Kingdom of Saudi Arabia
Ministry of Finance

Saudi Industrial Development Fund

Annual Report for the Fiscal Year 1431 / 1432 H (2010 G)

IN THE NAME OF ALLAH

MOST BENEFICENT, MOST MERCIFUL

Custodian of the Two Holy Mosques

King Abdullah Bin Abdulaziz Al Saud

His Royal Highness

Crown Prince Sultan Bin Abdulaziz Al Saud

The Deputy Premier and the Minister of

Defence and Aviation and Inspector General

His Royal Highness

Prince Naif Bin Abdulaziz Al Saud

The Second Deputy Premier

and the Minister of Interior

Contents

Foreword by H.E., The Minister of Finance

It is with pleasure I introduce the annual report of the Saudi Industrial Development Fund, (SIDF) for the fiscal year 1431/1432H (2010G). The report clearly reflects the confidence Saudi and foreign investors place in the stability and strength of the national economy as well as the judicious policies pursued by the Government to diversify the economic and production base.

The world is still suffering from the repercussions of the global financial crisis which started in mid-2008, reducing the global demand for goods and services and affecting industrial activities everywhere. However, SIDF has continued its strong support for the industrial sector in the Kingdom, backed by the continuing strength of the Saudi economy as embodied in the State budget for both fiscal years 1430/1431H and 1431/1432H. The scale and scope of these budgets, astonishing to analyst of other national economies, clearly reflect the Government's sound, pragmatic approach to all sectors. The recently issued Royal Decree increasing SIDF resources by SR10 billion is evidence of continued governmental support and attests to the authorities' confidence in the SIDF's vital and efficient role in supporting industry in the Kingdom. It further testifies to the prompt response of the Government of the Custodian of the Two Holy Mosques in meeting the industrial sector's needs for the continual sources of financing necessary for development. This SR 10 billion capital increase will have a far-reaching, positive impact on the Saudi industrial sector's overall performance.

SIDF continues to achieve impressive results in its lending activities: 95 industrial loans were approved during the fiscal year 1431/1432H; approvals of these loans totaled (SR 6,588 million), an increase of 27% on to the previous fiscal year's figure. The Fund maintains its firm policy of verifying and confirming borrowers' economic feasibility from both macro and micro economic perspectives, which enhances the projects' opportunities of success as follows: optimum allocation of invested capital; a satisfactory return on investment; a suitable added value; promotion of non-oil exports; realization of industrial integration; creation of employment opportunities for Saudis; exploration of local raw materials; attraction of foreign capital; the transfer and naturalization of technology, and preservation of the environment without concentrating on specific industrial sectors or locations.

In line with the State support approach to small and medium enterprises, the SIDF-managed SME Loan Guarantee Program (Kafala) issued (1887) guarantees totaling in value SR 720 million during the period from the Program's inception until the 1431/1432H fiscal year end. Kafala's guarantees were issued against commercial banks' credits of SR1,786 million.

In conclusion, I am particularly pleased to express my profound thanks and appreciation to the Custodian of the Two Holy Mosques and HRH, the Crown Prince, and the Second Deputy Premier, for their steady support of and guidance to SIDF, which have enabled the Fund to achieve their noteworthy accomplishments consistently over a lengthy period of consecutive years.

I also extend my sincere thanks and appreciation to the SIDF Board of Directors; its executive Management, and all employees for their commendable efforts which have been a key factor in dealing resolutely and appropriately with the challenges brought about by the global economic upheaval of recent years.

May Allah guide all of us!

Ibrahim Bin Abdulaziz Al-Assaf

Minister of Finance

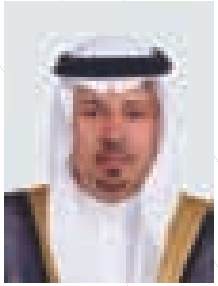
Board of Directors

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

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

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

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



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

Chairman's Statement

At the end of the fiscal year 1431/1432H (2010G), I am pleased to introduce the SIDF annual report, a clear indication of the Fund's continued outstanding performance throughout the year which has witnessed a substantial increase in SIDF's lending services in terms of loan volume and variety of industrial projects financed by the Fund. The Fund's success is testimony to the strength and attractiveness of the Kingdom's investment climate, especially in the industrial sector.

Over this past fiscal year, loans approved by SIDF increased substantially by 27% in contrast with the previous year, totaling SR 6,588 million. These loans contributed to the necessary financing for the establishment of 68 new industrial projects and expansion of 27 existing industrial projects. Total disbursed amounts increased during the fiscal year 1431/1432H by 19% on the previous year's figures amounting to SR 6,502 million: the highest ever disbursed amount since the foundation of the Fund in 1394H. Total repayments increased by 52% over the year, by contrast with the previous fiscal year when they amounted to SR 2,631 million, which is also the highest repaid amount since the establishment of the Fund. Undoubtedly, this trend clearly confirms the Kingdom's industrial investment attractiveness based on the confidence in the stability and strength of the Saudi economy and the local environment.

Besides the forgoing activities, SIDF also manages the SME Loan Guarantee Program (Kafala) in cooperation with local commercial banks. The Program approved 777 guarantees valued at SR 271 million during the fiscal year 1431/1432H to guarantee SR 716 million worth of credits provided by commercial banks to SMEs. This represents a rise of more than 53% in the number of guarantees issued by Kafala and a rise of 50% in the value of the approved guarantees. Undoubtedly, these achievements reflect the Program's attractiveness and the SIDF's support and encouragement for entrepreneurs' investment in small and medium enterprises. The latter will benefit not only the entrepreneurs themselves but also the country by creating new job opportunities and improving the income levels of these families benefiting from the Program Kingdomwide.

SIDF, bolstered by long experience, prudent Management and the expertise of competent staff and, in collaboration with those concerned in the industrial sector, is capable of overcoming the challenges confronting national industrial investment, and finding appropriate solutions for marketing, financing, management and technical problems. Undoubtedly, the Fund's accomplishments would have not been achieved without Allah's blessings and the steady support, encouragement, and prudent leadership of the Custodian of the Two Holy Mosques, HRH the Crown Prince and the Second Deputy Premier, who spare no effort in advancing the Kingdom's prosperity and its citizens' welfare.

In conclusion, I extend my sincere thanks to my colleagues in the Board of Directors and all SIDF staff for the commendable efforts they have made in achieving this fiscal year's distinguished performance, and I hope these efforts will continue in the years to come with similar impressive accomplishments, as we have now come to expect from the Fund's remarkable performance.

May Allah bless all of us!

Abdulrahman Al-Hamidy

Chairman of the Board of Directors

Preface: Trends and Indicators in the Domestic Economy

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KSA Economic Review for the Year 2010G:

The Saudi economy succeeded in achieving remarkable results in all economic indicators in 2010G in contrast with many other economies worldwide, particularly the advanced ones, which are still suffering from the repercussions of the global financial crisis. Rising oil prices throughout 2010G; continued government structural and organizational reforms of the Saudi economy, and steady government expenditure on infrastructure projects have been instrumental in bringing about these positive results. According to the Ministry of Finance’s statement accompanying the state budget announcement, the Kingdom’s gross domestic product (GDP) is expected to reach SR 1,630 billion in 2010G, reflecting a growth of 16.6% at current prices. In terms of constant prices, the GDP is estimated to grow by 3.8%. Preliminary estimates indicate that the public debt volume will decline to around SR 167 billion, i.e., 10.2% of GDP by the end of the fiscal year 2010G.

The private sector and its composites continued their good performance in 2010G by achieving positive growth rates. The private sector’s growth is expected to be around 5.3% at current prices and 3.7% at constant prices in 2010G, and its contribution to GDP is projected to be about 47.8% in 2010G. All economic activities comprising the non-oil GDP maintained their positive results in 2010G. Electricity, Gas and Water sector is estimated to grow by 6%; Communication, Transportation and Storage sector by 5.6%, Non-oil Manufacturing sector by 5%; Wholesale, Retail, Restaurants and Hotel sector by 4.4%; Building and Construction sector by 3.7%, and Financial, Business Services, Insurance and Real Estate sector by 1.4%.

With regard to inflation and price levels, the cost of living index recorded an increase of 3.7% in 2010G on the 2009G figure. The non-oil GDP deflator, a key economic indicator for calculating inflation for the whole economy, witnessed an increase of 1.5% in 2010G on 2009G.

The current account of balance of payments, according to the preliminary estimates of the Saudi Arabian Monetary Agency (SAMA), is estimated to achieve a surplus of SR 260.9 billion in 2010G in contrast with 78.6 billion in 2009, reflecting an increase of 32%. In the same context, the balance of trade in 2010G is expected to achieve a surplus of SR 557.9 billion, i.e., an increase of 41.4% on the previous year, 2009G. This increment in the balance of trade surplus can be attributed to the increase in the total value of commodity exports to SR 886.3 billion in 2010G, representing an increase of 23% on the previous year, 2009G. The value of non-oil exports of goods is expected to reach SR 124.2 billion in 2010G, i.e., an increase of 14% on the previous year, 2009G. Non-oil exports of goods accounted for 14% of the Kingdom’s total goods exported.

At the level of financial and monetary developments, and in the light of developments in local and global economies, the Kingdom continued its firm fiscal and monetary policies to achieve a suitable level of liquidity to satisfy the requirements of the national economy. The money supply, in its broad definition, achieved a growth rate of 1.2% in the first ten months of the fiscal year 2010G in contrast with a growth rate of 8% in the same period of the previous fiscal year.

Regarding of the banking sector, commercial banks continued to strengthen their financial position. During the first 10 months of 2010G, the capital and reserves of the commercial banks increased by 10.7% to SR 181.1 billion, while their total claims on public and private sectors rose by 6.2%. During the same period, bank deposits grew by 0.5% to SR 955 billion. Moreover, commercial banks continued their vital role in supporting and expanding the economic activities of the private sector. The total credit extended by banks to the various economic activities in the private sector amounted to more than SR 774 billion during the first 9 months of 2010G. Thus, credit extended to some economic activities rised notably. For example, credit extended to the Agriculture and Fishing sector increased by 25%; Water, Electricity and Other Services sector by 14%; Commerce, Building & Construction sectors by 5.1% each; Mining and Quarrying sector by 4%, and Manufacturing & Processing by 0.6%.

Likewise, the Saudi Industrial Development Fund continued its outstanding commitment to the support of local industry in all spheres of industrial activities. SIDF's loan approvals in the fiscal year 2010G amounted to SR 6,588 million. Moreover, the Small & Medium Enterprises Loan Guarantee Program (KAFALA) administered by the Fund, witnessed a significant increase of guarantee documents approved in 2010G. (777) guarantees were approved having a total value of SR271 million to guarantee financing of SR 716 million extended by local commercial banks to 480 small and medium enterprises.

At another level, the Saudi General Share Price Index registered 6620 points by the end of 2010G compared to 6122 points at the end of 2009G. Nine companies made partial public offerings on the market, bringing the total number of companies registered in the market to 146. Furthermore, the Capital Market Authority (CMA) continued to draw up and issue a set of regulations to organize and develop the market and enhance the principles of fairness, transparency, disclosure and investor protection. The CMA Council has amended the Corporate Governance Regulations as well as regulations concerning companies' investment in the stock market. The CMA has also licensed 4 new companies to be engaged in multifaceted securities trading business, bringing the number of total licensed companies to 94.

