created for Marketing, Legal, Strategic Planning & Information Technology, Finance, Human Resources & Support Services, all under the DG's supervision, with the aim to consolidate the spirit of team work among occupants of the leadership positions, through weekly regular meetings to address all issues of concern in a transparent and professional manner.

# In Focus:


ID: 235

# Loan Coordination & Services Department (LC&SD)

Pursuant to SIDF Director General's decision dated 27/4/1435H (16/2/2015G), the Loan Coordination & Services Department (LC&SD) has been modified to function as an experimental Department during the 1435/1436H (2014) fiscal year to cater for the work requirements, cope with the increasingly growing SIDF duties and responsibilities, and respond timely to the need for effective and improved performance. This was finally approved on 14/7/1436H (3/5/2015).

## LC&SD's main functional duties include:

- Coordinate and manage loan information; provide information support to both the Credit (CD) and Projects' Studies & Consultancy (PS&CD) Departments; store, archive and update the database of loans.
- Review and audit project costs submitted by borrowers as a prerequisite for disbursement processing; ensure conformity of project costs with those appraised by the Fund, review that the costs are supported by adequate documentation and represent actual assets which provide a justifiable base for disbursement, - all to protect SIDF's interests.
- Organize and document the receiving process of loan applications; coordinate with SIDF clients to ensure submission of the minimum required information and documentation for SIDF, and swiftly facilitate the processing of their submitted loan applications.
- Review and follow up on the recommendations proposed in the loan review reports; coordinate meeting agendas for the Loan Committee and Loan Review Committee, and review the Loan Board Letters submitted to the SIDF Board of Directors.
- Develop sound policies and procedures pertaining to credit risks associated with the SIDF lending activities.

## LC&SD comprises five divisions, namely:

- Coordination & Credit Information Analysis Division (C&CIAD).
- Audit & Financial Analysis Division-1 (AFAD-1).
- Audit & Financial Analysis Division-2 (AFAD-2).

- Customer Services Division (CSD).
- Loan Review & Follow-up Division (LR&FD).

## In Addition to:

- Risk Management Team (RMT).

## Coordination & Credit Information Analysis Division (C&CIAD):

This Division is assigned the task of safeguarding and updating the industrial loan information, following-up on applying the most modern technical software systems in coordination with the Information Technology Department; producing from there any credit reports that may be required, coordinating the sharing of the information with other SIDF Departments, and any interested government institutions. This, in addition, to providing the divisions of both the CD and PS&CD with the investor's creditability information that helps the proper appraisal of new loan applications.

## C&CIAD has the following two teams:

- Loan Information Management Team.
- Credit Check Team.

## Audit and Financial Analysis Divisions (AFAD-1 & AFAD-2):

Each Division is comprised of two Teams (A/B) with similar duties and functions who are assigned to review and audit the project costs submitted by borrowers. This process is required for the completion of disbursements. The Teams check to ensure such costs are in line with those appraised by the Fund and adequately supported by documentation. The Divisions are to ensure efficiency and compliance with the control procedures utilized to monitor project costs throughout the project implementation period, along with providing financial consultancy services to CD and borrowers in the following fields:

- Assisting in drafting the financial statements for clients, based on their own accounting books and records.
- Reviewing the financial, cost, and internal control systems used by some SIDF-financed factories.
- Evaluating the client-appointed financial managers and accountants.
- Advising on the best available accounting and financial control systems for some clients to select.

## Customer Services Division (CSD):

CSD is the Fund's point of contact and coordination with the current and potential SIDF customers. CSD utilizes state-of-the-art systems to respond electronically to customers' inquiries, to provide the information they need, and to ensure the required documents are submitted for applications for industrial loans. CSD organizes and documents the process of receiving loan applications; coordinates with SIDF customers regarding the required information and documentation to be submitted to expedite and facilitate processing of their loan applications, enabling the Fund to carry out its functions in a quick and professional manner with aim to create more positive image of the Fund. The CSD consists of the following two teams:

- Customer Services Team.
- System Development Team.

It is worth mentioning that the Customer Services Division (CSD) has been transfered from the Loan Coordination & Services Department (LC & SD) to the Product Marketing Department, according to the new SIDF's Organization Structure.

## Loan Review & Follow-up Division (LR&FD):

### LR&FD is tasked to perform the following duties:

- Setting up schedules for the Loan Committee and Loan Review Committee meetings' agendas.
- Reviewing the Board letters for applications on the agendas for the Board of Directors meetings.
- Reviewing the minutes of the Board meetings pertaining to industrial loans.
- Reviewing the loan review reports and uploading their meeting's minutes in the system.

### LR&FD consists of :

- Loan Review Team.
- Loan Follow-up Team.

## Risk Management Team (RMT):

RMT has been formed recently as a nucleus that is to be evolved in the future to the Risk Management Division, whose job structure is yet to be created.

RMT's functional duties include identifying the major risks associated with the Fund's lending activities; developing sound policies and rules for effective management of the credit risks involved; reviewing credit policies and risk strategies for different industrial sectors; proposing the Fund's Management level limits for credit risks; and closely and efficiently monitoring the implementation of the risk management currently applicable in the Fund, to endeavor to improve the risk management and its operations.

# Industrial Study:

# Solar Energy Industry in Saudi Arabia

## Introduction

Energy is the ability to do work. It can take a wide variety of forms: Solar, heat ( thermal), light (radiant), mechanical, electrical, chemical, and nuclear. It is classified into two categories:

- Non-renewable energy is a term used to describe finite energy resources that do not renew themselves. These sources can be either carbon based, most dominant are:- oil, coal and gas or they can be alternative energy sources such as nuclear energy.

- Renewable energy: It is the energy that is generated from natural processes that are continuously replenished. This includes sunlight, geothermal heat, wind, tides, and water. This type of energy cannot be exhausted and is constantly renewed.

## Solar Energy

With the increasing concerns during the past two decades over cost and rapid depletion of non-renewable energy sources; research has been directed towards the most abundant source of renewable energy "the sun".

