KINGDOM OF SAUDI ARABIA
MINISTRY OF FINANCE

Saudi Industrial Development Fund

Annual Report For the Fiscal Year
2007G (1427/1428H)

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

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Foreword by H.E. The Minister of Finance

Now that the fiscal year 1427/1428H (2007G) has ended, it gives me great pleasure to introduce the annual report of the Saudi Industrial Development Fund. During the year, the Fund was able to accomplish unprecedented achievements, clearly testifying to the ongoing substantial support given by our judicious and progressive government to the Fund and all other development bodies.

The Fund set a new all time record in the value of loans committed during the year, with approvals totaling SR 8,544 million, i.e. 36% over the commitments for the previous year. Furthermore, the amount disbursed during the year amounted to SR 4,244 million, the highest ever disbursed in any single year since inception of the Fund in 1394H (1974G). This figure is also 44% higher than the size of disbursements during the previous fiscal year 1426/1427H (2006G).

Accordingly, the number of net loans approved by the Fund, since its inception up to the fiscal year 1427/1428H (2007G), has totaled 2512 loans committed to assisting the implementation of 1667 industrial projects all over the Kingdom, with net financial commitments amounting to SR 59,449 million. Out of that total, an amount totaling SR 42,401 million was disbursed, and beneficiaries from extended loans have so far repaid SR 28,544 million.

Moreover, the Fund has played a prominent positive role in the implementation of the Small and Medium Enterprises Loan Guarantee Program in collaboration with the participating local commercial banks. In 1427/1428H, the program issued 264 guarantees totalling SR 127 million, against a bank financing of SR 272 million. Thus, the total number of guarantees issued by the Program reached 315 with a total value of SR 149 million against bank financing of SR 321 million extended to 247 enterprises.

It is worth noting here that the role of the Fund is not limited only to lending to beneficiary projects, but also evaluating their viability and rendering financial, technical, marketing, and management consultancy services to them from inception through full operation, and repayment of their full obligations to the Fund.

On this occasion, we acknowledge with gratitude the continued support of the Custodian of the Two Holy Mosques and his faithful Crown Prince to the Fund. It is due to this support that all SIDF employees can maximize their dedicated efforts and professionalism towards the attainment of the highest achievements as manifested in the Fund's outstanding accomplishments year after year.

May Allah guide our actions.

Ibrahim Bin Abdulaziz Al-Assaf
Minister of Finance

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Dr. Ahmed H. Salah
Economic Consultant,
Ministry of Economy and Planning

Ibrahim Abdullah Al-Nassar
Acting Deputy Governor for
Administration & Finance
Saudi Arabian Monetary Agency

Chairman's Statement

As the fiscal year 1427/1428H (2007G) has ended, I am pleased to introduce the Fund's Annual Report, which reflects the remarkable performance attained during the year. These achievements will augment the Fund's existing accomplishments and go a long way towards achieving its objective of developing the Kingdom's industrial sector in accordance with government policy. They will further promote investment, attract industrial technology, and create job opportunities for Saudi citizens.

During the year, the volume of lending activity increased substantially over previous year's figure. Loans approved in 1427/1428H totaled SR 8,544 million, representing an increase of 36% on the previous year's commitments. These loans approved during the year will assist in the implementation of 69 new projects and the expansion of 27 existing projects with total investments reaching SR 22,049 million.

It should also be noted that the government has entrusted to the Fund the task of running the Small & Medium Enterprises Loan Guarantee Program in collaboration with commercial banks. The program was put into action two years ago. During the fiscal year 1427/1428H (2007G), the program achieved favorable results, recording a remarkable upsurge by contrast with the previous year's performance. The program approved a total of 264 guarantees, which is over five times those approved the year before; they amounted to SR 127 million against loans committed by commercial banks to program beneficiaries totalling SR 272 million extended to 211 small and medium enterprises Kingdom-wide.

Finally, I would like to express my gratitude to the Custodian of the Two Holy Mosques and to his faithful Crown Prince for their unstinting support to the Fund. Moreover, I highly commend the dedicated efforts and outstanding performance of the Fund's management and all employees.

May Allah Guide our steps.

Yousef Bin Ibrahim Al-Bassam
Chairman of the Board of Directors

Preface

Trends and Indicators in the Global & Domestic Economies

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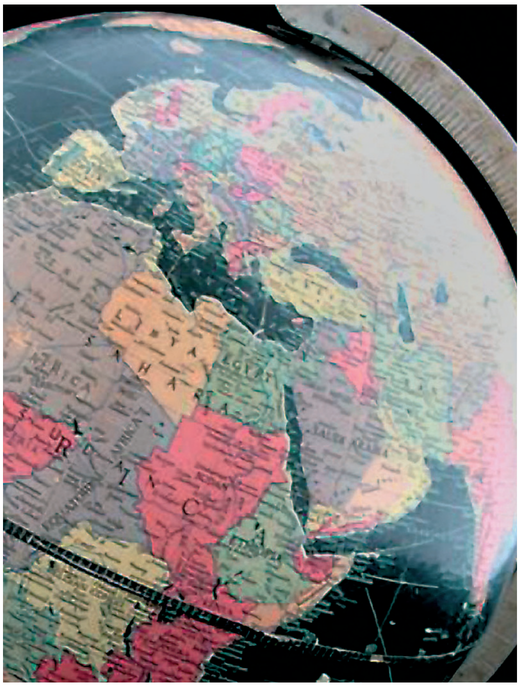
Preface: Trends and Indicators in the Global & Domestic Economies

Review of International Economy 2007G

The global economy has continued its sustained strong growth in recent years with output growth recording 5.4% in 2006. However, adversely affected by the current turbulent financial conditions, global economic growth is expected to slow down to 5.2% in 2007 and 4.8 percent in 2008.



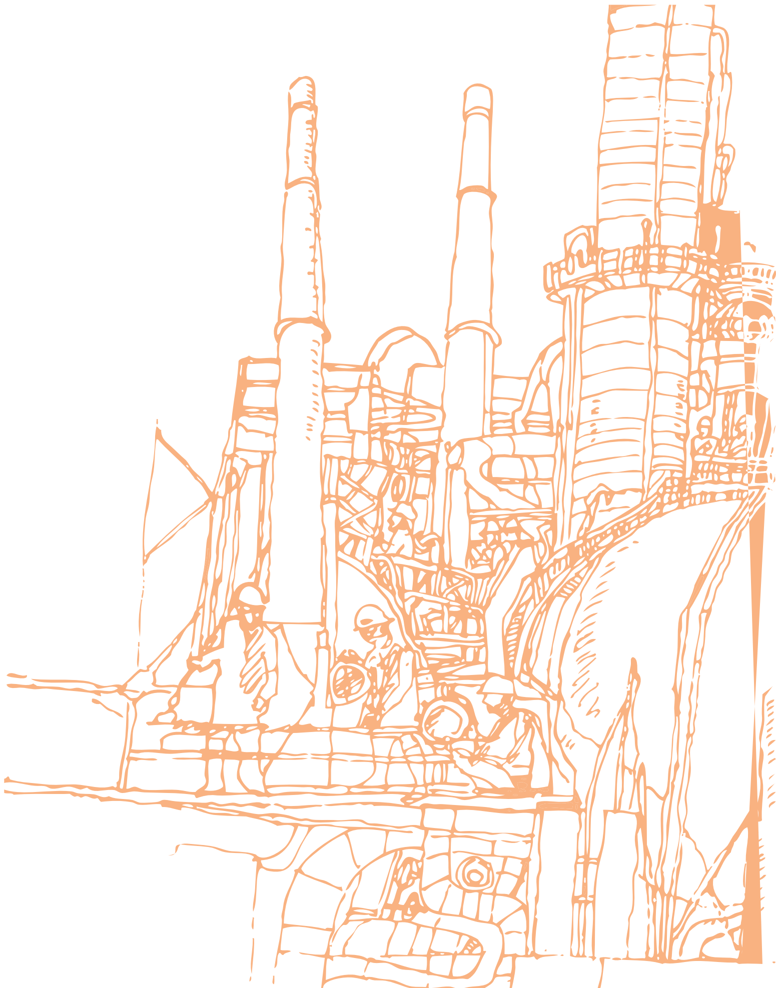
The largest reduction in growth occurred in the United States and in countries seriously affected by turbulent financial conditions resulted from the high risky mortgage market, particularly Canada, Mexico, and a number of Asian states. In the United States, growth is projected to remain at 1.9 percent in 2007, a markdown of almost 1 percentage point below the 2.9 percent rate of 2006, affected by the ongoing difficulties in the mortgage market, higher energy prices and weaker house prices. In the Euro area, growth declined to 2.5 percent in 2007, 0.3 percent point lower than in 2006, due to the impact of the excessively tight monetary policy on internal demand; lagged effects of Euro appreciation and the ongoing difficulties in the U.S mortgage market. In Japan, growth declined to 2.0 percent in 2007 and is projected to drop to 1.7 percent in 2008, due to reduced growth in investments and consumption. In the emerging markets of China, India, Russia, etc.; and in developing countries, growth is expected to remain very strong. China's economy gained momentum during the year 2007, growing at 11½ percent. India continued to grow at more than 9.0% and Russia at almost 8.0 percent. The Middle Eastern countries enjoyed another strong year, with growth rising from 5.6 percent in 2006 to 5.9 percent in 2007, supported by high oil prices and robust domestic demand.

Inflation has been contained in the advanced economies, but rising food and fuel prices have contributed to heightened pressure in many emerging markets and developing countries. In the advanced economies, inflation is expected to decline from 2.3 percent in 2006 to 2.1 percent in 2007 and further to 2.0 percent in 2008. In the emerging markets and developing countries, inflation is projected to increase from 5.1 percent in 2006 to 5.9 percent in 2007.

Concerning international trade, the volume of world trade in goods and services, after a remarkable growth rate of 9.2% registered in 2006, is expected to drop to 6.6 percent in 2007. As for commodity markets, oil, food and metal prices recorded higher levels in 2007, as a reflection of strong growth in demand and tight supplies. According to market prospects, oil prices are expected to maintain their high levels in 2008, due to limited production capacities. However, metals and food prices are expected to remain moderate over the medium term due to expected improvements in supply conditions and moderation of demand.

With regard to financial market conditions, global financial stability has undergone an important test since April 2007. Credit and market risks have risen and markets have become more volatile. Credit discipline has deteriorated sharply, notably the U.S. mortgage and leveraged loan markets, affecting other credit markets, and leading to disruption in some money markets and funding difficulties in a number of financial institutions. The resulting disruption has required an extraordinarily high volume of liquidity injections by a number of central banks to facilitate orderly functioning of these markets. The implications of this period of turbulence will be significant and far reaching. Private sector regulators will have to take all necessary measures to modify and strengthen financial systems accordingly against future adverse economic conditions. As for the monetary development, the Federal Reserve Bank has already lowered the Federal Funds rate by 0.50 percentage points (September 2007) and further reductions are expected during the coming months. Moreover, a tightening-up of monetary policy is expected in Europe and Japan. In the emerging markets, a number of central banks have also provided liquidity to relieve strains in inter-bank markets.

On the foreign exchange markets, the U.S. dollar has continued to fall against the Euro, the Japanese Yen and the Chinese currency as well as the currencies of a number of other emerging market countries.



KSA Economic Review for the Year 2007G

The Saudi economy was characterized by strong performance during the year 2007G due to sustained high oil prices and demand, coupled with continued effective structural and organizational reforms adopted by the government, contributing to ongoing positive growth. According to the government budget statement published by the Ministry of Finance, the Kingdom's GDP for 2007 is expected to grow by 7.1% at current prices to reach SR 1,414 billion. However, in terms of fixed prices, the Kingdom's GDP is likely to grow by 3.5%. Moreover, preliminary estimates indicate that public debt volume will drop to around SR 267 billion or 19% of the GDP by the end of the fiscal year 2007G.

Projections suggest that the private sector will continue to perform strongly at estimated growth rates of 7.6% at current prices and 5.9% at fixed prices. In addition, its contribution to the GDP for the current year is estimated at 46.1% at fixed prices. Furthermore, all economic activities involving the private sector continued to achieve positive growth results. The manufacturing sector, with the exception of oil refining, is estimated to grow by 8.6%; the communications, transport and storage sectors by 10.6%; electricity, gas and water by 4.4%; building and construction by 6.9%; retail and wholesale trade, restaurants and hotels by 6%, and finance, insurance and real estate services by 4%.