In pursuit of development and consolidation of structural and organizational reforms intended to strengthen the national economic structure, a number of measures were taken in 2010G. Approval of the 9th Development Plan for the period 2010G-2014G has been issued and its implementation was launched during the year. In addition, the Custodian of the two Holy Mosques decreed that disbursement of the cost of living allowance by 15% to public employees shall be continued. Also, the establishment of a number of new government institutions was approved by the government. Examples include King Abdullah City for Atomic & Renewable Energy; a national society named the Saudi Society for Quality; the Saudi Energy Efficiency Center, and the Executive By-Laws of the Anti-Money Laundering Regulation.

As a result of the satisfactory performance of the Saudi economy in 2010G, the International Monetary Fund (IMF) commended the Kingdom's fiscal and monetary policies which were instrumental in limiting the repercussions of the global financial crisis on the Saudi economy. Furthermore, the IMF expressed its positive assessment of the sound banking system and the role of the specialized government lending institutions in providing credit to Small & Medium Enterprises (SMEs). The IMF, also, commended the efficient use of resources and investment in renewable energy. In addition, the IMF expressed its support of the Saudi Riyal exchange rate policy and appreciation of the progress made by the Kingdom in anti-money laundering and fighting terrorism. Moreover, the IMF acknowledged the Kingdom's leading role in stabilizing the oil market and implementing plans for expanding production capacities. Therefore, the performance of Saudi economy in 2010G reflected positively on the rankings of the Kingdom in the investment and global competitiveness indices. For instance, the Kingdom was ranked 11 out of 183 countries in the Ease of Doing Business Index issued by the World Bank, and it was also ranked 21st out of 139 countries in the Global Competitiveness Index issued by the World Economic Forum.

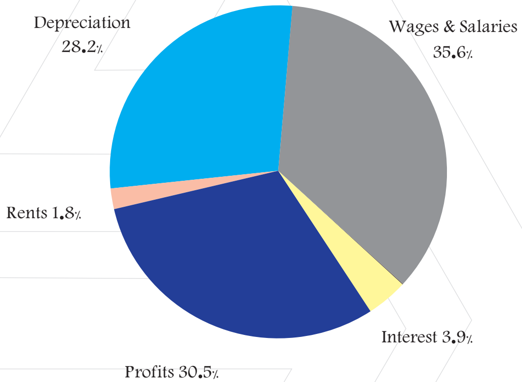
Overall, considering the severe consequences of the global financial crisis on most of the economies across the world, particularly the advanced ones, it is safe to confirm that the performance of the Saudi economy has been truly commendable. Furthermore, according to the current indicators, the Saudi economy is expected to continue its successful performance over the coming years, and the government is believed to carry on implementation of programs of economic reform in pursuit of actualizing sustainable development and enhancing the competitiveness of the Saudi economy.

Local Industrial Sector's Performance Indicators

The non-oil manufacturing sector in the Kingdom achieved substantial growth, approximately 5% in 2010G, contrasted with 2.2% in 2009G. In addition, the relative contribution of the sector to the country's GDP has considerably increased (recording 10.1% in 2010G), confirming the strength of the sector. Furthermore, the industrial sector has contributed to a great extent to the growth of Saudi non-oil exports to international markets with an increase of 14% over that of 2009G and reaching SR 124 billions in 2010G.

In the context of the general picture of the industrial sector outlined above, we should consider the performance of some indicators in this sector. Since the data for 2010G is unavailable, we will, instead refer to the data for 2009G. Figures 1, 2 and 3 show the distribution of the components of value added and Saudi labor ratio in the main Saudi manufacturing sectors.

Figure (1) Components of the Saudi Manufacturing Sector Value Added (2009)

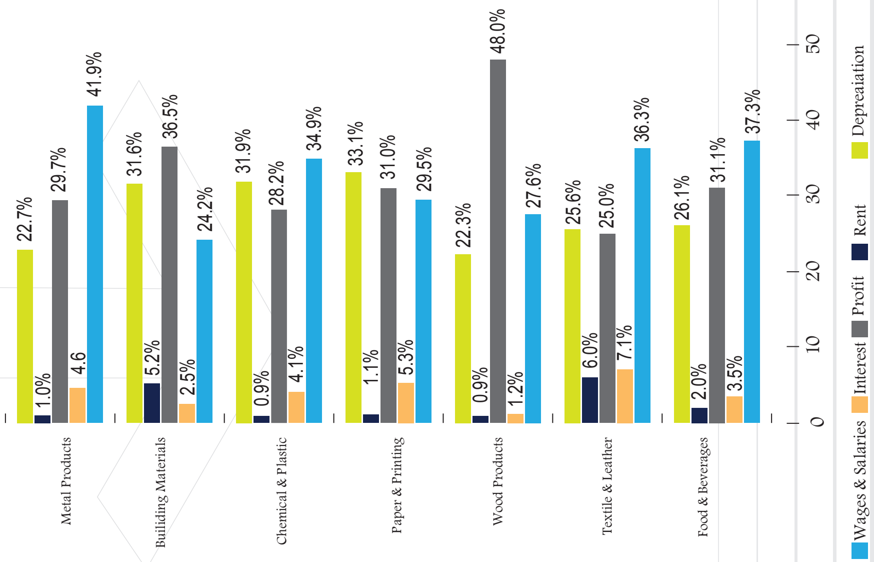


Source: SIDF Manufacturing Database (2009G)

As for the value added indicator, figure 1 above shows the distribution of the components of the Saudi manufacturing sector value added in the year 2009G, indicating that wages & salaries accounted for 35.6% of the total manufacturing value added. Profits accounted for about 30.5%; depreciation 28.2%; interest rates 3.9% and, finally, rents accounted for about 1.8%. This distribution pattern highlights the contribution of the manufacturing sector towards increasing national income by reaching a higher value added covering wages and salaries, and, in addition, by contributing towards the expansion of production capacity.

Figure 2 below presents a more detailed picture of the distribution of the different components of value added in the major industrial sectors. Profits with wages and salaries accounted for 75.6 % of gross value added in the Wooden Products Sector This figure declined to 71.6% in the Metal Fabrication sector; 68.4% in Food Products; 63.1% in the Chemical Industries; 61.3 % in Textiles & Leather; 60.7% in Building Materials and, finally, 60.5% in Paper & Printing. The main reason for this decline is their technical nature, which is relatively more capital-intensive, with a higher share of depreciation costs in contrast with other industries.

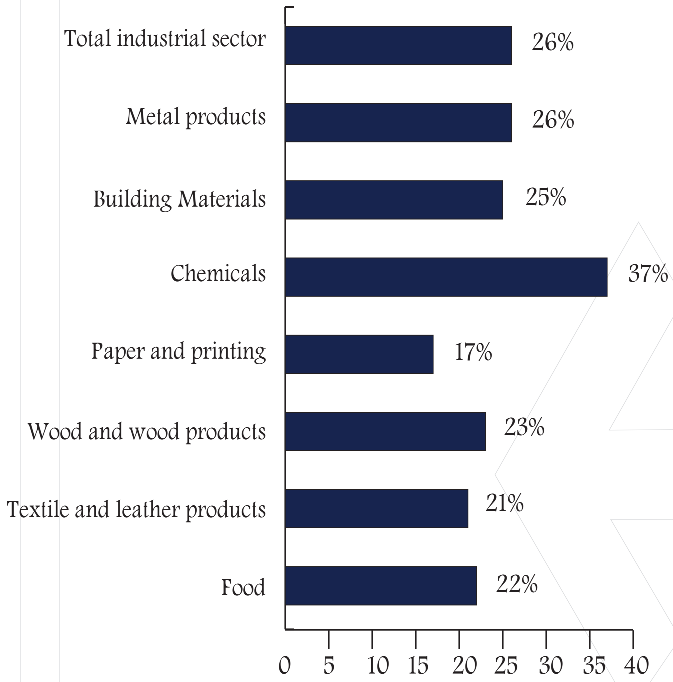
Figure (2) Components of the Value Added in the Major Industrial Sectors (2009)



Source: SIDF Manufacturing Database (2009G)

As for the ratio of Saudi labor to total labor in the industrial sector, this indicator is gaining increasing importance at national level. Figure 3 shows the Saudi labor ratio to total labor in the major industrial sectors during 2009, indicating that the Chemical Products Sector was ahead of all other sectors, with a Saudi employment ratio of 37%. Then followed Metal Fabrication sector with 26%; Building Materials Sector with a Saudi employment ratio of 25%; Wooden Products with 23% ;Food Products with 22%; Textiles & Clothes with a Saudi labor ratio of 21% and, finally, came Paper & Printing with a Saudi employment ratio of 17%. As for the whole industrial sector, the Saudi labor ratio of 26% is considered moderate as foreign labor still accounts for the bulk of the labor force.

Figure (3) Percentage of Saudi Workers to Total Workers By Major Sectors (2009)



Source: SIDF Manufacturing Database (2009G).

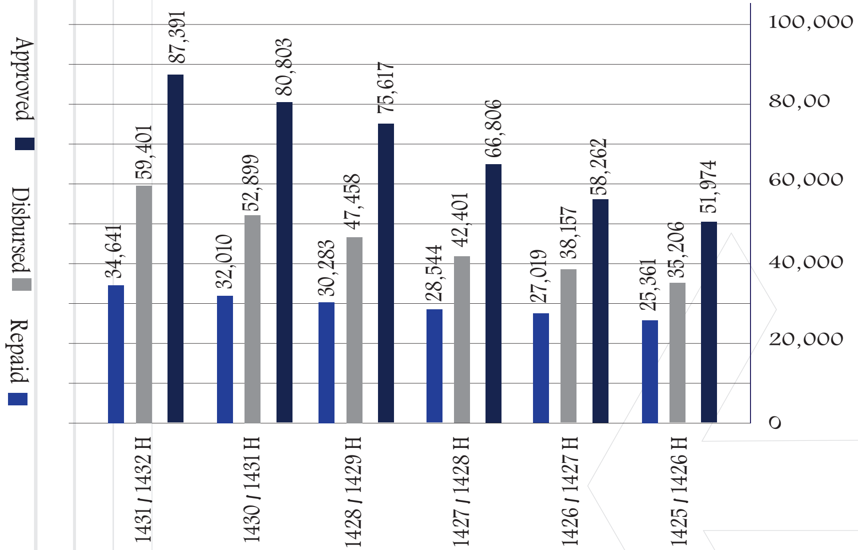
SIDF's Lending Activity

SIDF's Lending Activity

I. Summary of Lending Activity during 1431/1432H (2010G):

For the past thirty-six years, the Fund continued its leading support of the development of the domestic industrial sector by providing soft medium and long term loans as well as rendering appropriate consulting services to borrowing projects in the financial, technical, marketing and management fields.

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



As for the Fund's lending activities during the fiscal year 1431/1432 (2010G), an important development was the petrochemical industry's regaining confidence in the aftermath of the global financial crises. This motivated investors to invest, once again, in such projects. As a result, the total value of loans approved during the fiscal year 1431/1432H (2010G) increased to SR 6,588 million, i.e., an increase of 27% contrasted with the value of loans approved in the previous year which amounted to SR 5,186 million. If we look at the Fund's approvals to the Chemical Industries sector during the year covered by this report, the petrochemical industry comprising its major component, we find that the Fund's approvals to the sector increased from SR 672 million during the previous fiscal year, to about SR 3,726 million in the report year, or an increase of 454%. Likewise the Fund's approvals to the Consumption Industries sector increased by 11% in contrast to the previous fiscal year.