Solar energy is natural, clean and renewable. The sun emits enough energy to meet the world's annual consumption every 50 minutes. The sun has been giving energy to the earth since its creation and will continue doing this till the end of the world.

### Two major technologies have been developed to utilize solar energy:

- Photovoltaic solar technology (PV), which directly converts sunlight into electricity using panels made of silicon semiconductor cells.

- Solar thermal technology(ST), known as concentrated solar power, which captures and concentrates the sun's heat using a group of mirrors to generate heat which is directly used or converted into mechanical energy and in turn electricity.

### Commercially, solar energy is utilized in two different types of installations:

- **Off-grid individual systems**: These systems have small generation capacities and are not connected to the public electricity networks. It is used for homes, farms or industrial units such as water desalination units.

- **On-grid systems**: These systems can be fed into the public electricity network and cover hundreds of acres to produce electricity on a large scale.

## Solar System Components

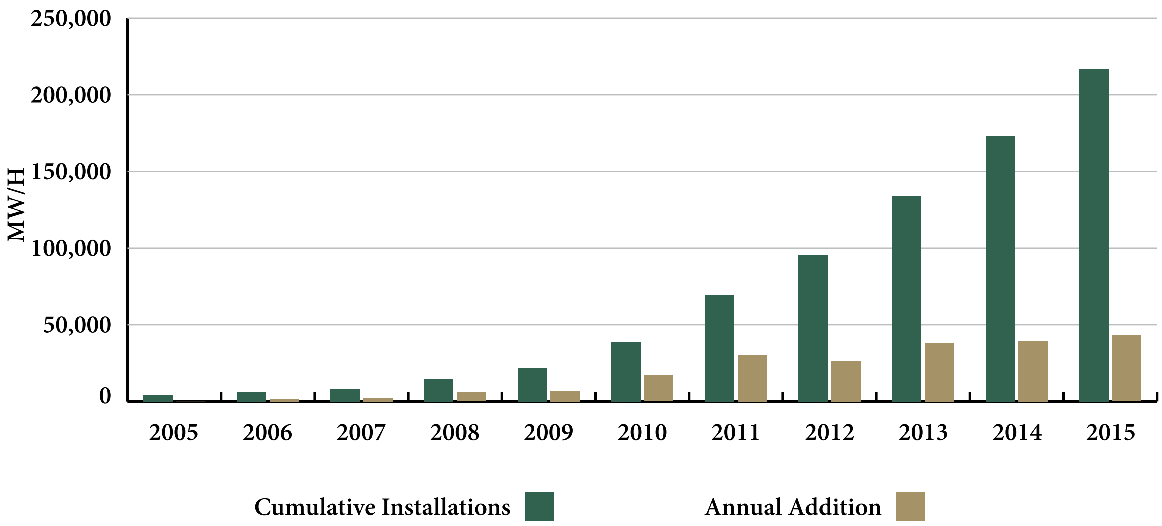
The solar cells are the foundation on which the solar system is built. They are square-shaped panel semiconductors made from silicon and other conductive materials. When sunlight strikes a solar cell, chemical reactions release electrons, thus generating electric current. Solar cells are also called photovoltaic cells or «PV cells» and can be used in many small appliances such as calculators and watches.

## Evolution of Global Solar Energy Market

The solar energy effect has been known since 1839. However, real commercial utilization of solar energy started during the decade (2000 – 2010), when the cumulative solar capacity jumped from 700 MW/H in 2000 to 38,816 MW/H by the end of 2010. Since then:, the cumulative installed capacity of solar energy has been growing at an average annual rate of 42% to reach 216,671 MW/H by the end of 2015. The chart below shows the developments made in global solar energy installations during the past decade.

As indicated in the previous chart, global solar energy

## Cumulative Installations & Annual Additions of Global Solar Energy (MW) (2005-2015)



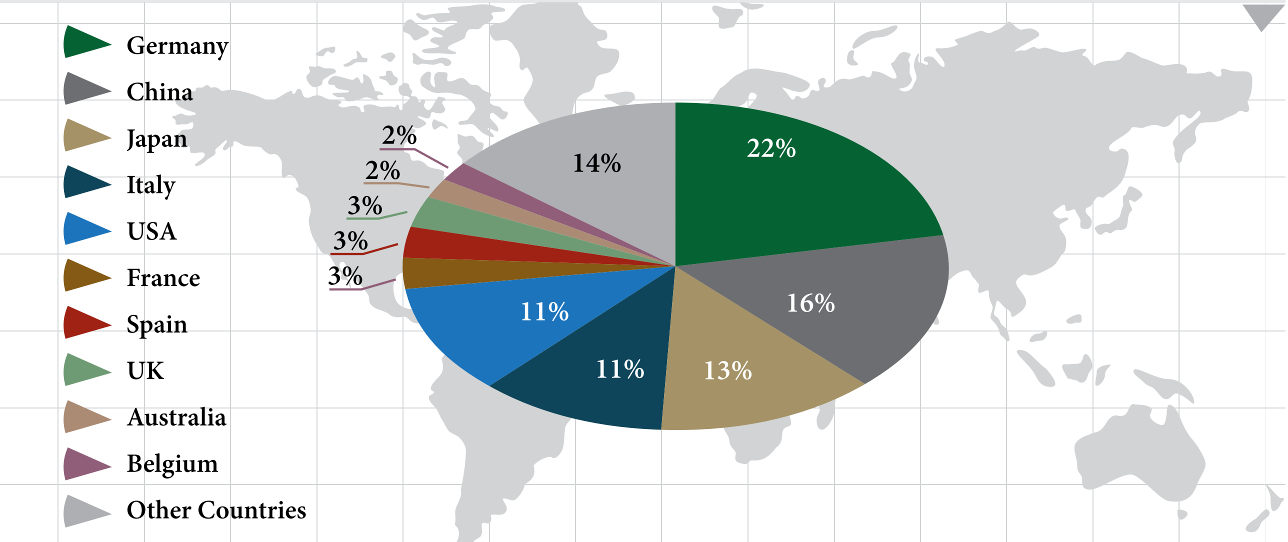

Source: International Energy Agency (IEA)

installations jumped substantially during the previous decade, due to the drop in cost of production in general, especially the cost of producing silicon cells, in addition to the progress in technology that resulted in the increase in solar cells efficiency. The prices of crystalline silicon cells dropped from about $76 per watt, to $0.30 per watt in 2015, i.e. 253 times less than forty years ago.