The year witnessed increased inflationary pressures due to higher government expenditure and private sector prosperity. The cost of living index for 2007 was 4.1% higher than in 2006G. The non-oil GDP deflator, the most important indicator for the calculation of inflation for the whole economy, is expected to grow by 1.6% in 2007 compared to the previous year's figure.

According to the preliminary estimates of SAMA, the current account for the balance of payments is expected to achieve a surplus of SR 344.4 billion in 2007G by contrast with SR 371 billion in 2006G, i.e., a decrease of 7.2%. On the other hand, the balance of trade for the year 2007 is expected to achieve a surplus of SR 555.6 billion, i.e., 1.1% higher than the previous year, due to the dramatic increase in the Kingdom's high commodity and service exports particularly non-oil commodity exports. Non-oil exports in 2007 are expected to grow by 24.9% to reach SR 106.8 billion, accounting for 12.4% of the Kingdom's total volume of exports.

Against the background of developments in the domestic and global economies, and in the context of current trends in financial and monetary developments, the Kingdom's financial and monetary policies continue to retain an adequate level of liquidity to satisfy the requirements of the national economy. The money supply, in its broad definition, increased in the fiscal year 2007G by 19.6% compared to a growth rate of 19.3% in the previous year.

With regard to the banking sector, commercial banks continued their efforts to consolidate their financial capabilities. In 2007G, their capital and reserves increased by 32.6% to SR 106 billion. In the same period, their total claims on the public and the private sector increased by 19.7% and total deposits by 21.4%. They also continued their vital role in supporting the private sector and expanding its economic activities. Total credit extended by banks to various economic activities in the private sector increased by 19.7% in 2007G.

A closer look at the details of the sub-sectors reveals that financing extended to the transportation and communication sector has increased by 205.3%; the mining sector by 116.2%; the services sector by 69%; electricity, water and other services by 63.4%; the manufacturing and production sector by 44.6%; the agriculture and fisheries sector by 27%; the building and construction sector by 14.7% and the trade sector by 14.3%.

Furthermore, in the general area of financing, the Saudi Industrial Development Fund continued to support local industry in all spheres of industrial activity. In the fiscal year 2007G, SIDF's loan approvals reached their highest level in any single year since its inception reaching a total of SR 8,544 million, 36% higher than approvals for the previous year. Moreover, the Kafalah (SME Loan Guarantee) Program run by the Fund has picked up substantially with the number of guarantees issued to small and medium enterprises during the year 2007G totaling 264 at SR 126.5 million, which compares favorably with 51 guarantees at SR 22.1 million in 2006G.

In the investment spheres, the general Saudi Stock Market index reached 11175 points compared to 7933 at the end of the year 2006G, an increase of 40.87%. A total of 23 new companies have been enlisted in the market for trading, thus increasing the number of companies registered in the market to 111 by the end of the year 2007G. A Council of Ministers' resolution was issued for the incorporation of The Saudi Capital Market Corporation (TADAWUL), and authorized the appointment of its board of directors, in order to distinguish the legislative, regulatory, and control responsibilities assumed by the Capital Market Authority from the executive responsibilities assumed by the corporation. This is a significant step towards completion of the constituents of the capital market. Moreover, the Capital Market Authority continued to draw and issue a set of regulations and guidelines to organize and develop the market. During the current fiscal year the Authority has issued "By-laws for Mergers & Acquisitions" and licensed 37 new companies, thus bringing the number of companies licensed to date to a total of 78.

In the integration of previous years' procedures and decisions aimed at the augmentation of the structure of the national economy, the regulations for government tenders and procurements were enacted, and the enforcement of regulations for time-sharing in tourist real estates was approved during the current year. Several other key regulations were approved with a view to enhancing the investment environment, principally, the Judiciary System Law and the Grievances Law together with their enactment mechanisms; Anti-information Crime Law; a law regulating transport activity for delivery of money, precious metals and documents of value, and trade-marks law for the GCC countries. Moreover, the bylaws regulating social development centers, and the establishment of the Petroleum Studies & Research Center were approved. The founding of a number of government agencies and bodies including the National Authority to Protect Integrity & Combat Corruption; the Saudi Export Development Authority, and the Public Housing Authority were also endorsed. The General Organization of Railways is currently in the process of offering the land bridge and the Makkah – Madinah line project for public tender.

The positive developments achieved by the Saudi economy in 2007G were highly regarded by all international economic circles. The Board of Directors of the International Monetary Fund praised the Kingdom's fiscal policy, and its liberal trading system. It commended the role of the Kingdom in bringing about a sustained stability in oil market through implementing a program to increase oil refinery and oil production capacity and expansion of gas processing facilities. This was further augmented by the structural reforms adopted to enable the non-oil private sector to achieve a strong large-scale growth. Standard & Poors have raised the Kingdom's credit rating from "A+" to "AA-." Their report asserted that the strong economic and financial position of the Kingdom will afford the government the flexibility that is crucial to managing national economy. As for the investment environment in the year 2008, the Kingdom was ranked 23rd among 178 states whose laws and regulations governing the investment environment were evaluated according to the World Bank.

The Saudi economy evolved and developed positively during the year 2007G. Progress towards economic reform also accelerated, contributing to the continuity of improvement of the local investment environment. This improvement further enhanced the economic position of the Kingdom as an attractive environment for foreign investment. International reports acknowledge these developments and the steadily increasing confidence of major international investors, resulting in increased direct foreign investment flows in all sectors of the economy, particularly the production sector. With the anticipated improvements to the structure of the local economy, and the expansion of the private sector, confidence in the future of the Saudi economy will certainly increase.

Performance of the Kingdom's Industrial Sector in 2007G:

The non-oil manufacturing sector in the Kingdom achieved substantial growth, approximately 8.6 % in 2007G. In addition, the relative contribution of the sector to the country's non-oil GDP had increased to 13.6 % by the end of 2007G. 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 24.9% in 2007G.

Moreover, the latest World Trade Report (2007) issued by the World Trade Organization (WTO) confirms that the Kingdom has attained a significant increase in the value of its exports. The Kingdom progressed 8 ranks in the Global Export Value index in 2006G, by moving from the 20th rank in 2004 to the 12th rank in 2006. This progress can mainly be attributed to the increase in the volume of industrial exports of the Kingdom: from $ 13.5 billion in 2004 to $ 18.3 billion in 2006, with an annual growth rate of 17.8%.

Also, data provided by the Global Petrochemical Exports Index, rank the Kingdom in the 14th place among the major petrochemicals-exporting countries in the world, with exports valued at $11.1 billion: a global market share of 1% in 2006 compared to 0.7% in the year 2000.

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 2007G is unavailable, we will, instead, refer to the data for 2006G. Figures 1, 2 and 3 show the distribution of the components of value added and Saudi labor ratio in the main Saudi manufacturing sectors.

As for the value added indicator, figure (1) below shows the distribution of the components of the Saudi manufacturing sector value added in the year 2006G, indicating that profits accounted for about 38% of the total manufacturing value added. Wages & salaries accounted for 31%, depreciation 24%, Interest rates 5% and, finally rents accounted for about 2%. 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.

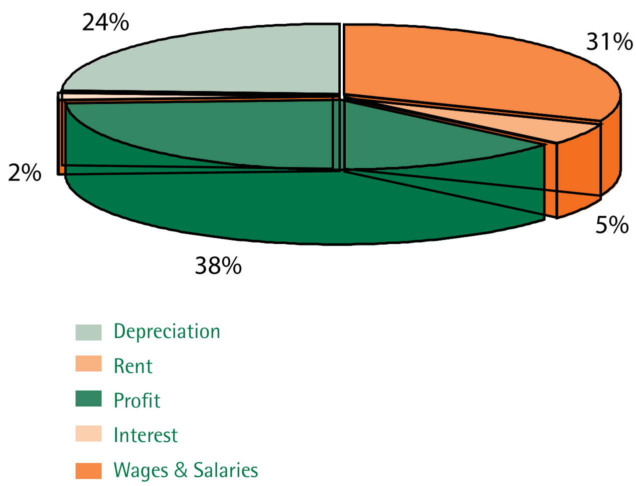


Figure (1) Components of the Saudi Manufacturing Sector Value Added (2006)
Source: SIDF Manufacturing Database (2006G)

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 above 75% of gross value added in the "Other Industries" Sector with a share of 82.3%, Metal Fabrication (81.6%), Building Materials (80.1%) and Paper & Printing (76.7%). These figures declined to 69.9% in Wooden Products, 69.1% in Food Products, 61.8% in Textiles & Clothes and to 54.8% in the Chemical Industries. The main reason for this decline is their technical nature, which is relatively more capital-intensive, with a higher share of depreciation costs compared to other industries.

As for the ratio of Saudi labor to total labor in the industrial sector, this indicator is gaining increasing importance at the national level. Figure (3) shows the Saudi labor ratio to total labor in the major industrial sectors during 2006, indicating that the Chemical Products Sector was ahead of all other sectors, with a Saudi employment ratio of 37%. Then followed Metal Fabrication and Building Material Sectors with a Saudi employment ratio of 25% and 24% respectively. Next came Food Products, Textiles & Clothes and the Paper and Printing sectors, with a Saudi labor ratio of 21%, 20% and 19% respectively. Finally, wooden products and the "other industries" sectors had a Saudi employment ratio of 17% and 16% respectively. As for the whole industrial sector, the Saudi labor ratio of 25% is considered moderate as foreign labor still accounts for the bulk of the labor force.

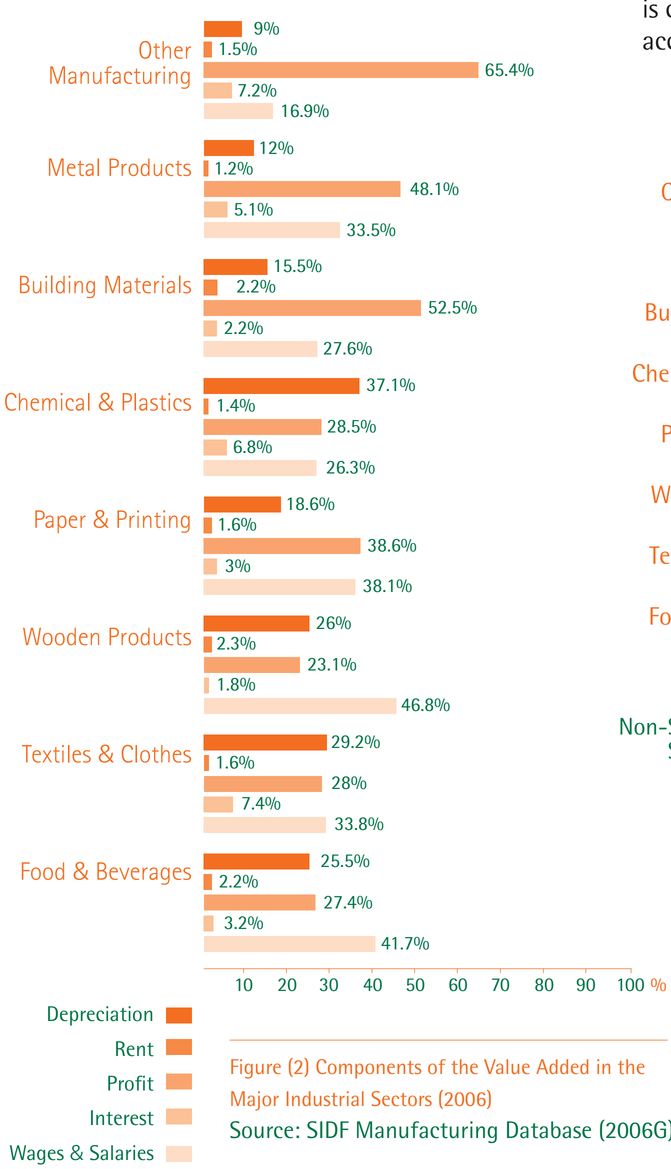


Figure (2) Components of the Value Added in the Major Industrial Sectors (2006)

Source: SIDF Manufacturing Database (2006G)