Disbursements for the year have grown by 19% to SR 6,502 million: the highest amount ever disbursed over any one year since inception of the fund in 1394H. Repayments during the year covered by the report amounted to SR 2,631 million, representing an increase of 52% on the previous year and also, the highest since the foundation of the Fund.

Overall, the number of industrial loans committed by the Fund since its inception up to the end of 1431/1432H (2010G) totalled 3226 loans with a gross value of SR 87,391 million approved for support of 2284 new industrial projects Kingdomwide.

Of the gross total of committed loans, SR 59,401 million was disbursed and SR 34,641 million was repaid as of the end of the fiscal year 1431/1432H (2010G). These figures reflect the success of borrowing projects which benefit, not only from the Fund's financial support, but also from the consulting services it provides in the technical, management and marketing fields.

During the year 1431/1432H (2010G), the Fund approved 95 loans. Of this number, 68 were committed to new projects and 27 were approved to finance expansion of projects that had formerly been granted SIDF loans. These expansions stand as evidence of the success of SIDF-assisted projects in facilitating upstream and downstream expansion and the upgrading of the quality of the finished products.

II. Distribution of Loans by Sector:

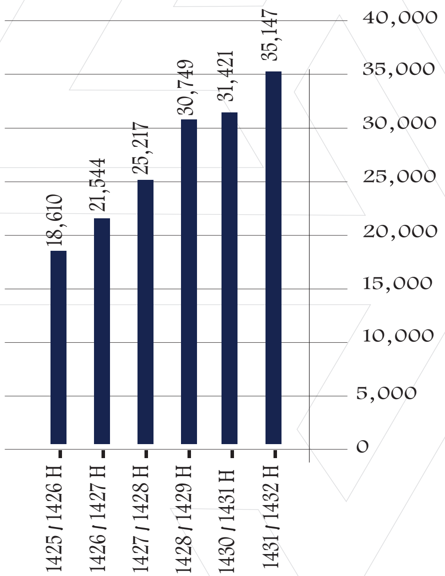
A review of the main industrial sectors by value of loans committed reveals the following salient features:

Chemical Industries:

Cumulative Amount of Loans:

This sector still leads al other sectors by amount of loan commitments since SIDF's inception up to the end of the fiscal year 1431/1432H (2010G). Cumulative commitments extended to the sector totaled SR 35,147 million, representing 40% of the total value of loans approved by the fund during the period.

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



Projects Approved During the Report Year:

During the fiscal year 1431/1432H (2010G), SIDF approved 23 loans to this sector representing 24% of the total number of loans approved during the year. Total commitment to this sector amounted to SR 3,726 million, representing 57% of the value of all loans approved during the year. Hence, the sector regained first rank in terms of value of approved loans, reflecting the restored confidence gradually felt by investors after the global financial crises. These loans supported the establishment of 15 new industrial projects and the expansion of 8 existing projects.

Among the loans approved to this sector, four loans amounting to SR 2 billion were approved for the building of four new Saudi-French joint-venture projects in Jubail for the production of benzene, kerosene, gasoline, diesel, coke, paraxylene, propylene, liquid petroleum gas, liquid sulphur, mixed xylene and untreated liquid petroleum gas. In addition, two loans totaling SR 900 million were approved for the construction of two plants in Jubail for the production of caustic soda, ethylene di-chloride and hydrochloric acid.

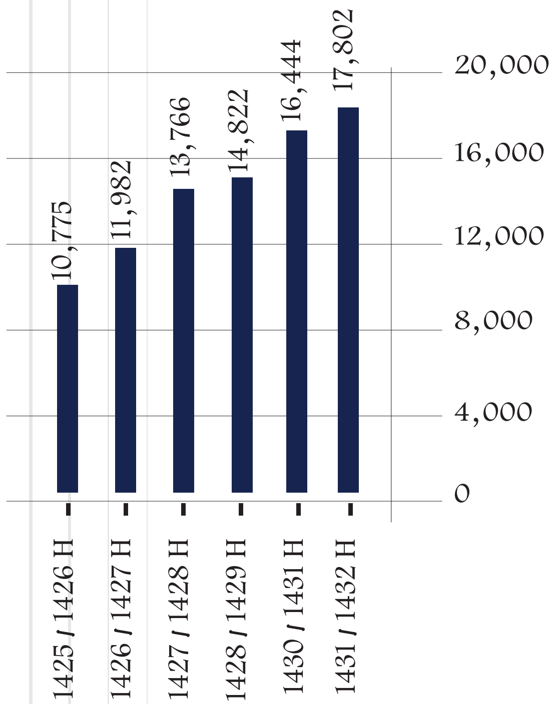
As for expansion loans, they included a loan for the sum of SR 350 million committed to the expansion of a linear alkyl benzene plant in Jubail and a SR41 million loan for the expansion of a Jubail-based factory producing ethylene amines.

Engineering Industries:

Cumulative Amount of Loans:

This sector came second in terms of the value of approved loans since inception of the Fund up to the end of the fiscal year 1431/1432H (2010G). Cumulative commitments extended to the sector totaled SR 17,802 million representing 20% of total loans approved by SIDF.

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



Projects Approved During the Report Year:

SIDF approved 25 loans to this sector amounting to SR 1,358 million or 26% of the total number of loans approved during the fiscal year 1431/1432H (2010G) and 21% of the value of these loans. Thus, the sector came second in terms of number and value of loans approved during the year. These loans financed the construction of 17 new industrial projects and the expansion of 8 existing plants.

Among the new loans committed to this sector during the year, one, amounting to SR 330 million, was extended to assist in the building of a plant in Jizan for the production of copper and zinc condensers, and gold and silver alloys. Two other loans, one for SR 200 million was extended for the establishment of a Jeddah-based plant for the production of beverage cans and lids; another, for SR 200 million, to build a factory in Jubail, for the production of welded pipes, anti corrosive steel pipes and aluminum pipes.

Expansion loans included a SR 91 million loan for the expansion of a Dammam-based plant producing welded steel pipes and two loans amounting to SR 39 million for the expansion of a factory in Dammam producing bent pipes and electric resistance welded steel pipes

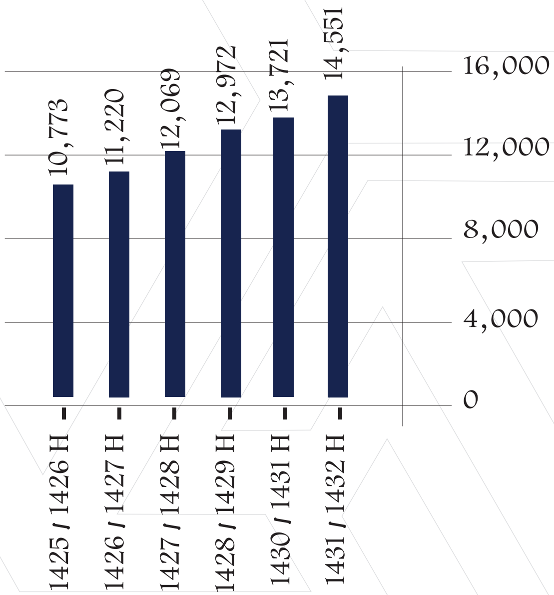
Consumer Industries:

Cumulative Amount of Loans:

This sector occupies third place in terms of the cumulative amount of approved loans. By the end of 1431/1432H (2010G), cumulative commitments extended to this sector totaled SR 14,551 million representing 17% of the total loans approved by

SIDF since inception up to the end of the said period.

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



Projects Approved During the Report Year:

During the fiscal year 1431/1432H (2010G), SIDF approved 28 loans to this sector totaling SR 830 million representing 29% of the total number of all loans approved during the year and 13% of the value of these loans. Thus, it was ranked first in terms of the number of loans and third in terms of their value. The loans extended to this sector assisted in the erection of 22 new industrial projects and the expansion of 6 existing plants. During the year of the report, this sector advanced to regain third rank in terms of the value of the yearly approved loans – a position previously held by this sector for several years.

Among the new loans committed to this sector, a loan of SR 98 million was granted for the establishment of a factory in Madinah Monawarah for the production of frozen, chilled and processed chicken meat. Another loan amounting to SR 65 million was extended for the construction of a Dammam-based plant for the production of desalinated well-water and treated water. Also, a loan of SR 45 million

was committed for the production of bread and confectionery in Riyadh.

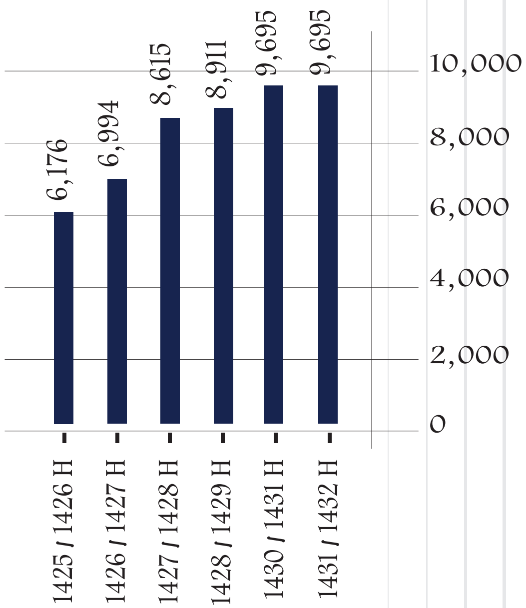
Expansion loans included a SR 200 million loan for the expansion of a Kharj-based plant producing milk, dairy products, cheese and butter; another loan amounting to SR 42 million for the expansion of a biscuits, pastries and mammoul, in addition to a third totaling SR 28 million for the expansion of a factory in Dammam producing tissue paper rolls and paper pulp from waste paper.

Cement Industry:

Cumulative Amount of Loans:

The amount of loans committed to this sector since inception of the Fund up to the end of the fiscal year 1431/1432H (2010G) totaled SR 9,695 million or 11% of total loans approved, thereby ranking the sector fourth according to the amount of loans committed.

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



Projects Approved During the Report Year:

During the fiscal year 1431/1432H (2010G), SIDF did not approve any loan to this sector because the local production capacities are adequate to meet current local demand.

Other Building Materials Industries:

Cumulative Amount of Loans:

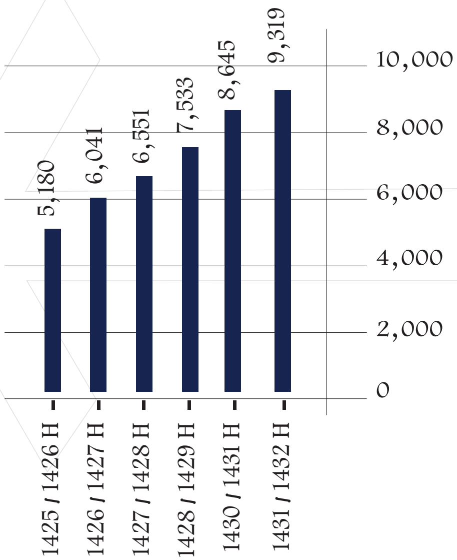
By the end of 1431/1432H (2010G), loans committed by SIDF to the Other Building Materials sector totaled SR 9,319 million, or 10.7% of the cumulative loans approved to industrial projects since inception of the Fund. Thus, the sector was ranked fifth according to the size of loans approved.