## Global Utilization of Solar Energy

Based on the chart below, which shows the capacity of solar energy generation in 2014 by major countries adopting solar energy programs, it is clear that the solar energy market is dominated by developed countries which had long-term strategies for developing and utilizing this renewable energy source. Four major developed countries, Germany, Japan, Italy and U.S.A, in addition to China, collectively account for about 73% of the total installed capacity of solar energy in the world.

### Market Shares of Cumulative Solar Energy Capacity by Country (2014)




Source: International Energy Agency (IEA)

## Global Prospects

A number of international research institutes such as the International Energy Agency (IEA) have conducted researches to estimate the future global demand for solar energy. The table below shows the forecasted global accumulative generation capacity of solar energy during the period from 2015-2020 using a Compound Annual Growth Rate (CAGR) of 17.7%.

### Forecasted Global Accumulated Solar Capacity (GW)

| Year | Cumulative Capacity (GW) | Annual Additional Capacity (GW) |
|---|---|---|
| 2015 | 217 | 43 |
| 2016 | 255 | 38 |
| 2017 | 301 | 46 |
| 2018 | 354 | 53 |
| 2019 | 416 | 62 |
| 2020 | 490 | 74 |

IEA's long-term scenario for 2050 describes worldwide solar photovoltaics (PV) capacity to reach 4,600 GW. In order to achieve the IEA's projection, the PV deployment of 124 GW and investments of $225 billion are required annually.

## Solar Energy in Saudi Arabia

### Evolution of Electricity Generation and Consumption in the Kingdom:

Electricity generation and consumption in Saudi Arabia increased sharply during the past decade to cope with the growing population and the associated construction boom. As indicated in table below, the electricity generation capacity in the Kingdom recorded a CAGR of 7.6% during the period 2005-2014, meaning the addition of about 3700 MW in the generation capacity annually. This high growth in the electricity generation capacity was important to meet the growing demand for electricity power which registered a CAGR of 6.3% during the same period.

### Electricity Generation Capacity & Consumption in the Kingdom (2005-2014)

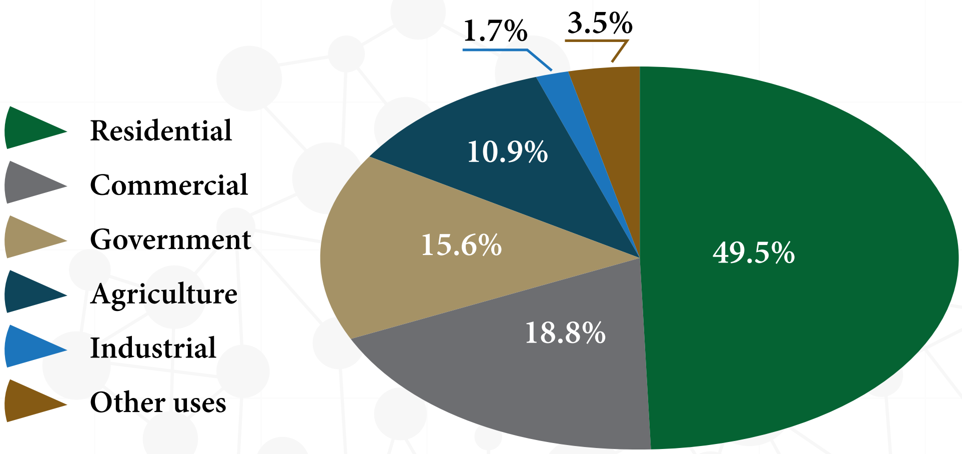
| Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| Generation capacity (MWh) | 32,301 | 35,000 | 36,949 | 39,242 | 44,485 | 49,138 | 51,148 | 53,590 | 58,462 | 65,506 |
| Change | | 8% | 6% | 6% | 13% | 10% | 4% | 5% | 9% | 12% |
| Additional Capacity (MWh) | | 2,699 | 1,949 | 2,293 | 5,243 | 4,653 | 2,010 | 2,442 | 4,872 | 7,044 |
| Sold Power per year (GW) | 153,284 | 163,151 | 169,780 | 181,098 | 193,472 | 212,263 | 219,661 | 240,288 | 256,688 | 274,502 |
| Change | | 6% | 4% | 7% | 7% | 10% | 3% | 9% | 7% | 7% |
| Accumulated customers (million) | 4.7 | 4.9 | 5.2 | 5.4 | 5.7 | 6.0 | 6.3 | 6.7 | 7.1 | 7.6 |
| Change | | 5% | 5% | 5% | 5% | 5% | 6% | 6% | 6% | 6% |

It is worth noting here that, during the past two years, electricity generation capacity showed high growth rate ranging between 9-12%. This growth rate is expected to continue in the next 5 years to reach about 104 GW by the year 2020.

## Major Customer Segments For Electricity:

The chart below shows the breakdown of the electricity sold in the Kingdom in 2014 by major customer' segments.