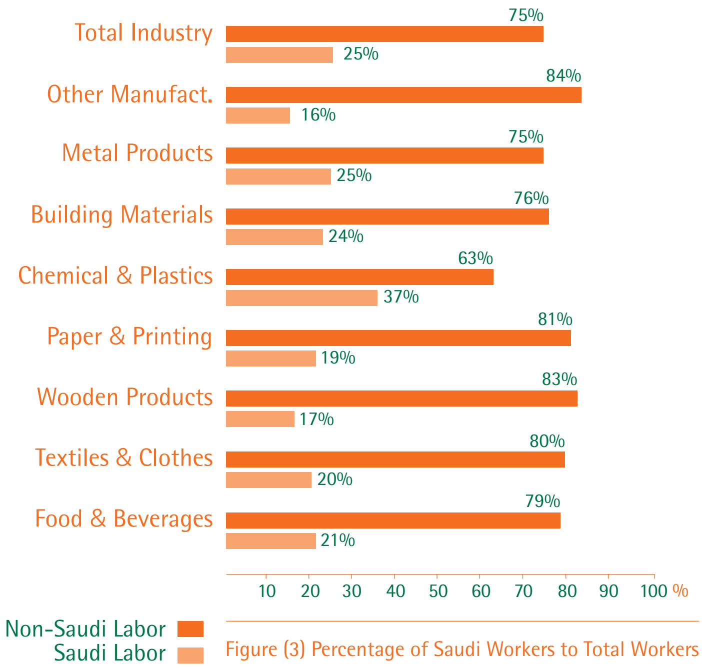


Figure (3) Percentage of Saudi Workers to Total Workers by Major Sectors (2006)

Source: SIDF Manufacturing Database (2006G)

SIDF's Lending Activity

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SIDF's Lending Activity

I. Summary of Lending Activity During 1427 / 1428H (2007G)

Following the increase of its capital to SR 20 billion, the Fund has witnessed a remarkable growth in the value of loans approved over the past two years. Loan commitments approved by SIDF during the fiscal year 1427/1428H (2007G) totaled SR 8,544 million, i.e. five times the average annual commitment since inception of the Fund to end of 1425/1426H. In terms of value, the year's approvals are approximately 36% higher than the previous year's commitments.

As for the size of disbursements in 1427/1428H, the amount soared by 44% to SR 4,244 million, which is the highest ever disbursed by the Fund in any fiscal year since its inception.

Overall, the number of industrial loans committed by the Fund since its founding up to the end of 1427 / 1428H totaled 2913* loans with a total value of SR 66,806** approved for support of 2068*** new industrial projects Kingdom-wide. Of the total amount of committed loans, a total of SR 42,401 million was disbursed and SR 28,544 million repaid as of the end of the fiscal year 1427/1428H. These figures reflect the success of borrowing projects, which benefit not only from the Fund's financial support, but also from the consultancy services it provides in the technical, management and marketing fields.

According to the report for the year 1427/1428H, the Fund approved 96 loans of which 69 loans were committed to new projects, and 27 were approved to finance expansion of projects that had formerly been granted SIDF loans. These expansions are favourable indicatory of the assistance provided by the Fund to the original projects which encouraged the latter to expand upstream and downstream and to improve and upgrade the quality of their products.

Moreover, the Small and Medium Enterprises Loan Guarantee Program run by the Fund issued 264 guarantee documents during the year amounting to SR 127 million. The amount can be appreciated more fully when set against the total financing of SR 272 million provided by commercial banks to small and medium enterprises.

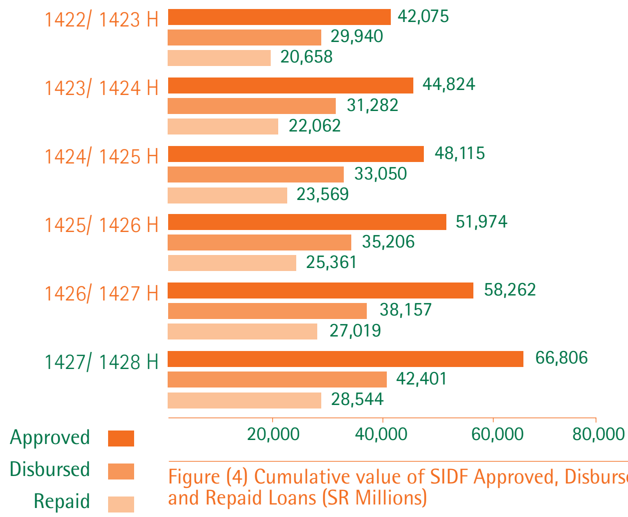


Figure (4) Cumulative value of SIDF Approved, Disbursed and Repaid Loans (SR Millions)

* Of which 401 loans were terminated.

** Of which SR 7,357 million were terminated.

*** Of which 401 projects their loans were terminated.

II. Distribution of Loans by Sector:

The information that follows has been obtained from a review of the main industrial sectors, according to the value of loans committed:

Chemical Industries

Total Amount of Loans

This sector still occupies the leading position among the various sectors by amount of loan commitments. Since SIDF's inception up to the end of the fiscal year 1427/1428H (2007G), the cumulative value of total commitments to this sector amounted to SR 25,217 million, representing 38% of total value of loans approved by the Fund during the period.

Projects Approved During the Report Year:

During the fiscal year 1427/1428H (2007G), SIDF approved 32 loans to this sector representing 33% of the total number of loans approved during the year. Total commitment to this sector amounted to approximately SR 3,673 million (43% of all loan approvals during the year). These loans supported the establishment of 20 new industrial projects and the expansion of 12 existing projects. This sector ranks first in terms of both number and value of loans approved during the report year.

Among the new loans approved to this sector, a loan amounting SR 600 million was approved for a plant in Dammam for the production of sodium carbonates and calcium chloride. Another loan of SR 600 million was approved for the construction of an ethylene aminate plant in Jubail. In addition, a loan amounting to SR 350 million was approved for the construction of a plant, also in Jubail, for the production of refined phosphoric acid, sodium triphosphate, and trisuperphosphate granules. As for expansion loans, they included a loan for the sum of SR 600 million committed to the expansion of a plant in Jubail producing methanol and formaldehyde. Two other loans were approved one of which was for SR 439 million towards the expansion of a Jubail-based plant producing industrial gases, and the other for the sum of SR 433 million for the expansion of a Yanbu-based plant producing industrial gases.

Projects which Commenced Production during the Year:

This sector ranked third in terms of the number of projects which commenced production during the year 1427/1428H (2007G) with a total of 6 projects in Dammam, Riyadh, and Jubail. These projects involve the manufacture of a variety of products including woven plastic bags, plastic ropes, plastic tiles, epoxy coating materials, and plastic nets. Of these six projects, four involve expansion to existing plants, and two are new enterprises.

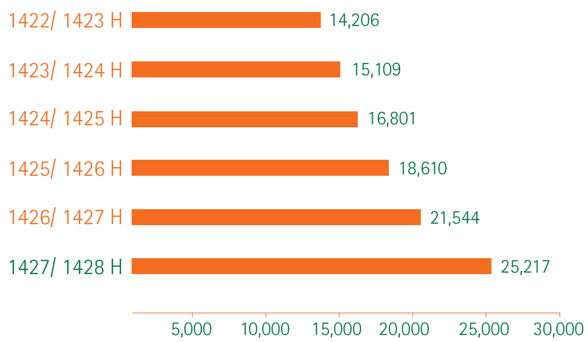


Figure (5) Cumulative Value of Approved SIDF Industrial Loans For the Chemical Industries Sector (SR Millions)

Engineering Industries

Total 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 1427/1428H (2007G). Cumulative commitments extended to this sector totaled SR 13,766 million representing 21% of total loans approved by SIDF.

Projects Approved During the Report Year:

SIDF approved 24 loans to this sector amounting to SR 1,784 million, or approximately 21% of the total value of loans approved during the fiscal year 1427/1428H (2007G). Thus, the sector came second in terms of the number and value of loans granted during the year. These loans financed the establishment of 23 new industrial projects and the expansion of one existing plant.

Among the loans committed to this sector during the year were a loan amounting to SR 600 million for the manufacture of seamless pipes in Jubail, and another for the sum of SR 550 million to construct a plant in Yanbu for the production of steel billets and reinforcement of steel bars. In addition, two loans were approved of which one was for SR 115 million committed towards the construction of a plant in the Al-Khomrah area of Jeddah for the manufacture of aluminum cans, and the other for SR 74 million to support the construction of a factory in Jeddah for the manufacture of steel structures, electricity transmission poles and towers. Moreover, the Fund committed another loan for the sum of SR 18 million for the expansion of a Jeddah-based electric cable factory.

Projects Which Commenced Production During the Report Year:

This sector ranked second in terms of the number of projects which commenced production during the year 1427/1428H (2007G), with a total of 11 projects in Riyadh, Jeddah, Dammam and Jubail. These projects involve the production of steel pipes, steel pipe/barrel galvanizing, metal cans, steel bars, pump replacement parts, telephone booths, electric distribution units and transformation switchgear, mesh flooring galvanization, and metal cathode manufacturing for corrosion proofing systems. These projects include 8 new projects as well as three which involve expansion of existing plants.

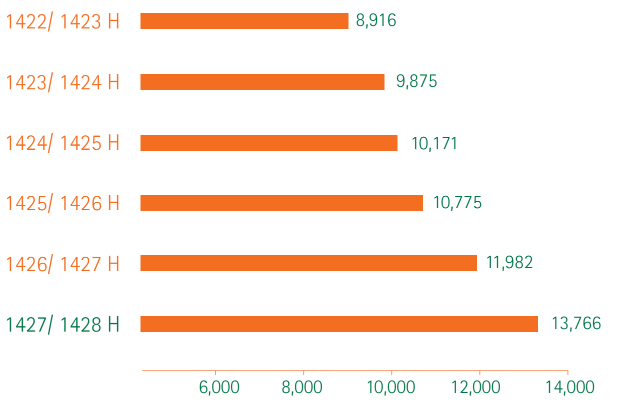
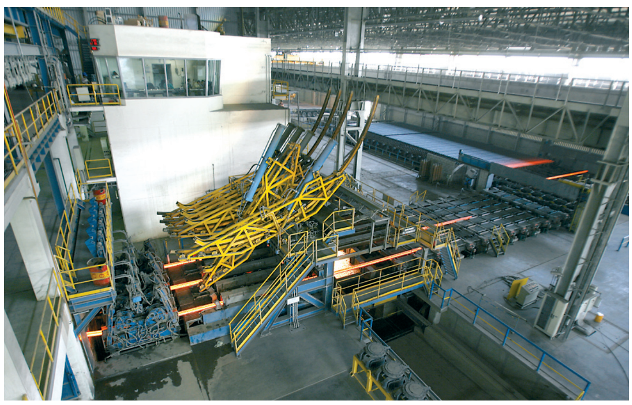


Figure (6) Cumulative value of Approved SIDF Industrial Loans For the Engineering Industries Sector (SR Millions)



Consumer Industries

Total Amount of Loans

This sector occupies third place in terms of the cumulative value of approved loans. By the end of 1427/1428H (2007G), cumulative commitments extended to this sector totaled SR 12,069 million representing 18% of total loans approved by SIDF since inception up to the end of the said period.

Projects Approved During the Report Year:

During the fiscal year 1427/1428H (2007G), SIDF approved 20 loans to this sector totaling SR 849 million representing 10% of all loans approved during the year. This allocation ranks the sector fourth in terms of value of approved loans. However, in terms of the number of approvals, the sector comes third. Loans extended to this sector assisted in the financing of 10 new industrial projects and expanding ten existing ones.

Among the new loans extended to this sector, one for SR 54 million was provided for the establishment of a plant in Riyadh for fruit juice and another for SR 34 million for the construction of a plant in Jeddah for the production of carbonated drinks.

Expansion loans included a SR 322 million loan for the expansion of a dairy plant in Kharj. Another loan for SR 105 million was extended for the expansion of a factory in Jeddah producing pies, pastries, and oriental sweets.

Projects Which Commenced Production During the Report Year:

This sector comes first in terms of the number of projects which commenced production during the year 1427/1428H (2007G), with a total of 18 projects in Riyadh, Kharj, Jeddah, Onaizah, Dammam, Al-Ahsa, and Abha. These projects include the manufacture of a variety of products including poultry meat, fruit juice, dairy products, carbonated drinks, biscuits and sweets, olive filling, fabrics and textiles, polypropylene yarns, wooden furniture, and tissue paper rolls. The list includes nine new projects and nine expansions of existing plants.