Projects Approved During the Report Year:

During the year 1431/1432H (2010G), SIDF approved 19 loans to this sector totaling SR 674 million or 10% of all loan approvals for the year. Thus, the sector was ranked fourth according to value of loans approved during the year. These loans were extended in support of 14 new industrial projects and the expansion of 5 existing ones.

Among the loans approved to this sector, a loan of SR 54 million was extended for the construction of a Riyadh-based factory for the production of glass panels and insulating glass. Another loan of SR 44 million was committed for the erection of a plant for the production of roof tiles in Yanbu. A third loan of SR 26 million was approved for the building of a Riyadh-based factory for the production of ready-mixed concrete.

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



Expansion loans included one of SR 118 million extended for the expansion of a plant in Jeddah producing ceramic and porcelain tiles for floors and walls, and another loan totaling SR 65 million to support the expansion of a factory in Muzahmiah producing red bricks.

Projects Which Commenced Production During the year 1431/1432H (2010G):

The number of SIDF financed industrial projects which commenced production during 1431 / 1432 H (2010G), totaled 50 of which 29 were new projects and 21 were expansion projects to existing plants. The breakdown of these projects by sector is as follows:

Sector	Number of Projects which Commenced Production during the Report Year	Projected Number of Workers
Consumer Industries	15	2493
Engineering Industries	13	2081
Other Building Materials	11	1976
Chemical Industries	9	818
Cement Industry	2	580
Total	50	7948

III. Distribution of Loans by Region:

A review of geographical distribution of the total number and value of approved loans by region Kingdomwide reveals a pattern of distribution as follows:

Riyadh Region:

Cumulative Amount of Loans:

The number of loans committed by the Fund towards setting up of industrial projects in the Riyadh region totaled 1181 loans granted to 824 projects, or, approximately 37% of the total number of loans approved since inception of the Fund up to the end of end the year 1431/1432H (2010G). Thus, the Riyadh region was ranked first in terms of the number of approved loans. However, the region came second in terms of the value of loans committed with a total of SR 17,919 million representing 21% of the value of all loans approved by SIDF.

Loans Approved During the Report Year:

During the fiscal year 1431/1432H (2010G). SIDF approved 32 loans to industrial projects in the Riyadh region, representing 34% of the total number of loans approved. These loans were extended for the financing of 22 new industrial projects and the expansion of 10 existing ones. The Riyadh region was ranked second in terms of both number and value of these loans, which totaled SR 964 million, or 15% of the total value of loans approved during the report year.

Makkah Al-Mukarramah Region:

Cumulative Amount of Loans:

The Fund approved a total of 825 loans to assist in the initiation of 557 industrial projects in Makkah region. In terms of value, these loans totaled SR 14,998 million, representing 26% of the number and 17% of the value of loans approved. Thus, Makkah region was ranked third in terms of number and value of loans committed by the Fund since its inception up to the end of the fiscal year 1431/1432H (2010G).

Loans Approved During the Report Year:

During the fiscal year 1431/1432H (2010G). SIDF approved 14 loans amounting to SR 569 million for industrial projects in the Makkah region, representing about 15% of the number and 9% of the value of loans approved by SIDF during the year. Thus, Makkah region was ranked third by number and value of loans approved during the year 1431/1432H (2010G).

Eastern Region:

Cumulative Amount of Loans:

The Fund approved a total of 915 loans to assist in the construction of 647 industrial projects in the Eastern region, with total commitments amounting to SR 39,515 million or 28% of the total number and 45% of the total value of loans approved. Thus, the Eastern region was ranked first in terms of the value of loans and second in terms of the number of loans committed by the Fund since inception up to the end of the fiscal year 1431/1432H (2010G).

Loans Approved During the Report Year:

During the report year, SIDF approved 41 loans amounting to SR 4,469 million for industrial projects in the Eastern region, placing the region first in terms of number and value approved during the fiscal year

1431/1432H (2010G). In percentage terms, the region was granted 43% of the number of loans and 68% of the value of loans approved during the year.

Al-Madinah Al-Munawarah Region:

Cumulative Amount of Loans:

By the end of 1431/1432H (2010G), the Fund had committed loans towards the establishment of 88 projects in the region totaling 116 loans amounting to SR 8,927 million representing 4% and 10% respectively, in terms of the total number and value of approved loans. Thus, Madinah region was ranked fourth in terms of both number and value of loans committed by the Fund since its inception up to the end of the fiscal year 1431/1432H (2010G).

Loans Approved During the Report Year:

During the fiscal year 1431/1432H (2010G), SIDF approved four loans for industrial projects in the Madinah region for the sum of SR 211 million, respectively representing 4% and 3% of the total number and value of approved loans. Thus, Madinah region was ranked fourth in terms of both number and value of loans approved during the year.

Qassim Region:

Cumulative Amount of Loans:

The Fund approved 65 loans in support of the construction of 54 industrial projects in the Qassim region, representing a total sum of SR 1,338 million, or 2% of both total number and value of loans approved. Thus, the region ranked fifth in terms of number and value of loans approved by SIDF since its inception up to the end of the fiscal year 1431/1432H (2010G).

Loans Approved During the Report Year:

During the fiscal year 1431/1432H (2010G), SIDF approved two loans, amounting SR 28 million for the construction of two Qassim-based plants: one for the production and distribution of potable and treated water, the other for the production of sweets and confectionery.

Other Regions of the Kingdom:

Cumulative Amount of Loans:

By the end of the fiscal year 1431/1432H (2010G), SIDF had approved 124 loans amounting to SR 4,695 million for industrial projects in other regions of the Kingdom, representing about 4% and 5% of the total number and value of loans approved by SIDF since inception.

Loans Approved During the Report Year:

During the fiscal year 1431/1432H (2010G), SIDF approved a loan of SR 330 million for the establishment of a Najran-based plant for the production of copper & zinc condensers and gold & silver alloys. Another loan of SR 17 million was also committed for the building a ready-mixed concrete plant in Al-Joaf region.

IV. Joint-Venture Financing:

Since inception, SIDF has spared no effort to encourage setting up joint-venture industrial projects, particularly with reputable global companies. The underlying rationale is that direct foreign investment is regarded as an effective means of attracting to and implementing state-of-the-art technologies in the Kingdom and creating new job opportunities for Saudi citizens as well as providing access for national products to international markets.

The Fund does not require Saudi partnership in these projects as it also finances projects that are wholly owned by foreign investors. In this context, SIDF treats wholly foreign-owned projects on an equal footing with projects wholly or partly owned by Saudi investors.

The number of joint-venture projects approved by the fund since its inception up to the end of the fiscal year 1431/1432H (2010G) totaled 625 projects or 27% of all projects approved. Moreover, loans committed to such joint-venture projects amounted to SR 33,415 million or 38% of total SIDF loans. Foreign partners' share in these projects accounted for 33% of their capital.
It should be noted that 113 of these projects, with commitments amounting to SR 8,868 million have become wholly owned by Saudi investors after acquisition of the shares of the foreign partners, following the eventual success of these projects and their repayment of all debts. The Chemical Industries sector led all other sectors by value of loans committed to joint-venture projects, bearing in mind the substantial investments required for this sector's projects. The Chemical Industries sector acquired a share of 61% of the value of SIDF cumulative loans, followed by the Engineering Industries sector with 23% and the Consumer Industries with 9%.

During the report year 1431/1432H (2010G), SIDF approved 23 loans for the establishment of 17 new projects and the expansion of 6 existing ones. Commitments to these projects totaled SR 3,940 million or 60% of SIDF commitments for the year. This latter high percentage can be explained by the fact that SIDF approved, during the year, mega joint-venture projects requiring substantial investments. Loans for the new joint-venture projects comprised nine loans to the Engineering Industries sector, six loans to the Chemical Industries sector and two loans to the Consumer Industries sector.

Joint-venture projects approved during the year provided 3737 jobs, or approximately 33% of the total jobs provided by all projects approved during the year 1431/1432H (2010G), totaling 11203 (approximately).

Small and Medium Enterprises Loan Guarantee Program

The fifth year of the program set the standard for outstanding performance. During the year 1431/1432H (2010G), the program management approved 777 guarantees in contrast to 504 guarantees approved in the previous year, i.e., a growth rate of 54%. Guarantees issued during the year totaled SR 271 million in contrast to SR 181 million for the previous year, or a growth rate of 50%. Loans provided by commercial banks to Small and Medium Enterprises during the year amounted to SR 716 million in contrast to SR 464 million extended during the pervious year, i.e., an increase of 54%.

Since its initiation at the beginning of 1426/1427H up to the end of the fiscal year 1431/1432H (2010G), the Small and Medium Enterprises Loan Guarantee Program has issued a total of 1,887 guarantees of SR 720 million against a total commercial bank financing of SR 1,786 million extended to 1,249 small and medium enterprises.

The Contracting sector led all other sectors with 855 guarantees amounting to SR 249 million, or 45% of the number and 41% of the value of total guarantees issued up to the end of the year 1431/1432H (2010G). The Services sector came second with 437 guarantees for SR 185 million, i.e., 23% of the number and 26% of the value of the approved guarantees. The industrial sector was ranked third with 364 guarantees valued at SR 160 million representing 20% of the total number and 22% of the value of issued guarantees, respectively. The remaining 231 guarantees, representing 12% of the total number of issued guarantees, are distributed among the remaining sectors: Commercial (164), Medical (42), Educational (19), Agricultural (4), and Entertainment (2).

Riyadh region was ranked first in terms of number and value of guarantees issued by the Program during the report year. It received 320 guarantees amounting to SR 112 million, or 41% of the total number and value of guarantees issued during the year. The Eastern region came second with 176 guarantees of SR 60 million, followed by the Makkah region with 173 guarantees totaling SR 56 million. The Aseer region ranked fourth with 31 guarantees. The Madinah region came fifth with 25 guarantees. It is significant that approvals for the report year covered all of the administrative regions of the Kingdom.

Although Riyad Bank came first in terms of the total number and value of guarantees approved by the Program during the report year, with 242 guarantees valued SR 81 Million, the National Commercial Bank headed all of the banks in terms of total number and value of guarantees with 590 guarantees totaling SR 209 million, or 31% of the total number and 29% of the total value of guarantees issued by the Program since its foundation up to the end of the report year. Riyad Bank came second with 570 guarantees, representing SR 201 million, or 30% of the number and 29% of the value of guarantees. Arab National Bank was ranked third with 269 guarantees totaling SR 90 million, or 14% of the number and 12% of the value of guarantees.

The year of the report witnessed liquidation of 13 guarantees in favor of the financing banks. Thus, since the establishment of the Program, the number of the liquidated guarantees increased to 28 guarantees totaling SR 11.3 million. Distribution of liquidated guarantees is as follows: 12 guarantees for the Saudi British Bank, 11 guarantees for the National Commercial Bank, 4 guarantees for Riyadh Bank and 1 guarantee for Al-Rajhi Bank.