### Electricity Consumption in the Kingdom by Major Customer Segments (2014)



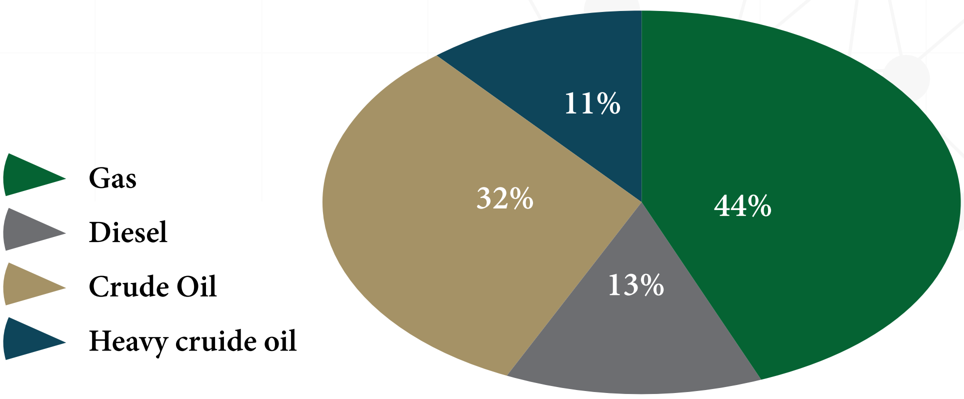

Source: Saudi Electricity Company (SEC)

As seen in the above chart, the residential sector consumed about half of the electricity generated in 2014, followed by the commercial sector (18.8%), government sector (15.6%) and agriculture sector (10.9%). The industrial sector consumed the least electricity in the Kingdom, comprising only 1.7% of the total electricity consumption in 2014. The other remaining sectors account for the balance (3.5%).

## Types of Fuel Used for Electricity Generation

The chart below shows the breakdown of the total electricity generated in the Kingdom in 2014 by type of fuel.

### Types of Fuels used in Electricity Generation in the Kingdom (2014)




Source: Saudi Electricity Company (SEC)

As seen in the previous chart, all the electricity power generated in the Kingdom in 2014 depend exclusively on fossil fuels (gas, diesel, crude oil and heavy crude oil), which are all non-renewable energy sources. In addition, the use of fossil fuels in electricity production has many negative effects; mainly:

1. The Kingdom is currently consuming about two million barrels per day of oil equivalents fossil fuel for electricity generation, and is expected to reach three million barrels per day by the year 2020. This will have a negative effect on the quantity of exported fossil fuels, which is the main source of the country's income.

2. The combustion of fossil fuel for electricity generation emits many pollutants which have a negative effect on the environment like sulfur oxides and nitrogen oxides.

As stated above, the importance of using solar power in electricity generation in the Kingdom becomes quite clear, as it has so many economic and environmental benefits, in addition to its commercial benefits to companies investing in this sector.

## Solar Energy Generation in the Kingdom

The history of solar energy in the Kingdom of Saudi Arabia goes back to the 1970s with the formation of the Saudi American Solar Energy Research (SOLERAS) program, in collaboration with King Abdulaziz City for Science and Technology. This program continued for two decades (1975-1995) and was dedicated mainly to research purposes. It conducted much scientific researches which paved the way for King Abdulaziz City to be a leader in the field of solar energy researches.

By the mid-eighties, three companies started production of solar energy cells in small scale capacities:

- Dakhil & Spire for Solar Project
- Al-Jazira Solar Systems.
- BP Solar Arabia

The aggregate capacity of the three factories was only


1500 KW/h, which is considered very small compared to the capacities of the current factories under construction with capacities ranging between 50-160 MW/H. The three factories worked for few years and then closed down due to limited demand, resulting from low electricity prices and lack of a national strategy to promote solar energy at that time.

In the past two decades, the Kingdom's demand for solar energy was confined to a number of institutions headed by Aramco, Ministry of Communications & Information Technology, in addition to some projects of the Ministry of Defense. Solar demand, in addition to its limited size, used to fluctuate sharply from year to year depending on implemented off-grid projects.

## Government Role in Promoting Solar Energy

Currently the role of government in organizing and promoting the use of renewable energy in general and solar energy in particular comes through two government institutions:

1. King Abdulaziz City for Science and Technology (KACST)

2. King Abdullah City for Atomic and Renewable Energy (K.A.CARE)

**King Abdulaziz City for Science and Technology (KACST):**

KACST started research on solar energy in the mid of 1970s under the Saudi American Solar Energy program, when it built a solar energy powered village in Al-Oyaina for applied researches. Then it constructed a small plant to produce solar panels with a capacity of 3 megawatts/h. The plant was later upgraded to produce 12 megawatts/h, to cope with King Abdullah's initiative to use solar energy in water desalination projects instead of fossil fuels. Last year, KACST built the first solar power station with a capacity of 10 megawatts/h to operate a water desalination plant for SWCC in Al-Khafji to produce 60,000 m3 per day of soft water.

In the second phase of King Abdullah's initiative, KACST is planning to build solar energy systems in a number of desalination plants with an aggregate capacity of 300,000 m3/day during the period 2017 – 2020. After that, all new desalination plants will be powered by solar energy.

**King Abdullah City for Atomic and Renewable Energy (K.A.CARE)**

K.A.CARE was established in 2010 with the aim of supervising and developing the atomic and renewable energy sector, by implementing the strategies and policies related to technical and commercial relations between businesses working in the field of power generation from different sources.

K.A.CARE envisages that with the on-going program to promote renewable energy, by 2032 G the majority of the Kingdom's electricity generation capacity will be via renewable sources. Solar energy will account for 31% of the Kingdom total supply.

## Planned Sources of Generated Electric Power by 2032:

| Source of Energy Generation | Accumulated Generation Capacity (GW) | % |
|---|---|---|
| Fossil Fuel | 60 | 46 |
| Solar | 41 | 31 |
| Nuclear | 17.6 | 13 |
| Wind | 9 | 7 |
| Waste | 3 | 2 |
| Geothermal | 1 | 1 |
| **Total** | **131.6** | **100%** |

Source: K.A.CARE

K.A.CARE has set a 41 GW installed solar capacity target for 2032 (an increase of 2.4 GW annually) of which 25 GW will be thermal and solar energy and 16 GW photovoltaic energy (PV). 6 GW is targeted to be installed before 2020.

To achieve this target KACST, has recently signed a memorandum of understanding with the Saudi Electricity Co. (SEC) and "Taqnia Energy Company", to launch the Kingdom's standalone 50 MW photovoltaic solar power project to supply Al-Aflaj City with electric current at 4.9 cents per KWh (SR 0.1875 per kWh).