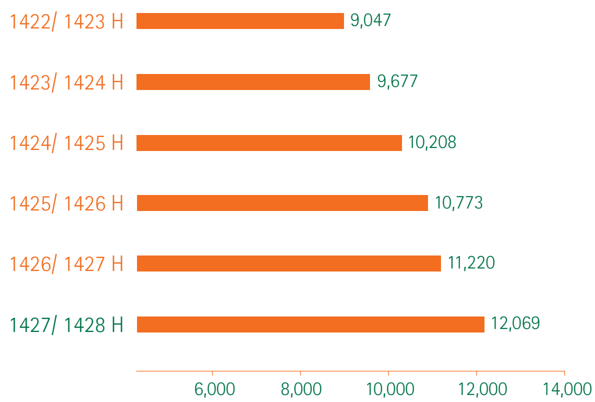


Figure (7) Cumulative value of Approved SIDF Industrial Loans For the Consumer Industries Sector (SR Millions)

Cement Industry

Total Amount of Loans

The amount of loans committed to this sector since inception of the Fund up to 1427/1428H (2007G) totaled SR 8,615 million or 13% of total loans approved, placing the sector fourth in terms of amount of loans committed.

Projects Approved During the Report Year

During the fiscal year 2007G, SIDF approved five loans to this sector totalling SR 1,621 million or 19% of the value of loans approved, placing the sector third in terms of value of loans committed during the year. Four loans were advanced to assist in the construction of new cement factories in Rabegh, Hofuf, Hazmul Jalameed (north-west of the city of Ar'ar), and Oroug Al-Mindefin area to the north-east of the city of Najran. As for the fifth loan, it has been approved for the expansion of a cement factory in Riyadh.

Projects Which Commenced Production During the Report Year

Four cement projects commenced commercial production during the year 1427/1428H (2007G) in Riyadh and Najran, of which three are new projects and one involves expansion of an existing plant.

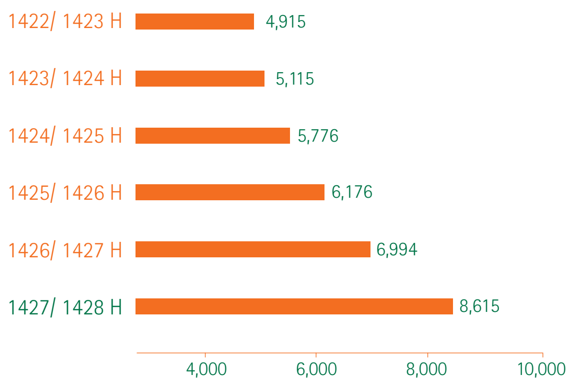


Figure (8) Cumulative value of Approved SIDF Industrial Loans For the Cement Industry Sector (SR Millions)

Other Building Materials

Total Amount of Loans

By the end of 1427/1428H (2007G), the loans SIDF committed to this sector totaled SR 6,551 million, or 10% of the cumulative loans approved to industrial projects since inception of the Fund. Thus, the sector ranked fifth in terms of the size of loans approved.

Projects Approved During the Report Year:

During the year 1427/1428H (2007G), SIDF approved 14 loans to this sector totaling SR 510 million or 6% of all loan approvals, placing the sector fifth in terms of the value of loans approved during the year. These loans were extended in support of eleven new projects and the expansion of three existing ones.

Among the new commitments to this sector during the year, a loan of SR 54 million was extended for the construction of a factory in Yanbu for the production of precast concrete components. Another loan amounting to SR 49 million was extended for the erection of a gypsum plant in Dammam. A third loan for SR 39 million was committed to the construction of a new ready mix concrete plant in Khobar. As for expansion loans, they included a SR 66 million loan approved for the expansion of a plant in Muzahimiya producing red bricks and roofing tiles.

Projects Which Commenced Production During the Report Year:

This sector ranks fourth in terms of the number of projects which commenced production during the year 1427/1428 (2007G), with a total of 4 projects in Riyadh, Jeddah, Hofuf, and Najran. These projects involve the manufacture of red bricks, ceramic tiles, ceramic sanitary ware, pozzolan powder, and reinforced fiberglass products. Of these projects, two are new and two involve expansion of existing plants.

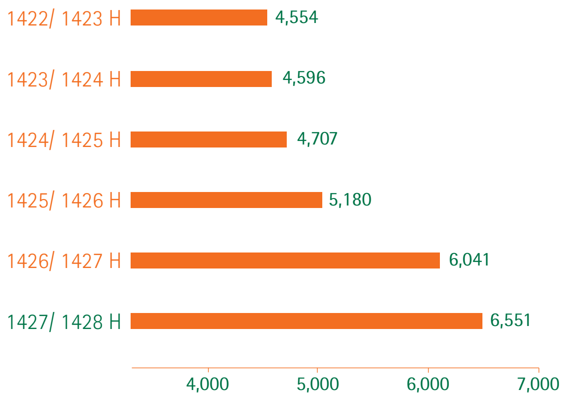


Figure (9) Cumulative value of Approved SIDF Industrial Loans For the Other Building Materials Sector (SR Millions)

III. Distribution of Loans by Region

A review of the distribution in the Kingdom of the total number and value of approved loans has revealed the following information:

Riyadh Region

Total Amount of Loans

During the period from inception of the Fund up to the end of the fiscal year 1427/1428H (2007G), the number of loans committed towards the setting up of industrial projects in the Riyadh region totaled 1080 loans granted to 764 projects, or 37% of the total loans approved. The Riyadh region occupied first position in terms of the number of approved loans. However, the Riyadh region came second in terms of the value of the loans committed. Cumulative commitments extended to the Riyadh region totaled SR 15,072 million representing approximately 23% of the value of all loans approved by SIDF.

Loans Approved During the Report Year:

During the fiscal year 1427/1428H (2007G), SIDF approved 29 loans to industrial projects in the Riyadh region representing 30% of the total number of loans approved. These loans were extended for the financing of 19 new industrial projects and the expansion of 10 existing ones. The Riyadh region ranked second in terms of the number and value of approvals, which totaled SR 1,327 million, or 16% of the total value of loans approved during the report year.

Makkah Region

Total Amount of Loans

The Fund approved a total of 770 loans to assist in the initiation of 518 industrial projects in the Makkah region. The value of these loans totaled SR 12,745 million, representing 26% of the total number and 19% of the total value of loans approved. Thus, the region came third in terms of the number and value of loans committed by the Fund since its inception up to the end of the fiscal year 1427/1428H (2007G).

Loans Approved During the Report Year:

During the fiscal year 2007, SIDF approved 18 loans amounting to SR 1,104 million for industrial projects in the Makkah region, representing about 19% of the number and 13% of the value of loans approved. Thus, Makkah region ranked third in terms of number of approvals, but fourth in terms of the value of loans approved during the year 1427/1428H (2007G).

Eastern Region

Total Amount of Loans

The Fund approved a total of 789 loans amounting to SR 27,484 million to assist in the initiation of 558 industrial projects in the Eastern region, representing 27% of the total number and 41% of the total value of loans approved. Thus, the Eastern Region ranked first in terms of the value of loans and second in terms of the number of approved loans committed by the Fund since its inception up to the end of the fiscal year 1427/1428H (2007G).

Loans Approved During the Report Year:

During the report year, SIDF approved 37 loans amounting to SR 3,896 million for industrial projects in the Eastern Region, placing the region first in terms of both the number and value of loans approved in 1427/1428H (2007G). As percentages, these figures represent 38% and 45%, respectively, of the number and value of loans approved during the year. The high percentages of the value and number of loans approved to the Eastern Region underlines the importance of Jubail Industrial City as an attractive region for high investment, particularly in the petrochemical industries sector.

Madinah Region

Total Amount of Loans

By the end of 1427/1428H (2007G), the Fund had committed a total of 98 loans amounting to SR 7,061 million towards the initiation of 73 industrial projects in the Madinah Region, representing 3% and 11% respectively in terms of number and value of the loans approved. Thus, the region ranked fourth both in terms of the number and value of loans committed by the Fund since its inception up to the end of the fiscal year 1427/1428H (2007G).

Loans Approved During the Report Year:

During the fiscal year 1427/1428H (2007G), SIDF approved 9 loans for industrial projects having a total value of 1,264 million representing 15% of the total value of approved loans, placing the Madinah Region third and fourth respectively in terms of value and number of loans approved during the year. The high percentage of the value of loans in contrast to their number, can be explained by substantial investment in the industrial projects initiated in Yanbu in the Madinah Region.

Qassim Region

Total Amount of Loans

The Fund approved 61 loans amounting to SR 1,287 million for the initiation of 50 industrial projects in the Qassim Region, representing 2% of both the total number and value of loans approved. Thus, this region came fifth in terms of the number and value of the loans approved by SIDF since inception up to the end of year 1427/1428H (2007G).

Loans Approved During the Report Year:

During the fiscal year 2007G, SIDF approved one loan of SR 35 million for the construction of a pharmaceuticals plant in the Qassim Region.

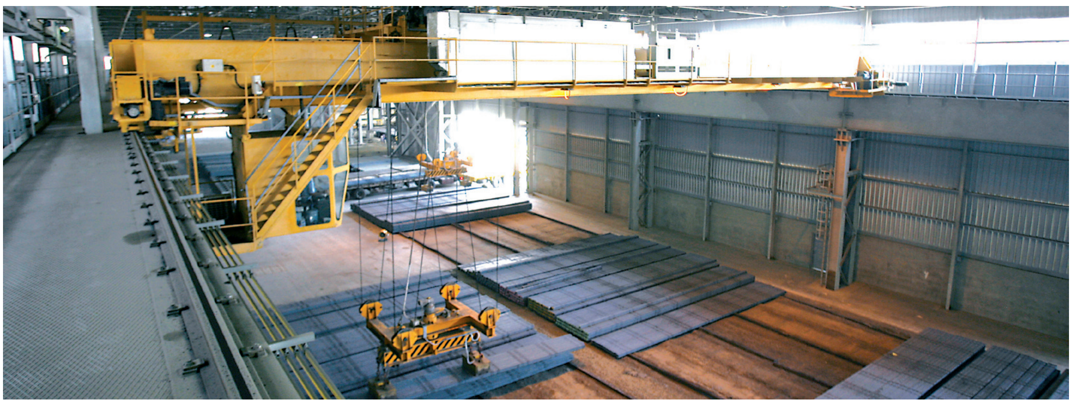
Other Regions of the Kingdom

Total Amount of Loans

By the end of 1427/1428H (2007G), SIDF had approved 115 loans amounting to SR 3,157 million for industrial projects in other regions of the Kingdom, representing 4% of the total number and 5% of the total value of loans approved by SIDF since inception. Jizan, Najran, Aseer, Al-Jawf, and the Northern Borders regions topped the list in terms of the value of approved loans while Al-Baha came in the bottom of the list.

Loans Approved During the Report Year:

During the fiscal year 1427/1428H (2007G), SIDF approved 2 loans amounting to SR 918 million towards the construction of two cement factories, one in Najran, and the other in Al-Jawf and the Northern Boarders region.



IV. Small & Medium Enterprises Loan Guarantee Program

Since its commencement at the beginning of 1426/1427H up to the end of the fiscal year 1427/1428H (2007G), the Small & Medium Enterprises Loan Guarantee Program has approved and issued 315 guarantees amounting to SR 149 million against a total financing of SR 321 million by commercial banks to 247 small and medium enterprises.

The second year of the program set the benchmark for outstanding performance when the managers of the program issued 264 guarantees, a fivefold increase on the number issued in the first year of the program. These guarantees, which amounted to SR 127 million, were issued against a total of SR 272 million loan commitments by banks to 211 small and medium enterprises. The number of guarantees issued by the program during the year 1427/1428H (2007G) was 418% higher than the number issued in 1426/1427H (2006G).

The service sector led all other sectors with 113 guarantees amounting to SR 54 million, or 36% of the number and value of total guarantees issued up to the end of the year 1427/1428H (2007G). The industrial sector came second with 109 guarantees amounting to SR 53 million, i.e., 35% of the total approved guarantees and 36% of their total value. The contracting sector ranked third with 63 guarantees valued at SR 27 million, representing 20% and 18% of the total number and value of issued guarantees respectively.