In pursuit of enlarging KAFALA program customer base and spreading awareness of the role of Small & Medium Enterprises in achieving economic development, KAFALA program arranged, in collaboration with the Saudi Chambers of

Commerce & Industry and participant local commercial banks, about 21 activities in 21 cities and towns in the Kingdom under the name: (The Day of SMEs). Also, in cooperation with the World Bank, the International Finance Corporation and the Saudi Chambers of Commerce & Industry, KAFALA program conducted 13 training courses named (Basics of Start Up, Operating and Managing Commercial Business) in different cities and towns in the Kingdom. The courses targeted on sponsors of SMEs. Trainees numbered 391 comprising 107 female trainees and 284 male trainees. Furthermore, KAFALA program organized 11 workshops introducing KAFALA program, its terms and conditions and mechanisms of work to local bankers concerned. Similarly, the program organized 13 workshops introducing KAFALA program, its terms and conditions and mechanism of work to SMEs sponsors. Moreover, in collaboration with the World Bank, the International Finance Corporation and the Saudi Chambers of Commerce & Industry, the program organized a number of courses for the employees of the SMEs Development Centers in the Saudi Chambers of Commerce & Industry who deal directly with the sponsors of such enterprises. The courses were titled (Evaluating Work Plans).

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

Bank	2010G Approved Guarantees				Total Since Launch of the Program			
	Number of Guarantees	SR 000		No. of Enterprises	Number of Guarantees	SR 000		No. of Enterprises
		Value of Finance	Value of Guarantees			Value of Finance	Value of Guarantees	
National Commercial Bank	223	125,594	64,124	98	590	414,563	208,914	358
Riyad Bank	242	223,692	81,098	173	570	521,787	200,646	409
Arab National Bank	97	135,380	36,741	45	269	306,593	89,762	113
Al-Rajhi Bank	129	116,449	46,608	93	218	236,622	92,739	174
Saudi British Bank	11	16,749	6,674	11	98	129,689	61,359	90
SAMBA Financial Group	36	41,125	15,592	30	60	64,945	25,615	46
Saudi French Bank	12	15,830	4,861	8	51	68,362	24,147	35
Saudi Hollandi Bank	15	22,600	10,887	14	15	22,600	10,888	14
Al-Jazira Bank	6	11,400	2,200	3	10	13,587	3,194	5
Al-Bilad Bank	6	7,170	2,595	5	6	7,170	2,595	5
Total	**777**	**715,989**	**271,380**	**480**	**1887**	**1,785,918**	**719,859**	**1,249**

Manpower and Training

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

In the fiscal year (FY) 1431/1432H, 733 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. 479 Saudi employees have been trained in accordance with work requirements and timing of in-house and overseas training courses. 103 of those employees have attended specialized basic courses, including master's degrees and intensive English language courses abroad. 167 Saudi employees have attended short courses held abroad; 97 employees attended short courses held domestically, and 112 Saudi employees joined short courses held locally at the Fund. Also included are 12 university-graduate Saudi employees who received practical on-job professional training in the relevant Departments of the Fund.

SIDF has capitalized on its good relations with many similar financial institutions inside and outside the Kingdom to further develop the professional skills of SIDF's Saudi staff through effective participation in specialized professional conferences, seminars, and workshops held by these institutions. Such collaboration ensures exchange of professional expertise and experience which has contributed to

enhanced skills and improved work capability of Saudi staff - a positive effect that is reflected in the general performance of the Fund.

Based on its advanced financial and administrative systems, SIDF managed to implement its adopted FY 1431/1432H Saudization programs as evidenced by the 91 Saudis who were employed to meet the various requirements of the Fund's Departments within the context of the SIDF approved budget.

Ali Bin Abdullah Al-Ayed

Acting Director General

SIDF Loan Application's Cycle and SIDF's Organization Chart

SIDF Loan Application's Cycle

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

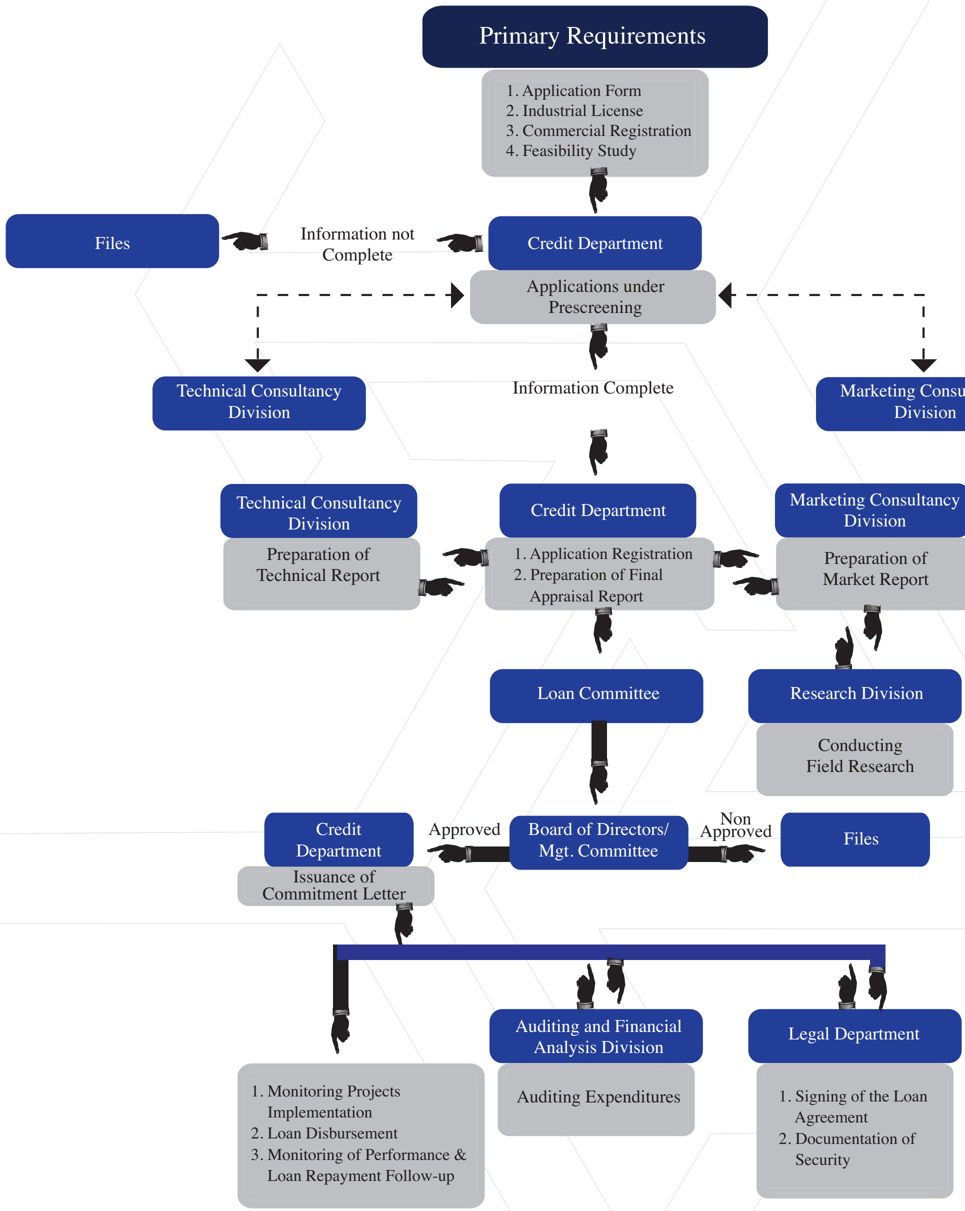
All these efforts are embodied in the adopted Application cycle which is modified from time to time in line with prevailing practices to facilitate the adoptation of the latest developments in the fields of administrative organization, financial analysis and technological progress.

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

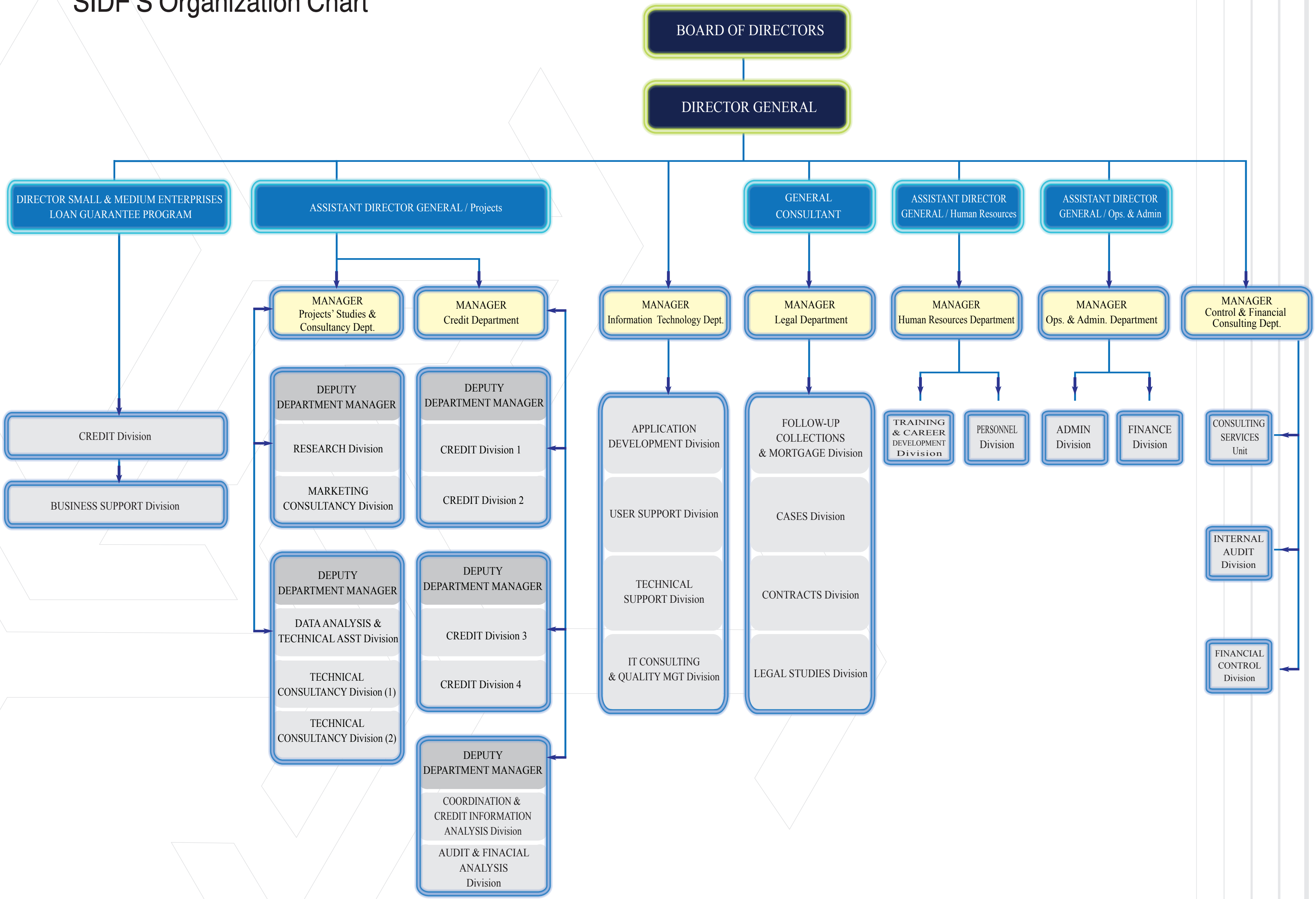
Note No.:

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

Loan Application's Processing Flow Chart



SIDF'S Organization Chart



In Focus:

Legal Department

The Legal Department (LD) is regarded as one of the most important departments in the Saudi Industrial Development Fund as it maintains close links with all other SIDF departments. The LD is a competent body mandated to provide all types of legal services, consultancy and research requested by SIDF Management, committees and all other departments. LD is also responsible for drafting and reviewing loan agreements, administrative agreements and contracts, and following all essential legal procedures required. Moreover, LD drafts and reviews regulations and laws; it also represents the Fund in courts and other judicial authorities.