The government budget for 2016, has included an increase in prices of fossil fuels and electricity rates. This makes electricity generated using solar energy more attractive and competitive, in addition to its environmental benefits. Solar energy prices are expected to show more declines in the future.

Accordingly, the ongoing K.S.A Strategy of using alternative and renewable energy sources for electricity generation instead of fossil energy becomes quite important due to the economic pressures resulting from the severe drop in oil prices.

## SIDF Role in Developing Renewable and Alternative Energy

SIDF has financed three factories for the production of solar energy since the mid of 1980s. These factories worked for a few years before they closed down due to limited demand for solar energy, the low prices for electricity and the high prices of solar cells at that time.

In 1431H, SIDF financed a new project for the production of polysilicon used in the manufacturing of solar cells with an annual capacity of 3,350 tons. The technology was provided by a Korean company, which was responsible for marketing the products abroad.

In 1435H, the polysilicon company formed a downstream sister company to produce solar grade polysilicon wafers and ingots in collaboration with another Korean company. The installed capacity of the plant is equivalent to 281 MW solar energy, to be sold locally and abroad.

In the same year (1435H), SIDF also financed a new project in Hail for the production of plastic EVA film, which is used in covering photovoltaic panels. The capacity of the factory is 4,000 tons per year, which is directed both for the local and export markets.

At the downstream level, SIDF financed a new project in 1436 for the production of 88.7 MW solar panels. The project is a joint-venture with an Italian company, which will sell the product in the European market.

At present, SIDF is evaluating three loan applications for financing three factories which will produce solar panels and cells with an aggregate capacity of 300 MW. In addition, SIDF has decided to finance all projects that produce electricity from renewable and alternative energy sources. In this context, SIDF is currently evaluating a project sponsored by a national company to build an electricity generating plant using solar energy with a capacity of 50 MWh to be sold with a long term contract to the Saudi Electricity Company.

## Future Outlook

The ongoing technological developments to enhance the capability of solar power cells to produce electricity coupled with the declining costs of the prime materials used in production of solar cells, has resulted in substantial declines in the overall cost of producing electricity from solar power today. Moreover, these costs are expected to show more declines in the future. Thus, there is high potential investment opportunities to produce electricity from solar power in the Kingdom to meet the local demand and to export to the GCC, neighboring Arab countries and even to European countries, through electricity inter-connection.

Accordingly, SIDF experts expect a big boom in the solar power projects and components market in the Kingdom during the coming years, due to the ongoing decline in their cost and to meet the requirements of the government's aim of replacing fossil fuel by alternative and renewable energy sources to generate electricity in the Kingdom.

# Subject Under Scrutiny:

# Saudi Industrial Sector Competitiveness

## Introduction:

Due to global economic openness, competitiveness concept has increasingly become an issue of concern worldwide in the last decade, thereby several indexes have been developed by different agencies to assess a country's competitive industrial performance (CIP). United Nations Industrial Development Organization (UNIDO) CIP index is considered the most world's important index to assess the efficiency and competitiveness of countries' industrial sector. Furthermore, UNIDO's CIP index is used as a reliable reference for competitiveness and industrial performance of UNIDO member States' industrial sectors. It is a helpful tool to be used by policymakers in developing sound strategies aimed at enhanced competitive performance of industrial sector to attain ultimately a robust overall economic growth.

The Kingdom's position is leaped by 10 to rank 37th among the world's most industrially competitive countries, and stands as the 1st in the Arab world, as assessed by the UNIDO's latest CIP index Report, in contrast to its 47th in 2000 Report. This internationally recognized accomplishment is largely attributed to the Kingdom's persistent efforts to enhance competitiveness of its industrial sector and enhance the role of industrialization in the development of Saudi economy. Kingdom's economic policy continues to focus on achieving increased industrial sector investments, maximized utilization of locally available resources, greater volume of domestically manufactured products to meet local demand, increased volume of manufactured exports, and provision of more opportunities for employment. The key and various incentives provided by the Kingdom to boost local industrialization include provision of financing needed to support industrial investment, extended through SIDF which finances up to 75% of the cost of industrial projects in promising regions and cities. These provided incentives also include putting in place adequate industry infrastructure, setting up industrial cities across the Kingdom, attracting foreign direct investments through providing tax incentives and granting favorable treatment to foreign investors similar to Saudi investors', along with initiatives intended to increase non-oil exports, delivering training and qualification programs for Saudis, in addition to many other incentives.

## Industrial competitiveness concept:

UNIDO defines industrial competitiveness as "the capacity of countries to increase their presence in international and domestic markets whilst simultaneously developing industrial sectors and activities with higher value added and technological content".

CIP index is unique in the sense that the data used is objective, based only on the actual figures of each country's industrial sector performance, not on personal views or estimates. As such, CIP index virtually reflects the real performance that is measurable and can be monitored by using the index. The CIP index is a composite index consists of eight sub-indicators grouped along three dimensions of industrial competitiveness. It also covers 147 countries in the world for 2012 industrial competitiveness ranking. Besides, CIP index gives economic and industrial policymakers the possibility to measuring and benchmarking their relative countries' competitive industrial performance with other regional countries and those at the same stage of economic and industrial development across the globe.

## Performance of the first five countries ranked by CIP index:

Among the most industrially competitive nations in the world, Germany ranked first in 2012 (Table 1) after being 2nd in 2010 Report; Japan ranked second, retreating from its first position in 2010. It is observed that Germany and Japan are following similar Industrial strategy of high-technology and export-oriented manufacturing industries. The large industrial base and technical deepening of their manufactured exports help Germany and Japan to maintain their first and second ranking by the CIP index since 1980.

The United States of America, which ranked 3rd, , contributes 19.3% of global manufacturing value added. South Korea, which occupied 4th rank, has attained such position due to the strength of the medium- and high-tech industries share in the national manufactured products, a highest rate of 96.8% of total exports. China alone, which ranked 5th, contributes to almost 16% of global manufacturing value added of overall manufactured exports, making China the world's largest exporter country.