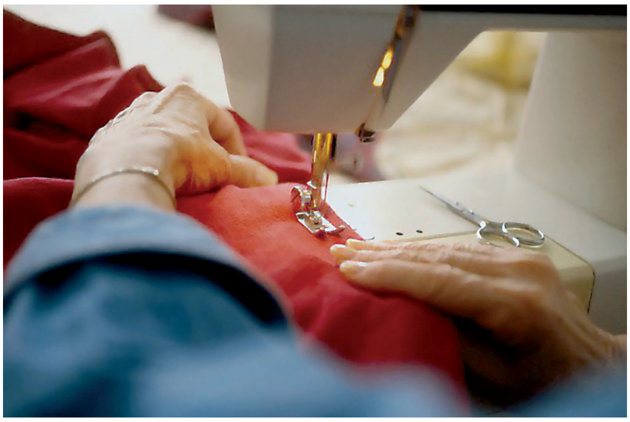
The Central Province ranked first in terms of value and number of guarantees issued by the program up to the end of the year 1427/1428H (2007G). It received 180 guarantees amounting to SR 86 million, or 57% and 58% of the total number and value of guarantees issued during the year, respectively. The Western Province came second with 72 guarantees amounting to SR 34 million, followed by the Eastern Province with 44 guarantees amounting to SR 20 million.

The National Commercial Bank headed all other banks in terms of allocation of the number and value of guarantees: 123, amounting to SR 59 million, or 39% of both the total number and value of the guarantees issued by the Program since its launch up to the end of the report year. Riyadh Bank came second with 55 guarantees amounting to SR 22 million.

It is worth mentioning that enterprises owned by businesswomen were issued 22 guarantees out of the total number of guarantees issued by the Program up to the end of the fiscal year 1427/1428H (2007G).

Financing Bank	No. of Guarantees	Value of Guarantees (SR)	Financing Value (SR)
National Commercial Bank	123	58,621,200	119,740,900
Riyadh Bank	55	22,241,801	48,884,670
SABB	47	29,472,500	58,990,000
Rajhi	42	19,562,500	49,878,000
Arab National Bank	23	7,937,500	20,300,000
SAMBA	12	4,597,500	10,270,000
Saudi French Bank	9	5,093,750	10,800,000
Jazirah Bank	4	1,125,000	2,450,000
Total	315	148,651,751	321,313,570

Table (1) Number and Value of SIDF Loan Guarantees Issued by the end of 1427 / 1428H by Financing Bank



V. Joint-Venture Financing

Direct foreign investment is considered an effective means of attracting to and implementing state-of- the-art technologies in the Kingdom; creating new job opportunities for Saudi citizens, and providing access for national products to the international markets. Therefore, SIDF has spared no effort, since its inception, in encouraging the establishment of joint venture projects in collaboration with reputable international companies, based on its firm belief that all factors which ensure the success of such projects are already in place in the Kingdom. Moreover, the Fund does not require Saudi partnership in these projects as it also finances projects that are wholly owned by foreign investors. It is noteworthy, in this context, that SIDF treats wholly foreign-owned projects on an equal footing with projects wholly or partially owned by Saudis.

The number of joint-venture projects approved by the Fund since its inception up to the end of the fiscal year 1427/1428H (2007G) reached 571 projects, or 28% of total projects approved. In terms of value, loans committed to these projects amounted to SR 24,771 million or 37% of total SIDF loans. Foreign Partners' share in these projects accounted for 31% of their capital.

It should also be noted that 100 of these projects, with commitments amounting to SR 6,201 million, have become wholly owned by Saudi investors after purchase of the share 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, taking into account its immense investment requirements, with a share of 58% of SIDF cumulative loans by the end of 2007G. It was followed by the Engineering Industries Sector, with a share of 22% and the Consumer Industries Sector with a share of 13%.

During the report year 1427/1428H (2007G), SIDF approved 20 loans for the establishment of 13 new projects and the expansion of 7 existing ones. Commitments to these projects totaled SR 2,640 million or 31% of SIDF commitments for the year. Loans for the new joint-venture projects comprise six loans to projects in the Engineering Industries Sector; five loans in the Chemical Industries Sector, and one loan each to the Building Materials and "Other Products" Sectors.

Joint-venture projects approved during the year provided 3968 jobs, representing approximately 18% of the total provided by all projects approved by SIDF during the year 1427/1428H (2007G), namely, 22420.

VI. Manpower and Training:

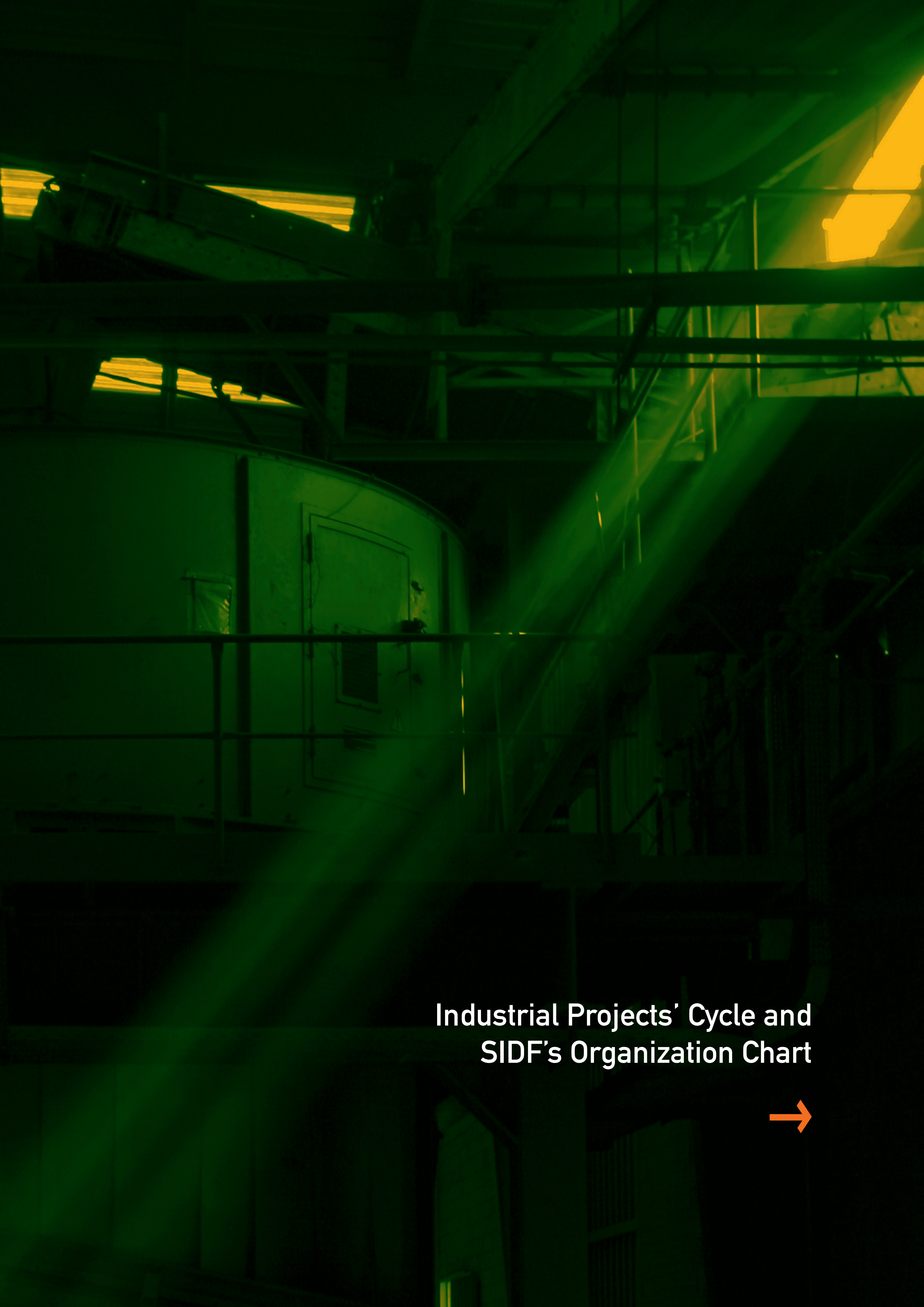
By providing a range of well-designed programs, the Fund's management was able to attract and employ qualified Saudis in various professions and specializations related to SIDF activities. The recruitment process is linked to career development and efficiency upgrading programs. These programs cover the disciplines of financial analysis, auditing, information technology, statistical and economic studies, marketing, accounting and finance, management, technical studies and consultations, information analysis, legal studies, etc.

During the fiscal year 1427/1428H (2007G), 326 training programs were implemented for Saudi employees, both domestically and abroad. These included specialized core courses and short-term courses. A total of 211 Saudi employees received training courses commensurate with work requirements and in accordance with scheduling of domestic and overseas training courses. Of this number, 48 employees joined specialized core courses, including intensive overseas English language courses while 35 university-graduate employees received on-the-job professional and practical training within the various departments of the Fund

The Fund benefits from its good relations with many similar local and international financial institutions in upgrading and developing the professional capabilities of its professional Saudi employees. This is achieved through active participation in specialized professional conferences, symposiums, and seminars in which these organizations have a role. Such participation ensures the exchange of professional know-how and scientific expertise, which, in turn, broaden the capabilities of Saudi employees while, at the same time, improving the Fund's overall performance.

Because of its progressive administrative and financial regulations, SIDF was able to implement currently approved programs for the recruitment of Saudis during the fiscal year 1427/1428H (2007G). Ninety eight (98) Saudi employees were recruited during the year in accordance with the provisions of the approved budget, to fulfill the recruitment demands of the various divisions of the Fund.

Mohammad Bin Salem Al-Dobaib
Acting Director General



Industrial Projects' Cycle and SIDF's Organization Chart

Industrial Projects' Cycle and SIDF's Organization Chart

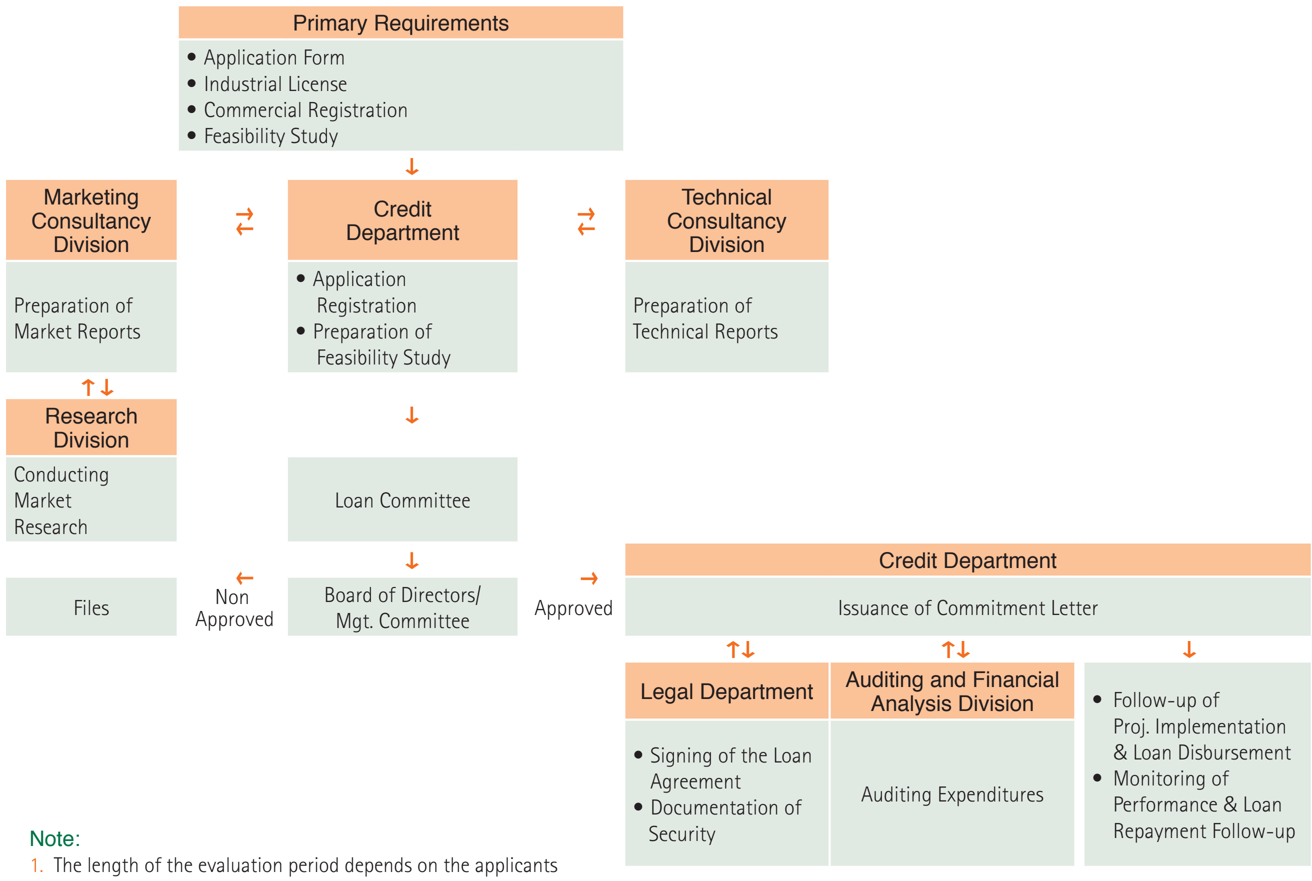
I. Industrial Projects' Cycle

The Fund's management spares no effort in extending its lending services to national and foreign industrialists with due speed and efficiency. Therefore, it is constantly developing procedures, guidelines and policies to improve the lending activities of the Fund so as to cater for such requirements and keep pace with the lending schemes of similar financial institutions worldwide.