Furthermore, LD assumes the task of following up and reviewing draft regulations, laws and policies issued by the State's higher authorities. Above all, the Department receives frequent requests from the Ministry of Finance to give legal opinion or advice on various versions of drafts of regulations and laws, whether domestic, regional (GCC countries), or international agreements.

Internally, LD carries out legal due diligence in order to ensure conformity of SIDF Management acts and procedures with the Fund's internal regulations and the Kingdom's applicable laws and regulations.

The LD is keen to attract and retain Saudi and non-Saudi qualified and talented lawyers who have the required expertise and experience to perform their duties professionally. In addition, the Department itself trains and qualifies its Saudi cadre and delegates them to join and participate in intensive professional and practical courses held locally and internationally. This policy reflects the Department's recognition of the importance of the Saudi national factor and its role in the development process.

The main functions and responsibilities of the Legal Department are performed via four specialized Divisions:

1. Contracts Division
2. Cases Division
3. Collection, Follow-up and Mortgage Division
4. Legal Studies

1. Contracts Division:

This Division is responsible for the preparation and drafting of loan agreements and annexes or amendments to loan agreements as well as other related agreements and contracts. This task requires the provision of legal documents, some of which, such as contracts, agreements, and various guarantee documents, are prepared by the LD itself, while commercial registration; industrial licenses; articles of incorporation; project land lease contracts, or ownership title deeds, are provided by the borrower, while third parties provide bank guarantee letters, including official mortgage documents from the concerned Notary Public. Knowledge of the rules covering these documents is required for proper performance of work. The Division reviews submitted documents and guarantees to evaluate sufficiency of such documentation as legal security for the loan repayment and also reviews any other third party financing provided to the borrower to ensure that such third party financing does not conflict with the Fund's rights and entitlements.

2. Cases Division:

Cases Division is responsible for handling and following up cases of loan defaults and to negotiate - in coordination with the Credit Department - with delinquent borrowers to reach an appropriate settlement of the loan overdue amounts. If such amicable negotiation fails, the Division initiates regulatory proceedings against borrowers in default for repayment of amounts due to the Public Treasury. The Division represents the SIDF at courts, legal and executive committees as well as preparing legal proceedings and defense memorandums, and attending court sessions.

3. Follow up, Collection & Mortgage Division:

This Division is responsible for reviewing mortgage documents and following up proper mortgage notarization with competent Notary Public; reviewing submitted guarantees as well as pursuing the amendments introduced to mortgage documents and other submissions required for loan approval. Additionally, the Division is also responsible for following up default loans; preparing repayment claims; following up financial entitlements due to SIDF on other governmental bodies and depositing the payments collected in the SIDF account.

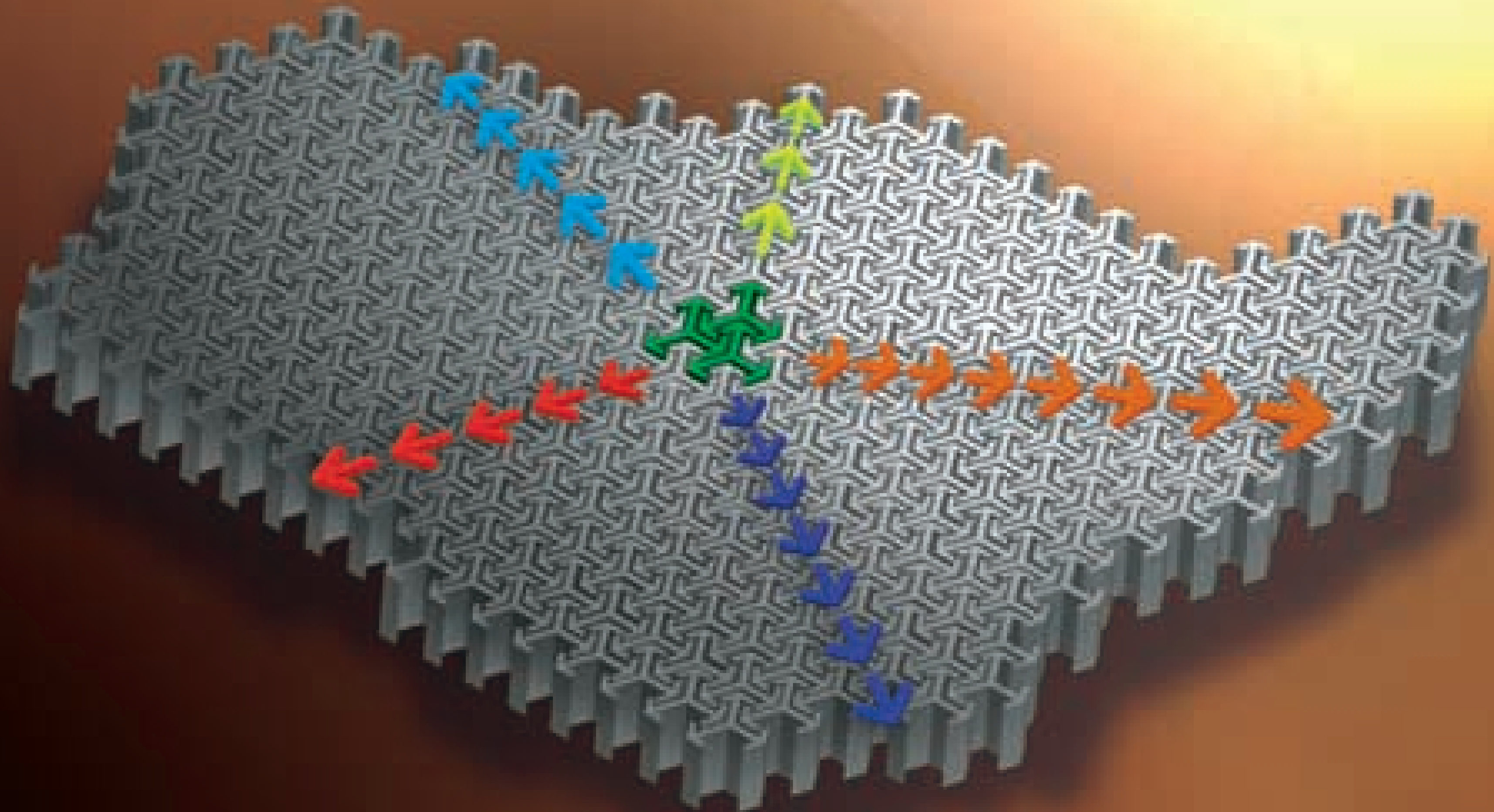
4. Legal Studies Division:

The Legal Studies Division's principal functions are the preparation of legal studies and research required by Senior Management or other SIDF departments; drafting regulations and laws occasionally enacted and evaluating their prospective impacts, as well as submitting recommendations on the foregoing, in addition to studying, preparing and drafting non-standard contracts referred to LD by other SIDF departments.

The Division prepares specialized legal studies and research in accordance with currently applicable laws and regulations in response to Management or Board of Directors' requests. The Division also provides legal opinion on issues encountered by the SIDF and proposes recommendations. Last but not least, the Division prepares and drafts all required legal documents for programs or projects entrusted to SIDF management by the Government such as the SME Program (Kafala).

Furthermore, LD looks forward to the introduction of an additional unit within the Department assigned to study and review insurance policy documentation submitted to SIDF. Such a unit's function will be to evaluate the scope and extent to which the insurance policies would satisfy the legal requirements and conform to relevant applicable regulations in order to fulfill the rights of the SIDF as beneficiary.

Economic Study: Geographical Distribution of Industrial Investment in the Kingdom



Economic Study:

Geographical Distribution of Industrial Investment in the Kingdom:

The industrial sector of the Kingdom has witnessed remarkable growth and development and become a significant productive sector. It has contributed to the enhancement of the country's overall GDP growth rates, diversifying sources of income and improving the balance of payments. These achievements can be attributed to the guidance and encouragement of the government, which is manifested in the provision of incentives for investment in the industrial sector. Such incentives include, for instance, establishing government lending funds & industrial cities; giving priority to local products in government purchases as well as government collaboration with the private sector in implementing a number of industrial projects. However, it is to be noted that industrial development in the Kingdom is concentrated in only four administrative regions, namely, Eastern, Makkah Al-Mokarramah, Riyadh and Al- Madinah Al-Monawara Regions.

Phenomenon of Geographical Concentration of Industry:

A number of economic and development theories have been formulated to explain the phenomenon of industrial concentration, noting that it is not a new phenomenon in different countries of the world. Likewise, a number of factors influencing this phenomenon have been identified. In this regard, economic efficiency might lead to industrial concentration in certain areas, motivated by economic factors such as availability of production input and resources, and/or what is termed as natural resources and economies of scale; administrative considerations such us proximity to related institutions or commercial and marketing incentives, or, what is called advantageous geographical location, e.g., nearness to ports and markets, etc. Obviously, these economic factors need to be taken into account in analyzing the phenomenon. However, the real challenge would be if we found that industrial concentration in certain regions is based on other variant considerations. In such a case, we need to identify and study these considerations in order to encourage spread of industrial activity in all regions of the Kingdom taking into account the pertinent characteristic resources and relative merits of each region. By so doing, solutions leading to re-distribution of industrial activity would be in place.

Geographical Distribution of Industrial Investment in the Kingdom:

It is clear from table 2 that the Eastern Region leads all other regions in terms of the industrial investment value of operational factories with a value of SR 192,833 million or 48% of the total value of industrial investment in the Kingdom, a figure that increased to SR 403,805 million by the end of the First Half of 1431H. This high concentration of industrial investment in the Eastern Region can be attributed mainly to the presence of huge investments in the petrochemical and basic industries projects, particularly in Jubail industrial city. Riyadh comes second, with investments aggregating SR 66,616 million or 16.5% of the total value of industrial investments. Al-Madinah Al-Munawara Region follows with a value of SR 64,052 million representing 15.9% of the total value of industrial investments, mainly attributable to the existence of major industrial projects in Yanbu industrial city. Makkah Region follows having industrial investments totaling SR 61,671 million or 15.3% of the total industrial investment. Industrial investments in the four regions collectively account for about 95% of the total value of industrial investment in the Kingdom. The major reason for such concentration lies in the ready availability of the basic elements of industry, in addition to higher population and the existence of developed industrial cities.