Table (1) below indicates that the top first five countries contribute to more than half of the global value-added manufacturing by about 57.6%, and by approximately 44.6% of the global trade of manufactured goods. This is primarily attributed to countries' focus on medium- and high-tech manufactured products which made these countries able to yield significant gains in export markets.

## Table: Performance of selected group of countries in CIP index

| Country | Rank | First dimension | | Second dimension | | | | Third dimension | |
|---|---|---|---|---|---|---|---|---|---|
| | | MVApc ($) | MXpc ($) | MHVAsh* (%) | MVAsh (%) | MHXsh** (%) | MXsh (%) | ImWMVA (%) | ImWMT (%) |
| Germany | 1 | 7,304 | 15,124 | 60.1 | 19.5 | 72.5 | 87.6 | 6.8 | 10.0 |
| Japan | 2 | 7,956 | 5,834 | 56.1 | 21.3 | 79.5 | 92.3 | 11.4 | 6.0 |
| United States of America | 3 | 5,409 | 3,243 | 50.6 | 12.6 | 62.5 | 75.7 | 19.3 | 8.3 |
| Republic of Korea | 4 | 6,373 | 10,913 | 60.1 | 28.7 | 70.6 | 96.8 | 3.5 | 4.3 |
| China | 5 | 1,086 | 1,462 | 41.4 | 32.5 | 58.4 | 96.6 | 16.6 | 16 |
| Saudi Arabia | 37 | 1,980 | 2,528 | 41.2 | 11.4 | 35.6 | 19.1 | 0.6 | 0.6 |

Source: UNIDO's 2014 CIP index Report, issued in 2015.

* Includes refined oil.

** Includes refined oil and re-exports.

**MVApc**: Manufacturing Value Added per capita.

**MXpc**: Manufactured Exports per capita.

**MHVAsh**: Medium- and High-tech manufacturing Value Added share in total manufacturing value added.

**MVAsh**: Manufacturing Value Added share in total GDP.

**MHXsh**: Medium- and High-tech manufactured Exports share in total manufactured exports.

**MXsh**: Manufactured Exports share in total exports.

**ImWMVA**: Impact on World Manufacturing Value Added.

**ImWMT**: Impact on World Manufacturing Trade.

## Competitive industrial performance indicators and performance of the most prominent countries:

As noted earlier, CIP index is a composite index composed of eight sub-indicators. But being ranked first by some of these sub-indicators does not necessarily mean achieving the highest level of competitiveness. Likewise, occupying such advanced positions by the top five countries in CIP index, does not necessarily mean they are top by each sub-indicator that are component of the CIP index, as it is illustrated below:

### First dimension: Capacity to produce and export manufactured products

Studies indicate that the higher the value-added manufactured products the greater their contribution will be in the diversification and development of the industrial base. This ensures sustainability of economic growth and greater volume of manufactured exports. This dimension consists of two indicators, namely Manufacturing Value Added per capita (MVApc), and Manufacturing Export per capita (MXpc).

#### Manufacturing Value Added per Capita (MVApc)

MVApc refers to the level of a country's industrialization and is expressed in per capita to adjust for country size. MVApc is the relative value of total net manufacturing output to population size. It is an essential indicator which reflects efficiency of the industrial production in a country. Ireland and Switzerland, ranked first and second worldwide by this indicator, achieved MVApc of about $12,981, and $10,393 respectively.

#### Manufacturing Exports per capita ( MXpc )

MXpc reflects a country's capability to produce manufactured goods competitively to meet international demand and to implicitly keep up with technological changes . It is expressed in per capita to adjust for country size of population . Belgium and Singapore, are positioned 1st and 2nd , by this sub-indicator, achieved MXpc of nearly $36,223 and $32,241 respectively.

## Second Dimension: technological deepening and upgrading

Country's capability of absorbing sophisticated technologies is crucial in promoting industrial competitiveness in production and export, besides it reflect countries' technological impact on their relative CIP. This dimension comprises two composite sub-indicators, namely Industrialization Intensity (INDint) and Manufactured Export Quality (MXQual).

**Industrialization Intensity (INDint)**

It is a composite sub-indicator intended to measure the extent of technological development in a country's industrial sector and its contribution to GDP. Singapore and Thailand, positioned first and second by this indicator. INDint consists of two sub-indicators. They are:

### Medium- and High-tech Manufacturing Value Added share in Total Manufacturing Value Added (MHVAsh)

MHVAsh captures the stage of the industrial development achieved by overall structural transition from resource-based to low-tech activities and to medium and high-tech ones. Singapore and Ireland occupied the first and second positions worldwide by this indicator, each contributes 82.3% and 63%, respectively, of their relative total manufacturing value added.

### Manufacturing Value Added Share in Total GDP (MVAsh)

This indicator captures manufacturing weight within an economy and the extent to which a country depends on the manufacturing sector, specifying the stage of economic transformation achieved by a country. Thailand came first in terms of MVAsh, whose industrial sector's share account for about 35.5% of GDP, followed in second position by China in which the industrial sector's share represents 32.5%. These two countries have gone far in their transformation efforts from agricultural to industrialized countries.

**Manufactured Export Quality (MXQual)**

MXQual is a sub-composite indicator intended to capture a country' capability to technological deepening and progressing as an industrialized country. Germany and Japan ranked first and second by this indicator, despite being lagging behind in top first ranks according to the indicators component of this MXQual. It consists of two sub-indicators, namely:

### Medium- and High-tech manufactured exports share in total manufactured exports (MHXsh)

Congo is ranked first in this indicator whose medium and high-tech manufactured exports share accounts for approximately 83.4% of total manufactured exports. This is attributable to the country's reliance on re-export of ships of various kinds, followed in second position by Brunei, which its exports of liquefied natural gas increased its share in medium and high-tech manufactured exports by 82.8% of the total exports. Despite this, the countries of Congo and Brunei are ranked 101st and 87th respectively in MXQual indicator.