All these efforts are embodied in the adopted project cycle which is modified from time to time in line with prevailing practices, to facilitate the adoption of the latest developments in the field of administrative organization.

The following flow chart shows the project 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.

Loan Application's Processing Flow Chart



Note:

1. The length of the evaluation period depends on the applicants cooperation and the timely submission of required information.

2. For expansion projects the foregoing stages also apply, but some are likely to be omitted.

II. SIDF's Organization Chart

SIDF's organization chart comprises a number of specialized departments compatible with the nature of the tasks entrusted to the Fund. These departments interact in order to achieve the objectives for which SIDF has been established.

The Fund also manages the Small & Medium Enterprises Loan Guarantee Program (S & ME LGP). The management of this program was assigned to SIDF with the objective of creating a new mechanism which, effectively, contributes to the promotion of the economic sector of the Kingdom.

The Fund's principal departments are as follows:

1. Credit Department

This department is responsible for running the project lending program through appraisal, follow-up, disbursement, collection, and provision of consultancy services as deemed necessary for investors in the various areas. In collaboration with the Projects' Studies & Consultancy Department, the department conducts, from time to time, studies of the performance of the various industrial sectors within the Kingdom and then formulates appropriate policies to support each individual sector.

2. Projects' Studies and Consultancy Department

This department is responsible for studying the technical and marketing aspects of the projects. It is also responsible for the conducting of economic and statistical studies relevant to the functions of the department.

3. Operations and Administration Department

This department is concerned with the commitments and in-house affairs of the Fund such as disbursement of approved loans and collection of repayments from investors. It comprises the Finance Division and the Administration Division.

4. Human Resources Department

This department is concerned with personnel, training and career development as well as the development of personnel-related policies and rules. It consists of two divisions, i.e. the Personnel Division and the Training and Career Development Division

5. Legal Department

This department is concerned with legal cases, general legal issues, follow-up of problem-loans and preparation of legal studies. It comprises four divisions, i.e., Contract Division, Cases Division, Legal Studies Division, and Follow-up Collection & Foreclosures Division.

6. Control and Financial Consulting Department

This department is concerned with the preparation of the SIDF general budget and analysis of the actual performance of the various departments during the fiscal year. It consists of the Financial Control Division, Internal Audit Division, and Consulting Services Unit.

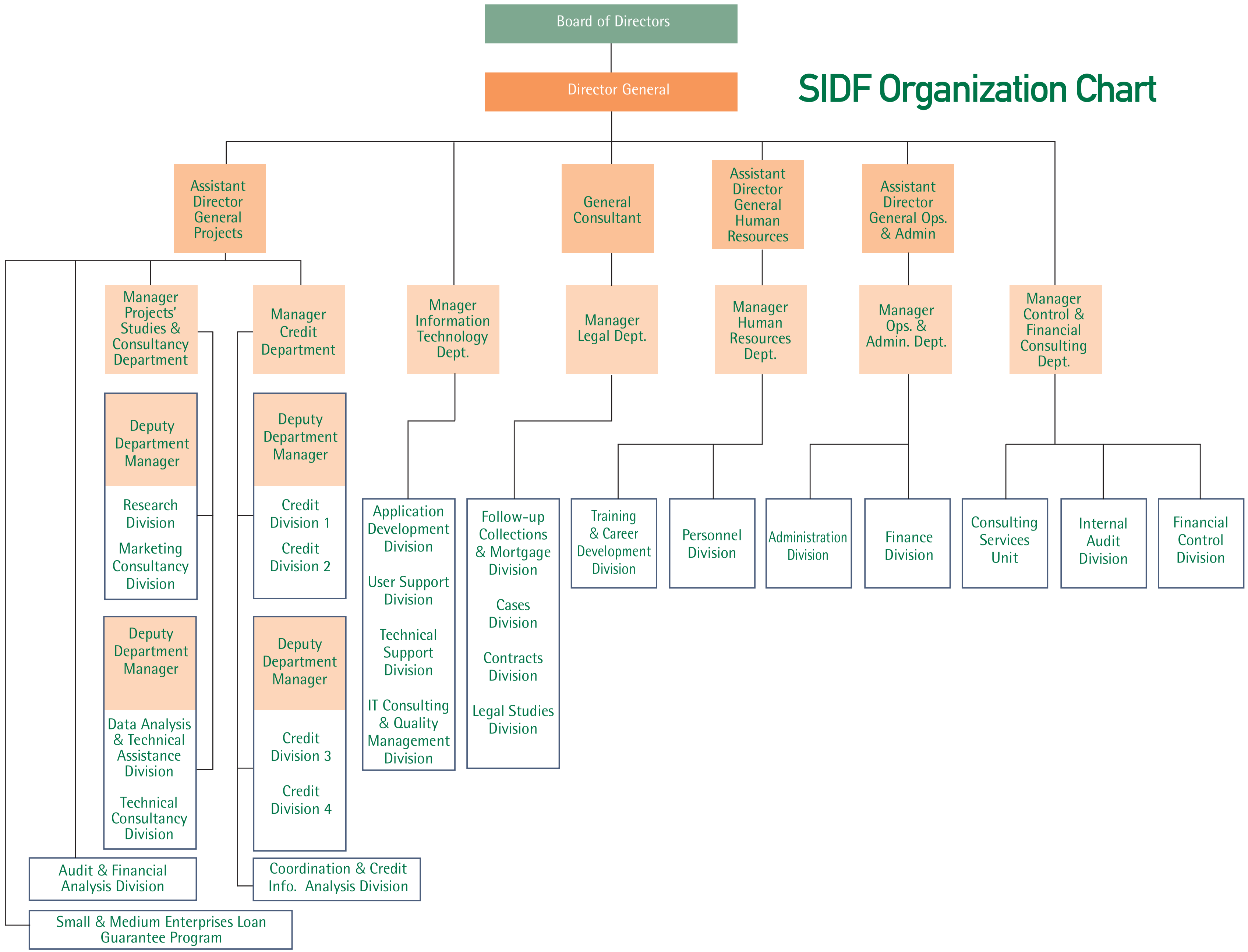
7. Information Technology Department

This department is concerned with the development, implementation and monitoring of computer programs tailored to meet the needs of the users in SIDF as well as providing consultative services. It consists of the Technical Support Division, Applications Development Division, User Support Division, and Consultancy & Quality Management Division.

Small & Medium Enterprises Loan Guarantee Program

The Ministry of Finance assigned the management of this program to the Fund with the objective of overcoming the financing difficulties encountered by small and medium enterprises. This is to be attained by mitigating the credit risk of commercial banks by the Fund's commitment to guaranteeing up to 50% of the loans extended by these banks to small and medium enterprises.

SIDF Organization Chart



III. In Focus:
Projects Studies & Consultancy Department

The main functions and responsibilities of the Projects Studies & Consultancy Department, which plays a major role in SIDF, are as follows:

- Verifying the economic feasibility of industrial projects requiring SIDF loans.
- Studying the various industrial sectors and recommending appropriate lending policies for them in support of the overall performance of the local industrial sector.
- Providing consultative services in the technical, administrative and marketing fields to borrower investors during the terms of their loans.
- Conducting economic, statistical and marketing research studies pertinent to the industrial sector in the Kingdom.

The department fulfills its role by delegating relevant tasks to the "divisions" responsible. The main "divisions" which make up the department are as follows:

Marketing Consultancy Division:

This division studies and analyses marketing information to assist SIDF management in the process of making appropriate lending decisions. It also helps projects' sponsors to develop good marketing strategies for their products and to strengthen their position in local and international markets. Among the major tasks of the Division are the following:

- Evaluating the marketing aspects of projects submitted to the Fund and making recommendations pertaining to their viability.

- Conducting marketing studies of certain industrial sectors, from time to time, in order to determine the viability of continuing the financing of these sectors.

- Providing marketing consultative services to the projects financed by SIDF, particularly those encountering marketing obstacles and making recommendations to overcome such obstacles.

- Studying investment opportunities available to the industrial sector with the objective of identifying possible benefits for local manufacturers of competitive products.

- Studying export markets accessible to the Kingdom and assisting projects' sponsors in formulating exporting strategies.

- Promoting Saudization in the various marketing fields.

Technical Consultancy Division:

This division is responsible for evaluating industrial projects from the technical point of view. This includes estimating the capital & operational costs required for the manufacturing process as well as evaluating the technologies intended to be used in production and their appropriateness in terms of quality and production capacity. The responsibilities of the Division also include evaluating construction plans for production, storage and processing activities and calculating the total area of plant required. The Division is also responsible for reviewing and evaluating the contracts for the supply of machinery and equipment; transfer of technology, and technical assistance. Moreover, the Division is responsible for monitoring and providing consultative services relating to all the technical features in order to minimize production costs and increase productivity as well as recruiting skilled labor to implement and operate the project properly. The Division moreover, assumes responsibility for the technical follow-up of the project's phases of implementation and insures the compliance of investors with technical aspects.

Furthermore, the Division evaluates any change in the project's scope and/or elements. In addition, the Division makes proposals and recommendations to resolve managerial and operational difficulties facing industrial projects.

Data Analysis and Technical Assistance Division:

This Division aims at maximum utilization of industrial information and cumulative knowledge of the divisions of the Projects' Studies and Consultancy Department using information technology solutions. This Division also provides technical assistance to the Technical Consultancy Division specifically in the context of evaluation of the industrial projects. This is accomplished through the Industrial Construction and Industrial Safety Units. The main tasks of the Data Analysis and Technical Assistance Division are as follows:

- Evaluation of the industrial safety aspects in the proposed projects and provision of technical expertise for protection of individuals, buildings and constructions and raw materials against fire as well as total protection of the environment in the Kingdom as a whole.
- Evaluation of the civil works of the new and existing industrial projects. In addition, it provides expertise pertaining to the industrial projects' implementation and management as well as assessment of the cost of building and civil works' during and after implementation.
- Using the information technology developed for industrial know how in studying and analyzing work flow and procedures as well as developing information technology conceptions for enhancing productivity and issuing reports and studies.