Table (2): **Geographical Distribution of Industrial Investment, Operational Factories & Industrial Labor in the Kingdom By the End of the First Half of 1431H**

Region	Total Finance (SR Million)	Number of Operating Factories	Number of Workers
Eastern	192,833	999	128,655
Riyadh	66,616	1,748	199,607
Madinah Monawarah	64,052	168	21,236
Makkah Mokarramah	61,671	1,177	145,164
Qassim	6,448	225	15,879
Assir	3,831	123	7,359
Northern Frontier	2,345	15	1,408
Jizan	1,747	43	2,247
Tabuk	1,734	38	3,448
Najran	1,687	21	1,627
Hail	517	34	1,409
Al-Jouf	236	24	947
Al-Baha	88	16	459
Total	**403,805**	**4,631**	**529,445**

Source: Data from ministry of commerce & Industry

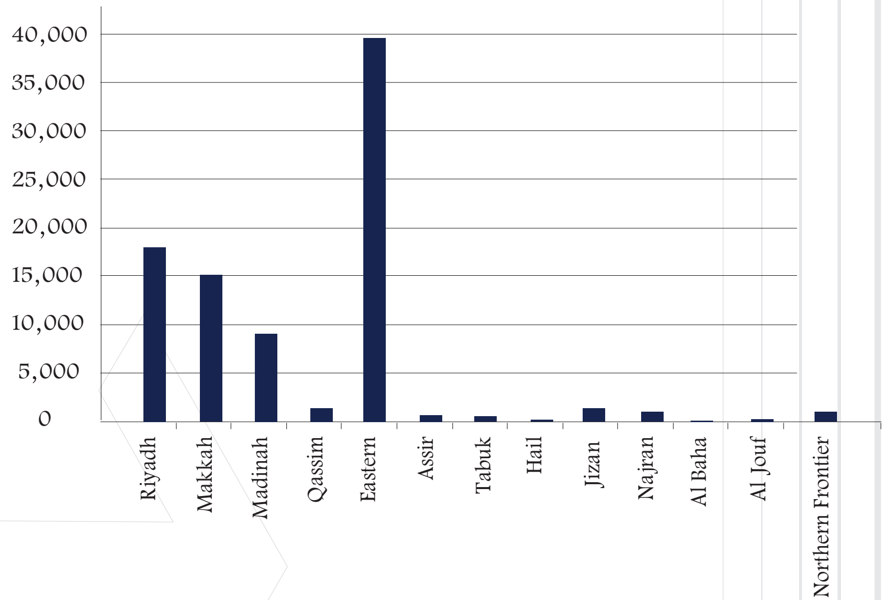
Moreover, the total number of operational factories in the Kingdom amounted to 4,631 by the end of the first half of 1431H. The Riyadh region leads all other regions with 1,748 factories representing 38% of the total number of operational factories in the Kingdom. Makkah Region comes second with 1,177 factories, accounting for 25%. Then follows the Eastern Region with 999 factories, representing 22%. Riyadh region also leads all the other regions of the Kingdom in terms of industrial labor with 199,607 laborers representing 38% of total industrial labor in the Kingdom, namely 529,445 laborers. Makkah Region follows with 145,164 laborers accounting for 27% of total industrial labor in the Kingdom. Then comes the Eastern Region with 128,655 laborers (24%) and the Madinah Region with 21,236 laborers (4%). The four regions (Riyadh, Makkah, Eastern and Madinah) collectively account for 93%, with the other nine administrative regions collectively representing only about 7% of the total industrial labor force in the Kingdom.

Geographical Distribution of SIDF Loans by Region:

Figure 10 shows the geographical distribution of SIDF cumulative loans up to the end of the year 1431/1432H. The Eastern Region leads all regions in terms of the value of loans approved by the Fund since its inception up to the end of the year. The Fund's total loan commitments to industrial projects in the Eastern region amounted to SR 39,515 million, or 45% of the total value of loans approved. Riyadh Region comes second with loans totaling SR 17,919 million, or 20% of total value of loans approved. Makkah Mokarramah ranked third with approved loans amounting to SR 14,998 million, representing 17% of the total value of SIDF loans approved. Madinah Monawarah Region occupied fourth place with loans totaling SR 8,927 million. The four regions (Eastern, Riyadh, Makkah Mokarramah and Madinah Monawarah) collectively account for about 92% of the total loans approved by SIDF up to the end of the year 1431/1432H, the other regions of the Kingdom accounting the remaining 8%. Among the reasons for the heavy concentration of SIDF loans in the four regions, cited, their economic viability in relation to the projects established in these regions is crucial along with the availability of a sound infrastructure and required services; the nature of the relevant economic activities, and population density.

Figure (10) Geographical Distribution of SIDF Loans Up to the End of 1431/1432H

(SR million)



Source: SIDF Database

Main Reasons Behind the Phenomenon of Geographical Concentration of Industry in the Kingdom:

In addition to those reasons cited above, several other factors may explain the heavy geographical concentration of industry in the Kingdom:

- Principally, the current situation of the heavy concentration of industry in the aforementioned four regions, is inseparable from economic criteria such as economic efficiency; proximity to production resources and input or the exporting ports. These foregoing factors were fully understood in the past when the Kingdom was taking its first, tentative steps along the road to industrial development.
- Since a good percentage of the output of the Saudi industrial sector is intended to serve the Saudi market, it is logical to locate the industries concerned in those areas with a high density of population. About 72% of the total population of the Kingdom is concentrated in only four administrative regions (Makkah Mokarramah, Riyadh, Eastern and Madinah Monawarah) out of the 13 administrative regions of the Kingdom.
- The dominance of family businesses in the Kingdom: most of the companies operating in the Kingdom are family-owned companies, a situation that has preduded the possibility of industrial investment in locations outside of the major conurbations.
- Since many industries complement each other, requiring forward and backward linkages, their proximity to each other is considered by investors, as an optimum investment in all elements of production. This is especially true when one considers the early recognition of the particular merits of the four regions including as they do the highly-developed industrial cities, which account for about 66% of the total operational factories in the Kingdom. The influence of these factors combined have undoubtedly hampered the spread of industrial investment beyond the regions described.

Conclusion and Recommendations:

One can, therefore, conclude from the foregoing analysis that concentration of industry in certain regions can be attributed to the distinct comparative advantages incorporated in those regions. For instance, such advantages include accessibility to gas in Jubail and Yanbu industrial cities as well as the huge markets in Riyadh, Jeddah and Dammam besides their highly-developed industrial cities. These industrial cities have contributed significant advantages to these regions, by providing proximity and integration to the factories within their boundaries. Furthermore, these industrial cities have also improved the local economies by providing services such as electricity, water, telephone communications and fuel. It should therefore be noted that certain industrial activities cannot be relocated since their concentration is subject to the merits of specific locations and, therefore, inevitable.

Thus, there is a need for a new vision and strategy for industrial investment in the Kingdom to encourage the spread of industry in other regions. In this regard, we propose the following:

1. There is obviously a need to conduct a comprehensive scientific study in order to explore the relative advantages of the different cities and regions of the Kingdom. Such a study could be used for a re-distribution of industry after the identification of the specific resources and needs of each city and region as per the generally accepted economic criteria. Then, those advantages having been identified, they should be promoted locally, regionally and globally. In this regard, it is advisable that economic departments and committees of various regional councils should be encouraged to intensify their search for available investment opportunities and resources as well as to prepare pertinent preliminary studies. They should focus on the industrial activities which depend on local resources such as agricultural, mineral and animal products, as well as providing encouraging incentives to the investors in those regions.

2. Re-concentration of industrial investment in less central and new cities in the Kingdom requires the provision of a package of incentives. It is, however, important, that the incentives provided should be greater than the cost and charges incurred by the investor in relocating outside the greater conurbations. Among the incentives that might be provided is the provision of a motivating infrastructure. The latter may be attained through the building of modern educational and training institutions specialized in training manpower as per the requirements of industry; exemption from certain obligations for a period in ways that do not violate the Kingdom's

commitments to the World Trade Organization; the amending of the tax exemptions for foreign investors in such a way as to prolong the exemption period when they switch their attention from the three main cities; prompt building of more railway lines in order to connect all the cities in the Kingdom. Moreover, since the widespread preference for family-owned companies leads to a concentration of industrial activity in specific areas by hampering activity distribution, it is very important to explore methods for the conversion of these family-owned companies into joint-stock companies. Such strategies would undoubtedly motivate these companies to relocate and re-reconcentrate.

3. It is necessary to benefit from the Information Technology and modern communication techniques, to facilitate communication between industrial investors in the various provinces of the Kingdom and the concerned governmental institutions to fully benefit from the services provided by such institutions.

4. Except in cases where the location selected for the borrower plant is contraventive to the economic feasibility of the project, SIDF does not, directly, interfere in the determination of location. Usually, the sponsor of the project determines the location for his specific project. The supporting role of SIDF in reversing concentration of industrial activity might be strengthened by launching an awareness campaign explaining the Fund's activities and the benefits they provide. Also, the developmental role of the Fund needs be highlighted (particularly at the regional level), which might be achieved by increasing SIDF's contribution to the costs of industrial projects established in the less developed areas.

5. Among the significant proposals is that which emphasizes the role of the public sector in remote areas, in the completion of development programs in a particular region including the construction of industrial cities and infrastructure, as well as creating job opportunities for the population of these regions, thereby increasing their purchasing power, in turn leading to the maximization of capital required for investment in the industrial sector.

It is particularly encouraging to note that the government has already taken a number of appropriate measures, in various regions with the objective of encouraging industrial investment in remote locations. In this respect, we can cite the commencement of the construction of four economic cities in different parts of the Kingdom. These economic cities are: King Abdullah Economic City located near Rabigh on the western coast of the Kingdom with investments amounting to (SR 100 billion); Prince Abdulaziz bin Musaed Economic City in Hail; Knowledge Economic City in Madinah Monawarah, and Jizan Economic City. Each one includes an industrial area and industry-support areas. Also, it is worth mentioning that the Saudi Industrial Property Authority (Modon) plans to build twelve new industrial cities, with sites already reserved in the various cities of the Kingdom. The preparation of these sites for development in collaboration with private national and foreign sectors, is under way. Also, a specialized study is in progress to raise the ratio of SIDF loans from 50% to 75% of the total cost of each project, particularly to investors in less developed areas. The objective is to resolve the problem of limited capital in these areas. In general, the construction of the infrastructures required for the establishment of factories in less developed cities is crucial. Furthermore, the provision of a package of incentives (SIDF loans being part of such a package) to attract and encourage investors to invest in these cities is essential. The 9th Development Plan emphasized the need for development of the regions in accordance with policies that include the activation of the role of specialized lending fund administrators and financial institutions in support of small and medium projects in the provinces and regions regarded as less attractive to investment. Moreover, technical support extended to such projects, to help them meet organizational and marketing challenges, needs to be strengthened.

We anticipate that socio-economic variables will make significant changes in the manufacturing map of the Kingdom by creating conditions conducive to the reduction of migration from these areas. Other factors include the creation of larger markets; provision of qualified managers and a skilled workforce to operate and monitor the industrial projects; the construction of industrial cities capable of attracting local and foreign investment, and the resolution of the problem of limited capital in such cities.

Subject Under Scrutiny:

Study of the Construction Glass Industry in the Kingdom

Description and Uses of Construction Glass:

Glass is a transparent, solid material manufactured mainly from white sand, known as "silica," with ordinary sand, soda ash and limestone added. Glass is produced through various processes of which float is the most common one. Float glass is produced by floating continuous stream of molten glass onto a bath of molten tin. The molten glass spreads over the surface of the metal making a highly transparent glass sheet. This type of glass is called float glass (taking its name from the float process). Float glass represents about 90% of the total "flat" glass used in the world, and it is mainly used in the construction industry.

Float glass ranges in thickness from 2 to 19mm. However, 6mm thickness, mainly used in windows, is the most common thickness representing about 70% of the Kingdom's demand, followed by 12mm which is mainly used in showrooms and glass buildings.

Glass can be enhanced in appearance by coloring: internal or external. It can also be coated with reflective layer for privacy.