### Manufactured Exports share in total exports (MXsh)

According to this indicator, Bermuda positioned first as its manufactured exports account for 97.6% of total manufactured exports, resulting from Bermuda' intensive engagement in re-exports of drug and medicine products. But this attainment does not help Bermuda to climb by this indicator from the 133rd ranking worldwide. South Korea is ranked 2nd by this indicator, as South Korea's manufactured exports account for 96.8% of total exports, and is positioned 4th according to MXQual indicator.

## Third dimension: Impact on World Manufacturing

This dimension highlights the country's position on the global overall manufacturing map and the competitiveness of their manufactured products in international markets, compared with other industrialized countries. This dimension comprises two sub-indicators. They are:

### Country's Impact on World Manufacturing Value Added (ImWMVA)

This indicator is measured by a country's share in world manufacturing value added, which indicates the country's relative performance and impact on overall manufacturing. The United States of America, which is ranked first by this indicator, contributes about 19.3% of the total world manufacturing value added, in spite of the fact that its industrial sector accounts for only 13% of total value added of GDP. China comes second in terms of its impact on world manufacturing value added by 16.6%.

### Country's Impact on World Manufacturing Trade (ImWMT)

ImWMT signifies a country's competitive status relative to other countries in international markets. It is measured by calculating a country's share of manufactured exports in the world's total manufactured exports. China and Germany are ranked first and second according to this indicator, each contributes nearly 16%, and 10%, respectively, of total global manufactured imports.

## Kingdom's performance in CIP index:

Kingdom's industrial sector has achieved significant advancements, thanks to sound development policies persistently pursued by the government to diversify and enlarge the industrial production base and enhance the industrial competitiveness. UNIDO's latest CIP index Report highlights Kingdom's improved ranking worldwide, climbed by 10 from 47th in 2000 to 37th position in 2012, being the best performer in the Arab countries, according to CIP index. Furthermore, Kingdom is ranked 8th among Emerging Industrial Economies, and is classified within the group of above average industrial performers, commonly characterized by high manufacturing value added per capita (MVApc), but lagging behind in their manufactured exports which are mainly resource-based products.

## Kingdom's performance in sub-indicators of CIP index:

Kingdom's performance varies considerably by CIP index's different sub-indicators, as some indicators ranked it high while other positioned it at place lower than the Kingdom's potentials. Following is an analysis and benchmarking of the Kingdom's performance in these sub-sectors.

### 1 - Manufacturing value added per capita (MVApc)

Kingdom is ranked 39th worldwide by this indicator, contributing a MVApc of approximately $1,980 in 2012. This figure reflects a fundamental development in the Kingdom's manufacturing value added per capita, compared with the country's dependence on resource-based manufactures. UNIDO Report attributes countries' industrialization advancement to this indicator which signifies the extent of dependence on the key factors of manufactured outputs, according to which the existing manufacturing industries are classified as resource-based, labor intensive, and physical/human capital-intensive manufacturing industries, as table below illustrates:

### 2 - Manufactured Exports per capita (MXpc)

Kingdom is ranked 47th worldwide by this indicator, as its MXpc stood at approximately $ 2,528 in 2012. The Kingdom has huge potentials to move up to higher ranking by this indicator should effective policies are put in place to promote manufactured exports.

### 3 - Medium- and high-tech manufacturing value added share in total manufacturing value added (MHVAsh)

Kingdom is ranked 40th worldwide by Industrialization intensity (INDint) indicator, as Kingdom's share in the

## Table: Composition of countries' industrial structure by factors of production

| Category | MVApc | Composition of industrial structure | Examples of key Industries |
|---|---|---|---|
| A | Less than $ 2,000 | 50% resource-based manufacturing industries<br>20% labor-intensive manufacturing industries<br>30% Physical / human based manufacturing industries | Clothing, foods and basic metals manufacturing industries |
| B | $2,000 – 8,000 | 50% resource-based manufacturing industries<br>30% labor-intensive manufacturing industries<br>20% Physical / human based manufacturing industries | Plastics and printing |
| C | More than $ 8,000 | Less contribution by resource-based and labor-intensive manufactures; more contribution by Physical / human based Industries | Chemicals, equipment, machineries and engines |

Source: UNIDO's 2010 CIP index Report, published in 2013.

medium- and high-tech manufacturing value added stood at nearly 41.2%. This good performance by Kingdom according to INDint indicator is primarily attributable to refining and petrochemical manufacturing industries in particular. Studies indicate that the higher the share of medium and high-tech manufacturing value added in total manufacturing value added, the faster the transition to innovation- and knowledge-based economy will be.

**4 - Manufacturing value added share in total GDP (MVAsh)**

Despite the increase of the Kingdom's industrial sector value-added share from SR 22.4 billion in 1980 to SR 270.2 billion in 2012 at current prices, the industrial sector's contribution to GDP is no more than 11.4%. The reason for the Kingdom's industrial sector not attaining higher share in GDP is attributable to the growing impact of oil sector on GDP.

**5 - Medium- and high-tech manufactured exports share in total manufactured exports (MHXsh)**

Kingdom's exports of medium- and high-tech manufactured products contribute approximately 35.6% of total manufactured exports. However, this rates is considered below the Kingdom's potentials. To improve its industrial performance in this indicator, it is crucial for the Kingdom to upgrade a variety of medium- and high-tech manufactured exports.

**6 - Manufactured Exports share in total exports (MXsh)**

Kingdom's manufactured exports' share stood at 19.1%. This moderate percentage is primarily attributable to dominance of oil exports. This ascertains the need for the Kingdom to develop more medium and high-tech manufacturing industries and reduce dependence on oil exports.

**7 - Impact on World Manufacturing Value Added (ImWMVA)**

Kingdom is ranked 27th worldwide by this indicator, as its contribution in ImWMVA stood at nearly 0.6%. The Kingdom's position in worldwide ranking by this indicator can be further improved by entering in global integrative industries that are value added chain-based .