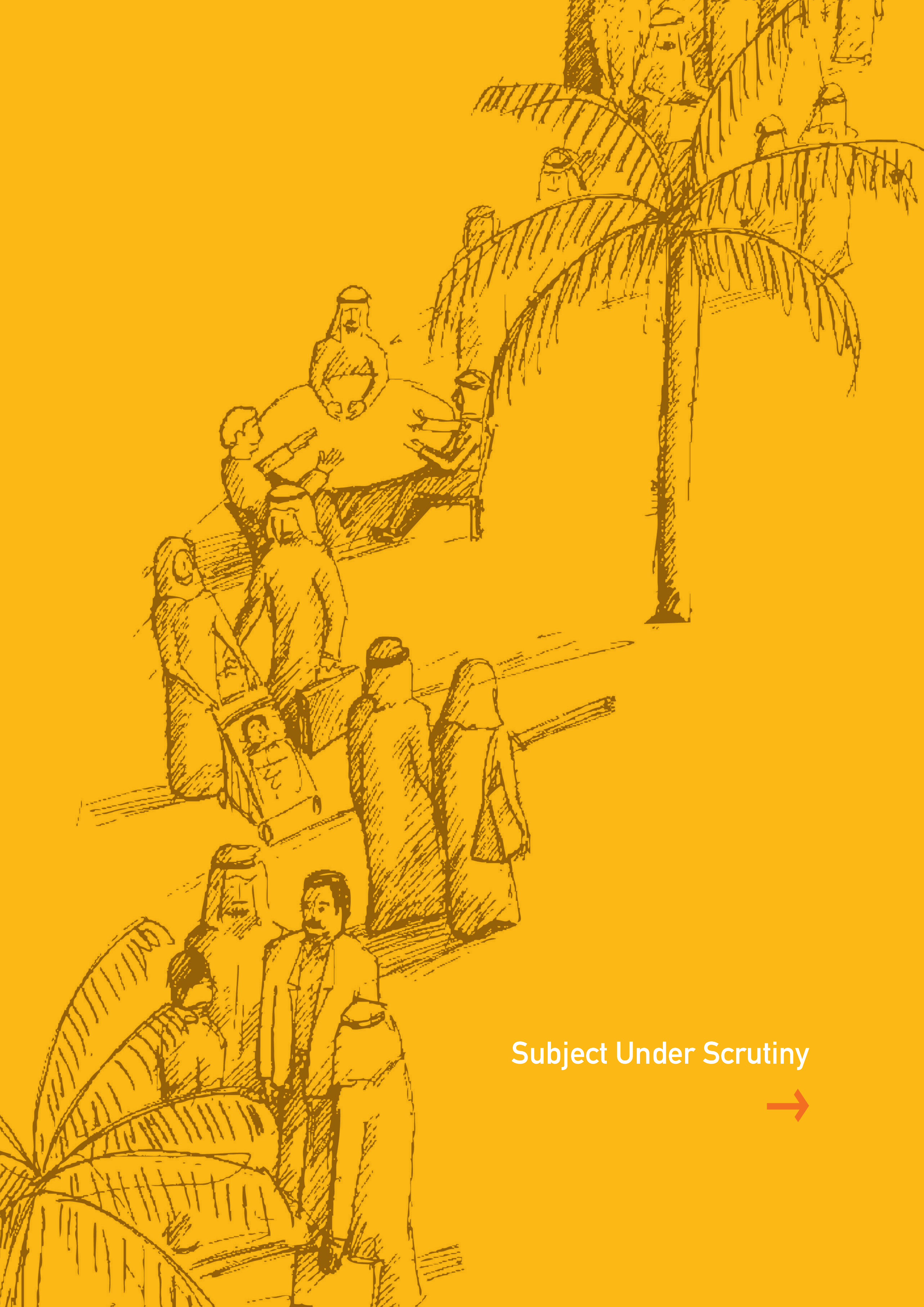
Research Division:

This Division fulfills its role by delegating relevant tasks to the following "units":

- Marketing Research Unit
- Economic Studies Unit and the Library
- Statistical Studies Unit

The main task of the Division is to support SIDF's administration and top management by providing information and consultation in the economic, statistical and marketing fields. This is achieved by means of the following operations:

- Collection and analysis of economic, statistical and marketing research data and issuing of relevant reports and studies.
- Conducting field surveys to determine the general performance of the local industrial sector and calculate its indicators, then comparing these indicators with the data on the projects financed by the Fund.
- Developing data bases in the Division and collecting and updating the necessary information.
- Preparing responses to inquiries to the Fund from external parties in economic, statistical and other fields within the scope of the Division's brief.
- Establishing good relations with the public institutions involved in the activities of the Division with the objective of exchanging and analyzing information in accordance with SIDF requirements.
- Continuing the development and upgrading of the SIDF Library, which is an information and documentation center with the objective of meeting SIDF needs and requirements.



Subject Under Scrutiny

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Subject Under Scrutiny

Security and Its Impact on National Economy

Up to the closing decades of the 20th century, security was not the priority it is today. Hence, the international economy witnessed its optimum growth rate during the nineties. However, at the beginning of the 21st century, security and its influence on development had become a crucial issue. The events of September 11, 2001 and the subsequent repercussions (political turmoil, social upheaval and war) in various regions of the world have had serious implications for international economic growth rates as well as those in specific countries and regions, for example, the USA, the European Union and a number of East and South East Asian countries.

After a decade of turmoil and even acts of terrorism in many countries besides outbreaks of war in several regions, security and stability became a top priority for development experts. An examination of the correlation between security and development provides irrefutable evidence that growth decelerates as political and social instability increase. Countries lacking a security infrastructure suffer the greatest development retardation. Capital takes flight from these countries; foreign investment dries up, invariably, there is a serious "brain drain" as qualified people emigrate.

In the light of the Kingdoms' efforts to increase development substantially and its ambition to become one of the top ten countries, worldwide, in attracting investments, we review here the security factor and its impact on development, specifically in the context of the Saudi Arabian experience.

Impact of Security on Development and Investment Inflows

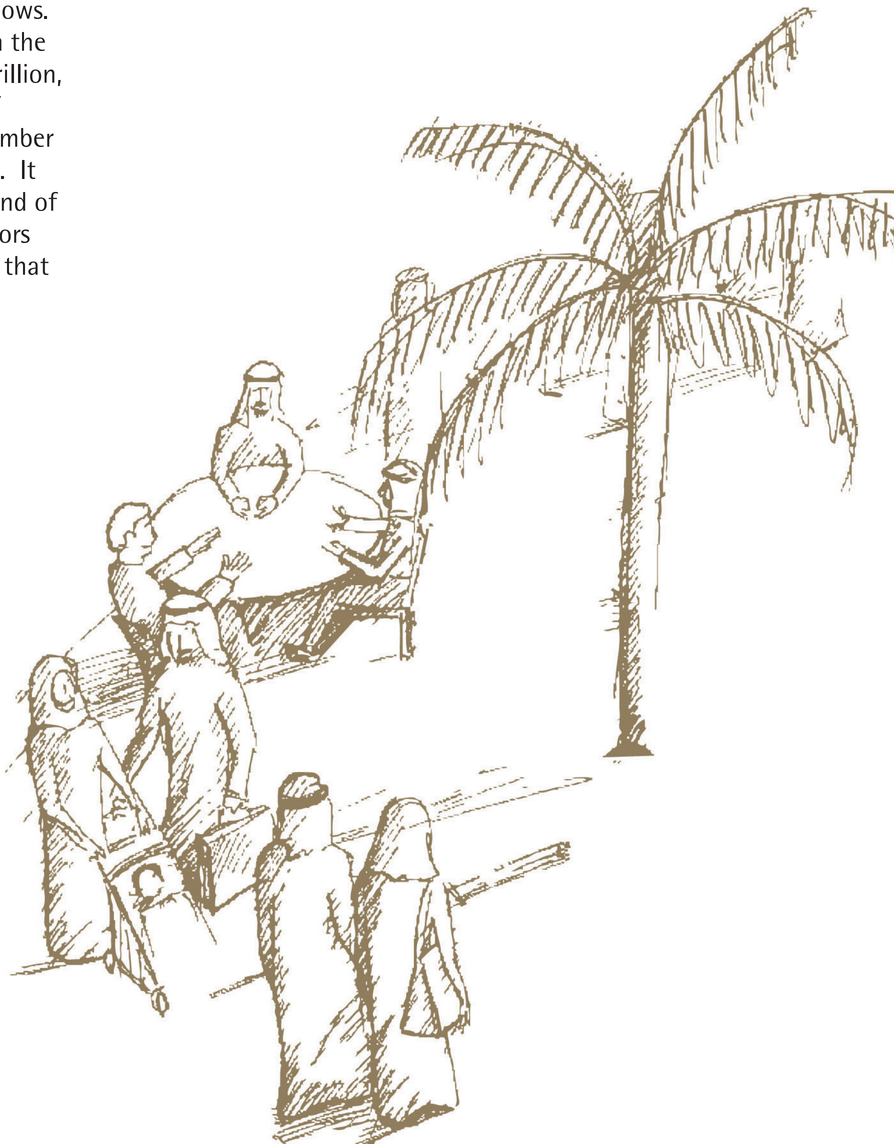
In terms of international economic growth, world output maintained, as indicated in Table (2), accelerated growth up to the year 2000G. However, 2001G to 2003G (the period during which the events of 9/11 occurred, followed by war in Iraq and Afghanistan), international growth slowed down to its lowest level. However, by the end of 2004G it began to pick up again, clearly illustrating the correlation between global security and development. The performance of national economies was a stark indicator of the consequences if national security was threatened. After the GDP real growth rate had reached, in developed countries, about 3.9% in 2000G, it subsided to 1.2%, 1.5% & 1.9% in the years 2001G, 2002G and 2003G respectively. By the end of 2004G, the indicator started to increase again recording a growth rate of 3.2%. As for the emerging economies in Asia (enjoying the highest growth rates worldwide), the latter declined from 7.9% in 2000G to 1.1%, 5.3% & 3.2% in 2001G, 2002G & 2003G respectively.

2000	2001	2002	2003	2004	2005	2006
World Output Growth						
4.1	1.5	1.8	2.7	3.9	3.4	3.8
Developed Countries GDP Growth*						
3.9	1.2	1.5	1.9	3.2	2.6	2.9
ME & N. Africa Countries GDP Growth						
5.3	3.0	4.1	6.4	5.5	5.7	5.6
Emerging Economies GDP Growth						
7.9	1.1	5.3	3.2	5.9	4.5	5.3
Foreign Direct Investment Inflows Growth						
29.1	-40.8	-21.0	-9.7	27.4	28.9	38.0

* Includes USA, Japan, and EU Countries.
Table (2) World Economic Indicators
During 2000G – 2006G (%)
Source IMF & UNCTAD, Databases: Different years,

As for Foreign Direct Investment (FDI), it is obvious that there is a direct correlation between security conditions and FDI inflows. After the massive surge of FDI inflows in the year 2000G, which had recorded $ 1.3 trillion, it declined by 40.8% towards the end of 2001G as a result of the events of September 11th. It declined again by 21% in 2002G. It declined further, by 9.7%, towards the end of 2003G. However, the FDI inflows indicators then started to pick up during the years that followed. Indicators went up to 27.4% in 2004G and 28.9% in 2005G. The value of the FDI flows totaled $ 916 billion in 2006G, an increase of 38%. Finally, the World Investment Report for the year 2007G indicates that FDI inflows accounted for $ 1,306 billion, a massive surge approaching the pre-9/11 events.

As for the Middle East region, it is blessed with a number of advantages lacking in most of the other regions of the world. These can be summarized as: an abundance of natural resources; favourable geographical location (the "crossroads" of three continents); human resources; diversity of climate, etc. Surprisingly, these advantages did not prevent the region from being lowest in terms of economic growth and FDI inflows and highest in terms of unemployment particularly in the "youth" sector, and illiteracy rates.



The contradiction between the region's potential and its stalled development can be explained by the fact that, for more than fifty years, most countries in the region tended to direct their public expenditure mainly towards armaments, fighting terrorism and engaging in a succession of wars. According to international reports, the Arab countries have spent approximately $ 50 billion on arms purchases annually since the early nineties. Over the same period, the rest of the world directed their resources towards investment in development. If this enormous sum had been directed towards investments in development, the development indicators would have changed for the better in many Arab countries. Moreover, most investors have tended to regard the entire region as a war zone.

In 2000G, whereas world FDI inflows stood at $ 1.3 trillion, the Middle Eastern region's share accounted for only $ 7 billion. Another important consideration is that in the two years following the events of 9/11, the region's share suffered a substantial decline: below $ 5 billion. However, it begun to pick up after the end of war on Iraq.

We can conclude from the above that security begets stability, which is obviously the optimum environment for development. During the years of upheaval following the events of 9/11 and the subsequent wars, global economic indicators slumped, again illustrating the correlation between security and development. This correlation applies to all parts of the world, including the Middle East which recorded the lowest FDI inflows. However, after the security situation improved over the last two years, development rates and FDI inflows also began to improve.