Glass can be used in buildings in various forms. The most important are:

- Ordinary single-layer glass,
- Tempered glass (break-resistant),
- Double-glaze glass,
- Multi-Layer security glass.

The use of the foregoing types of glass depends on the types of buildings for which they are required. Ordinary single-layer glass is used in regular commercial and residential buildings. Tempered and double-glaze glasses are used in high class residential and commercial buildings. Security glass is mainly used in banks and other institutions requiring high levels of security.

Economies of the Construction Glass Industry:

The float glass industry is a capital intensive industry. The standard production line of float glass costs about 70-200 million Euros (SR 400-1000 million) based on specifications and source. Cheaper production lines can be obtained from China, but they are of much lower quality and efficiency than the American and European lines.

As soon as the furnace is heated up, it should continue production for a period of not less than 10 years, irrespective of the market conditions of supply and demand. This continuous production requires high sales capability to achieve levels higher than the "break-even" point. Based on international performance standards, a float-glass factory cannot achieve satisfactory levels of profit unless it utilizes more than 70% of its installed capacity. On the other hand, power and raw materials are regarded as the main cost items which represent more than 60% of total production costs. For this reason, the factory should be sited near cheap sources of power and raw materials.

Float glass is a "heavyweight" product, available cheaply. In addition it is a sensitive, fragile product requiring especially careful handling and transportation. For these reasons, the ideal economic location for float glass production is one where it does not need to be transported by land for more than 600km. In addition, it should be near a seaport to facilitate export operations.

Local Production of Construction Glass:

The production facilities in the Kingdom are particularly suitable for the production of float glass. There is an abundant supply of high-quality silica sand with cheap power resources to melt and convert it to float glass. Moreover, the government offers additional facilities such as industrial infrastructure and "soft" loans.

Local production of construction glass in Saudi Arabia started in 1996. Today, there are two factories producing float glass, in addition to a third, which is expected to commence commercial production in 2011.

Table (3) : Installed Capacities and Actual Sales Volume of Local Glass Factories

Description/Year	2008	2009	2010	2011
Total No. of Factories	1	2	2	3
Installed Capacity (Tons)	200,000	316,000	375,000	550,000
Actual Production (Tons)	190,000	288,121	337,000	442,000*
Utilization rate %	95%	91%	90%	80%

*** Estimated**

Source: SIDF Database

As indicated in Table (3), the utilization rate of the three factories has been relatively high. The latter is basically due to the nature of high temperature furnaces, which have to be in continuous operation for several years, irrespective of the market conditions of supply and demand.

In addition to the three factories cited, the Ministry of Commerce and Industry has issued 12 industrial licences for float glass with a total capacity of 2.8 million tons. The utilization of these licences for the building of new glass factories depends mainly on the success of the existing three factories in the export market. In spite of the comparative advantages available in the Kingdom, such as availability of cheap power, local producers expect to face strong competition in the international market from the larger global companies which have plants in a range of countries and extensive distribution networks covering all continents.

Kingdom's Import and Export of Construction Glass:

Despite currently having two local factories producing float glass, the Kingdom continues to import large quantities of construction glass. The following table shows imports of glass over the past 4 years:

Table (4): KSA Imports of Construction Glass (Tons) During the Period 2006-2009

Description/Year	2006	2007	2008	2009
Reflective Glass	20,545	19,279	21,896	16,500
Colored Glass	37,798	42,973	34,905	36,269
Other Glass (clear)	21,658	21,327	382	298
Wire Glass	218	264	520	1,613
Total	80,219	83,843	57,703	54,680
Change (%)	-	+5%	-31%	-5%

As the table above indicates, imports of construction glass have decreased significantly over the past two years, especially clear glass due to an increase in local production. The table shows that the bulk of glass imports consisted of colored and reflective types, representing 97% of total imports in 2009. It should be borne in mind that colored and reflective glass are not manufactured locally; the local factories mainly produce clear glass for this market segment.

On the other hand the Kingdom's imports of clear glass almost disappeared, which demonstrates the strength of local factories and their full control on local market. The principal source of imported construction glass is China, which accounts for 70% of import volume due to competitive pricing. Construction glass is also imported from Thailand and the USA, both accounting for less than 10% of total volume.

Exports:

Due to the huge installed capacity of local producers of construction glass, the factories involved have to depend mainly on neighboring countries' export markets. The following table shows the Kingdom's exports of construction glass over the past 4 years.

Table (5): KSA Exports of Construction Glass (Tons) During the Period 2006-2009

Description/Year	2006	2007	2008	2009
Reflective Glass	2,593	12,105	404	3,143
Colored Glass	703	117	43	0
Other Glass (clear)	43,303	59,780	47,929	59,197
Wire Glass	15,703	84	33	0
Total	62,302	72,086	48,409	62,340
Change (%)	-	+16%	-33%	+29%

Source: Foreign Trade Statistics

As Table (5) indicates, exports of construction glass decreased sharply in 2008 due to the considerable increase in local demand that year in addition to global financial crisis, which adversely affected the export markets of the GCC and Arab countries.

Export statistics show that more than 90% of construction glass manufactured by local factories was exported to GCC and Arab countries due to their proximity to the Saudi markets and the exemption of custom duties. Exports of Saudi-made glass are expected to increase markedly over the next few years after the third factory has come on stream in 2011.

Local Demand for Construction Glass:

The following table shows the Kingdom's historical demand for construction glass:

Table (6) : Local Demand for Construction Glass (Tons) 2007-2009

Description	2007	2008	2009
Local production	190,000	190,000	288,121
Exports	72,086	48,409	62,340
Local sales	117,914	141,591	225,781
Imports	83,843	57,703	54,680
Demand	201,757	199,294	280,461
Change (%)	-	-1%	+41%

Source: Foreign Trade Statistics & SIDF Database

As clearly indicated in Table (6) above, the Kingdom's demand for construction glass increased sharply in 2009 due to a widespread construction boom. On the other hand, imports of glass did not notably decrease in spite of the increase in local production because imports consisted mainly of reflective and colored glass, not produced locally.

Demand for construction glass is expected to grow at an annual compound rate of at least 5%, powered by the improvement in oil prices; the continuous increase in government expenditure and the growing demand for housing units.

International Production of Construction Glass:

The global production of float glass in 2009 was estimated at 52 million tons, valued at about 22 billion Euro (SR 132 billion). Global demand has been growing at an annual compound rate of 4-5% over the past few years outpacing the growth of the international gross domestic product.

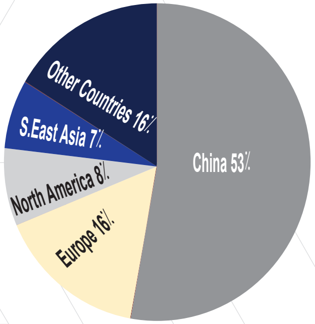
China is the biggest international glass producer capturing 50% of the market share. The European Union comes second with 22%, followed by North America (9%) while the remaining 19% is distributed among a number of other countries.

It should be noted that construction glass represents about 80% of the total global production of float glass. The remaining 20% covers other applications such as those in automotives and furniture.

Global Demand Segmentation of Float Glass:

The following pie-chart shows the distribution of world demand for float glass among the continents:

Figure (11): Distribution of World Demand for Float Glass During 2009



Source: Nippon Corporation Report - 2010

As the pie-diagram above clearly confirms, China captured half of the world demand for float glass in 2009 largely due to accelerated growth after the economic liberalization policy adopted by the country over the previous years, which gave the country the largest economy in the world. The European Continent comes second with a 16% share followed by North America with 8% and the Far East with 7%; the remaining 19% is distributed among a range of other countries.

Future Outlook:

The domestic construction glass industry is characterized by the following comparative advantages:

- Availability of raw materials,
- Low cost energy,
- Availability of public soft loans,
- Strong local demand,
- Availability of adjacent markets lacking a glass industry.

In spite of the above comparative advantages, local construction glass producers have to contend with the following problems:

- Lack of distribution networks in the export market,
- All three local factories produce only clear glass and haven't yet commenced manufacturing the reflective and colored glass,
- Some local manufacturers lack strong international partners who could help with quality control and international marketing.

On the basis of the foregoing analysis, one can conclude that the future of the domestic construction glass industry depends mainly on the ability of local producers to exploit their comparative advantages to the fullest and convert them to strategies that help to penetrate the export markets. The most important competitive advantage of local glass producers is the establishment of an efficient distribution network covering all the Arab and Islamic countries, wherein Saudi products enjoy exemption from custom duties.

Lending Activity Charts

Lending Activity Charts

Table -1 **Table Showing Number of Newly Approved SIDF Industrial Projects by Minor Sector**

Sector	1431/1432H	Cumulative Total
Consumer Products	**22**	**624**
Food	10	290
Beverages	6	55
Textiles	1	64
Leather & substitutes	-	24
Carpentry products	-	14
Wooden furniture	2	53
Paper products	3	88
Printing	-	36
Chemical Products	**15**	**562**
Chemicals	11	267
Oil & gas products	3	32
Rubber Products	-	17
Plastic Products	1	246
Building Materials	**14**	**366**
Ceramic Products	-	13
Glass Products	2	59
Other Building Material	12	294
Cement	**-**	**30**
Engineered Products	**17**	**659**
Metal Products	13	391
Machinery	1	88
Electrical Equipment	3	126
Transport Equipment	-	54
Other Manufacturing	**-**	**43**
Total	68	2284*

* Of which 454 loans were terminated.

Table - 2

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

Sector	1431/1432H	Cumulative Total
Consumer Products	**830**	**14,551**
Food	555	7,356
Beverages	163	1,581
Textiles	1	2,073
Leather & substitutes	-	133
Carpentry products	-	205
Wooden furniture	12	368
Paper products	99	2,620
Printing	-	215
Chemical Products	**3,726**	**35,147**
Chemicals	1,833	27,566
Oil & gas products	1,800	3,114
Rubber Products	-	477
Plastic Products	93	3,990
Building Materials	**674**	**9,319**
Ceramic Products	189	1,332
Glass Products	98	2,563
Other Building Material	387	5,424
Cement	**-**	**9,695**
Engineered Products	**1,358**	**17,802**
Metal Products	1,225	12,988
Machinery	11	872
Electrical Equipment	122	3,010
Transport Equipment	-	932
Other Manufacturing	**-**	**877**
Total	**6,588**	**87,391***

* Of which SR 12,197 million were terminated or reduced.

Table - 3

Table Showing Number of Newly Approved SIDF Industrial Projects by Province

Province	1431/1432H	Cumulative Total
Riyadh	22	824
Makkah	10	557
Madinah	3	88
Qassim	2	54
Eastern Province	29	647
Asir	-	32
Tabouk	-	9
Hail	-	17
Jizan	-	18
Najran	1	12
Al-Baha	-	9
Al-Jouf	1	14
Northern Frontier	-	3
Total	68	2284*

* Of which 454 loans were terminated.

Table - 4

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

Province	1431/1432H	Cumulative Total
Riyadh	964	17,919
Makkah	569	14,998
Madinah	211	8,927
Qassim	28	1,338
Eastern Province	4,469	39,515
Asir	-	606
Tabouk	-	496
Hail	-	132
Jizan	-	1,320
Najran	330	956
Al-Baha	-	28
Al-Jouf	17	207
Northern Frontier	-	949
Total	**6,588**	**87,391***

* Of which SR 12,197 million were terminated or reduced.

Saudi Industrial Development Fund

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