**8 - Country's impact on World Manufacturing Trade (ImWMT)**

Kingdom is ranked 34th worldwide by this indicator, whose contribution of manufactured exports stood at about 0.6% of world manufacturing trade, a percentage that is far less than the Kingdom can potentially achieve. As previously stated, focusing on medium- and high-tech manufactured products and entering to world manufacturing value-added chain are essentially required drivers for advancing the Kingdom's ranking to prominent position worldwide, that is consistent with its potentials and where it deserves to be on the map of world manufacturing trade.

## Conclusion:

Kingdom's drive to develop the industrial sector and increase its competitiveness has been remarkably successful, along with many other accomplishments. Kingdom's worldwide ranking leaped to 37th rank by UNIDO's CIP index in 2014. It is revealed by analyzing and benchmarking the Kingdom's competitive industrial performance vis-à-vis performance of industrialized countries, measured by sub-indicators of CIP index, that two factors are fundamentally essential for countries' industrial competitiveness. They are intensive investment in medium- and high-technology manufacturing industries and enhancement of manufactured exports. By focusing on these areas, in availability of the potentials it has, the Kingdom is most capable, by Allah willing, to catch up with industrially competitive top ranking countries. Progress in these two areas is achieved not by the industrial sector alone, but should be underpinned by advanced and strong support services sector, updated and geared up to the Kingdom's ambitions and expectations for sophisticated industrialization.

# SIDF Lending Activity Charts:


15
13
27
Aug
10

# Table - 1

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

| Sector | 1436/1437H (2015 G) | Cumulative Total |
|---|---|---|
| Consumer Products | 35 | 765 |
| Food | 14 | 362 |
| Beverages | 8 | 81 |
| Textiles | 5 | 78 |
| Leather & substitutes | 1 | 25 |
| Carpentry products | 1 | 21 |
| Wooden furniture | 2 | 60 |
| Paper products | 4 | 101 |
| Printing | - | 37 |
| Chemical Products | 40 | 717 |
| Chemicals | 22 | 337 |
| Oil & gas products | - | 38 |
| Rubber Products | 2 | 22 |
| Plastic Products | 16 | 320 |
| Building Materials | 24 | 466 |
| Ceramic Products | 1 | 15 |
| Glass Products | 1 | 69 |
| Other Building Material | 22 | 382 |
| Cement | - | 33 |
| Engineered Products | 24 | 790 |
| Metal Products | 14 | 485 |
| Machinery | 2 | 94 |
| Electrical Equipment | 6 | 147 |
| Transport Equipment | 2 | 64 |
| Other Manufacturing | 12 | 81 |
| **Total** | **135** | **2,852*** |

* of which (570) loans were terminated.

# Table - 2

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

| Sector | 1436/1437H (2015 G) | Cumulative Total |
|---|---|---|
| Consumer Products | 1,651 | 21,780 |
| Food | 1,455 | 12,436 |
| Beverages | 106 | 2,290 |
| Textiles | 23 | 2,438 |
| Leather & substitutes | 8 | 141 |
| Carpentry products | 5 | 277 |
| Wooden furniture | 17 | 431 |
| Paper products | 37 | 3,540 |
| Printing | - | 227 |
| Chemical Products | 6,631 | 52,074 |
| Chemicals | 6,166 | 41,597 |
| Oil & gas products | - | 3,398 |
| Rubber Products | 31 | 835 |
| Plastic Products | 434 | 6,244 |
| Building Materials | 680 | 13,279 |
| Ceramic Products | 159 | 1,946 |
| Glass Products | 22 | 3,654 |
| Other Building Material | 499 | 7,679 |
| Cement | - | 11,603 |
| Engineered Products | 769 | 24,136 |
| Metal Products | 562 | 18,399 |
| Machinery | 33 | 969 |
| Electrical Equipment | 149 | 3,465 |
| Transport Equipment | 25 | 1,303 |
| Other Manufacturing | 1,707 | 6,553 |
| **Total** | **11,438*** | **129,425**** |

* Approved for financing 135 new projects and expanding 20 existing ones.
* * of which SR(18,737) million were terminated or reduced.

# Table 3

## Table Showing Number of Newly Approved SIDF Industrial Projects by Province

| Region | 1436/1437H (2015 G) | Cumulative Total |
|---|---|---|
| Riyadh | 56 | 1,028 |
| Makkah | 22 | 665 |
| Madinah | 12 | 133 |
| Qassim | 6 | 75 |
| Eastern Province | 19 | 751 |
| Asir | 5 | 53 |
| Tabouk | 1 | 13 |
| Hail | 5 | 34 |
| Jizan | 3 | 30 |
| Najran | 3 | 25 |
| Al-Baha | - | 10 |
| Al-Jouf | - | 23 |
| Northern Frontier | 3 | 12 |
| **Total** | **135** | **2,852*** |

* of which (570) loans were terminated.

# Table 4

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

| Region | 1436/1437H (2015 G) | Cumulative Total |
|---|---|---|
| Riyadh | 1,512 | 24,465 |
| Makkah | 365 | 22,228 |
| Madinah | 2,725 | 15,311 |
| Qassim | 92 | 1,609 |
| Eastern Province | 3,143 | 53,521 |
| Asir | 79 | 1,137 |
| Tabouk | 17 | 574 |
| Hail | 406 | 1,962 |
| Jizan | 861 | 3,819 |
| Najran | 33 | 1,203 |
| Al-Baha | - | 37 |
| Al-Jouf | - | 337 |
| Northern Frontier | 2,205 | 3,222 |
| **Total** | **11,438*** | **129,425**** |

* Approved for financing 135 new projects and expanding 20 existing ones.
** of which SR(18,737) million were terminated or reduced.

Saudi Industrial Development Fund
P.O. Box 4143, Riyadh 11149
Kingdom of Saudi Arabia
Tel:  00966 11 4774002 - Fax: 00966 11 4790165
E-mail: info@sidf.gov.sa
website: www.sidf.gov.sa

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