It is obvious that changes in the development indicators can be attributed to a number of factors; however, the security factor is pivotal in terms of its influence on indicators of development.

Security and Development In the Kingdom of Saudi Arabia

No society in the world is immune from crime. However, the incidence of crime clearly differs from one society to another. The spread of crime creates an environment of insecurity and instability which retards all development. Therefore, bearing in mind the Kingdom's policy of sustained growth, it is imperative to assess the actual security situation in the Kingdom and its impact on the developmental process. To carry out this assessment, the current security situation must be reviewed taking into account local and international indicators as well as the Kingdom's specific indicators of development.

A- Current Security Situation in the Kingdom As Per Local & International Indicators:

The security situation in the Middle East has been negatively correlated with the development indicators of the countries in the region. The Kingdom, as part of the region identified as a "war zone", is no exception. A growing climate of instability forced the Kingdom to allocate considerable resources towards military expenditure in an effort to fight terrorism instead of to support development. However, both internal security indicators, as evidenced by local statistics (Statistical Book of the Ministry of Interior) and international indicators (UN Statistics – Drugs & Crime Office), strongly suggest that the security situation in the Kingdom is satisfactory, which means development can make progress obtainable. On the basis of the Statistical Book of the Ministry of Interior, as indicated in Figure (10), there was throughout the Kingdom, during the past six years, a noticeable decline in crime rates. In 1421H, the crime growth rate recorded was 19%, which gradually declined to -1% by the end of 1426H. These indicators highlight the contrast between the Kingdom and the majority of other countries where crime rates are increasing alarmingly.

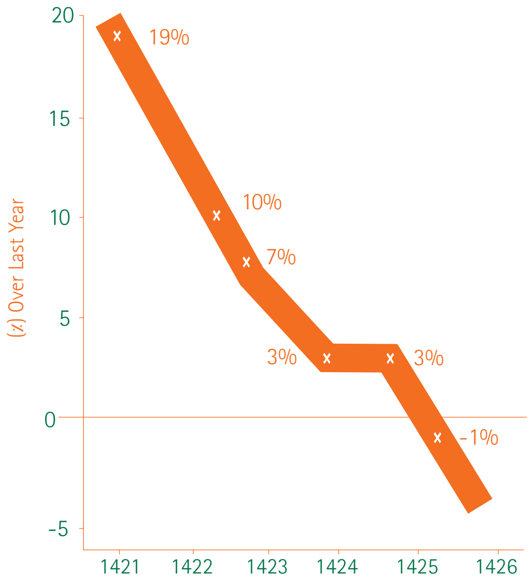


Figure (10) Crime Growth Rates from 1421 – 1426H
Source: Statistical Book of the Ministry of Interior, No 32, 1426H.

Table (3) shows the distribution of crimes by type in 1426H. It can be observed that crimes involving money constitute the majority (45%) of crimes committed in 1426H. Such crimes, in particular, have a direct impact on development and investment because investors need to feel secure in the knowledge that their investments are safe.

Type of Crime	Nos. of Crimes	Percentage (%)	Distribution by Nationality (%)	
			Saudis	Non-Saudi Residents
Trespass on Money	39609	45	55	45
Assaults	15492	17	82	18
Miscellaneous	12682	14	53	47
Immorality	11783	13	45	55
Inebriation	9043	10	69	31
Total	88609	100	61	39

Table (3) Distribution of Crimes Committed in 1426H By Type & Nationality of Perpetrator (%)
Source: Statistical Book of the Ministry of Interior, No. 32, 1426H.

Non-Saudi residents represent 27% of the total population of the Kingdom according to the 1426H census. However, expatriate crime represents 39% of the total committed in the Kingdom. Furthermore, this figure is increasing annually. For instance, expatriate crime in 1423H represented 37% of the total; it then increased to 39% in 1426H, indicating that crimes committed by non-Saudi residents are, on the increase at a time when crime rates generally are falling throughout the Kingdom. These indicators have significant implications for non-Saudi manpower recruitment. Obviously, a close correlation between these two parameters: crime and the non-Saudi labor force will, in turn, have serious repercussions for the Kingdom's economic development.

It can be observed that non-Saudi residents have a significant share in the crimes of trespass on money and immorality. Regarding trespass on money, their share amounted to 45%, immorality 55% and miscellaneous crimes 47%. This increase demands study and reversal so that the development process may not be impeded. Comparative studies, e.g., with foreigner's crime rates in the U.S.A., Japan and Britain show that crime rates are much lower than those of nationals. This situation may be explained by these countries' strictly selective immigration policies.

As for crime indicators in the Kingdom, it is evident that they are compatible with international indicators. According to UN Statistics, the Kingdom is regarded as one of the countries with the lowest crime rates in the world. This finding sends out a clear message to the world that the Kingdom provides a safe and secure environment for investors and those concerned with development. For example, in the case of murder, the Kingdom ranked 61st out of 62 countries; in the case of fraud and swindling, the Kingdom occupied the 61st position out of a total of 61 countries; in the case of theft, the Kingdom ranked 61st out of a total of 62 countries. In general, the Kingdom ranked 58th, worldwide, in terms of crime generally, out of 62 countries included in the UN Statistics for the year 2004G.

As for terrorism, during the past decade, the Kingdom was subjected to more than 25 terrorist attacks, with 144 casualties involving citizens, security personnel and non-Saudi residents. However, the authorities have spared no effort in fighting terrorists. More than 800 terrorists of various nationalities have been arrested.

The undoubted success of this anti-terrorism campaign has resulted in a vastly improved security situation which, in turn, reflects positively on development indicators in the Kingdom.

B- The Kingdom's Development Indicators Under the Current Security Situation

The Kingdom's development indicators have undergone remarkable improvement throughout the past six years (2001-2006G). These indicators reflect the overall improvement of security in the Kingdom. As mentioned above, the Kingdom, according to indicators provided by the Ministry of Interior and those of the UN, is classified as a country with one of the world's lowest crime rates. Moreover, the rate of crime overall in the Kingdom is falling: a very favourable situation with a positive impact on business environment. The GDP has enjoyed impressive growth in recent years which can be attributed, primarily, to ever-increasing oil prices. How the GDP is linked with the security situation is a complex process, but there is another significant indicator which helps to illustrate the connection: the FDI inflows indicator. The latter has increased considerably in the Kingdom in recent years, a clear demonstration of the correlation between a sound security infrastructure and increased investment.

The Saudi General Investment Authority has declared that FDI inflows to the Kingdom have increased remarkably over the past three years. This is a manifestation of the Kingdom's competitiveness. Most foreign investors focus on the energy sector and its derivatives. As indicated in Figure (11), the Kingdom's FDI inflows amounted to $ 12,097 million in 2005G compared to $ 1,942 million in 2004G. In 2006G, these inflows jumped to $ 18,293 million; local investment had reached SR 125 billion by the end of the year recording a growth rate of 9%. In view of these optimistic indicators, the General Investment Authority has drawn up an ambitious plan called "10x10". The objective of the plan is to place the Kingdom, by the end of 2010G, among the ten most FDI attractive economies in the world. The SAGIA would never have made such projections and drawn up such optimistic plans if it hadn't certain that the investment environment and security situation were favourable.

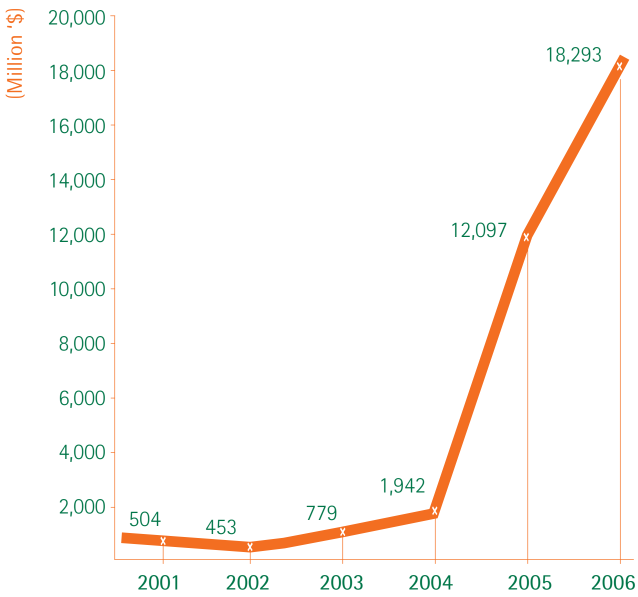


Figure 11: Size of FDI Inflows to the Kingdom
Source: General Investment Authority: FDI Survey.

Conclusion And Recommendations

In view of the increasing importance of security globally and its close correlation with development, we reviewed, first, the security situation and its impact on development. We did so by analyzing a number of comparative studies. The direct link between security and development was immediately apparent. An extreme instance was provided by the events of 9/11 and its aftermath with serious repercussions for indicators of national and international development. Having then analyzed the situation in the Kingdom, we discovered a substantial improvement in the security situation here which is in line with the development indicators referred to. In fact, the evidence clearly points to a falling crime rates in Saudi Arabia despite the country having a high rate of population growth. Therefore, on the bases of these analyses, we make the following proposals:

- The authorities, and particularly those branches of government directly concerned with development, should continue to publicize extensively the importance of political and social stability in terms of the implications for the development of the Kingdom. The entire ranges of the media should be fully exploited to this objective; moreover, appropriate education strategies must also be fully utilized at all levels.

- Statistics show that foreigners residing in the Kingdom constitute about 27% of the total population. However, expatriate crime accounts for 39% of the overall total crimes committed; 45% of the total crimes of trespass on money and 55% of total "immorality" crimes. The expatriate crime rate, moreover, appears to be increasing annually, e.g., from 37% in 1423H to 39% in 1426H.

- The current Saudi government foreign manpower policy poses major challenges at economic, developmental and security levels. Therefore, it is essential to develop a new national strategy in this regard. This strategy should take into consideration all the lessons learned from past experience and comparative studies. Hopefully, under the new policy, foreign residents' contribution to development would be positive and crime rates would be reduced.

- It can be observed that crimes of trespass on money – which have very serious implications for the economy and development – represent a sizable share (45%) of the total crimes committed in the Kingdom. Hence, to ensure continuity of the development process, the reasons for the escalation of such crimes need be identified and new measures taken to eliminate such crimes so that investors and businessmen generally will feel secure in the Kingdom's political, social and economic environment.

Lending Activity Charts

Table 1

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

Sector	1427/1428H	Cumulative Total
Consumer Products:	10	576
Food	6	263
Beverages	1	45
Textiles	1	63
Leather & Substitutes	-	24
Carpentry Products	-	14
Wooden Furniture	-	50
Paper Products	2	81
Printing	-	36
Chemical Products:	20	511
Chemicals	10	238
Oil & Gas Products	1	25
Rubber Products	-	14
Plastic Products	9	234
Building Materials:	11	315
Ceramic Products	1	10
Glass Products	2	54
Other Building Materials	8	251
Cement	4	28
Engineered Products:	23	600
Metal Products	14	354
Machinery	1	84
Electrical Equipment	8	109
Transport Equipment	-	53
Other Manufacturing	1	38
Total	69	2068 *

* Of which 401 loans were terminated

Table 2

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

Sector	1427/1428H	Cumulative Total
Consumer Products:	849	12,069
Food	746	5,837
Beverages	34	1,138
Textiles	2	2,040
Leather & Substitutes	-	133
Carpentry Products	-	205
Wooden Furniture	-	341
Paper Products	67	2,160
Printing	-	215
Chemical Products:	3,673	25,217
Chemicals	3,371	20,314
Oil & Gas Products	24	1,238
Rubber Products	-	217
Plastic Products	278	3,448
Building Materials:	510	6,551
Ceramic Products	152	893
Glass Products	18	1,920
Other Building Materials	340	3,738
Cement	1,621	8,615
Engineered Products:	1,784	13,766
Metal Products	1,547	10,272
Machinery	5	803
Electrical Equipment	232	1,770
Transport Equipment	-	921
Other Manufacturing	107	588
Total	8,544	66,806 *

* Of which SR 7,357 Million were terminated

Table - 3

Table Showing Number of Newly Approved SIDF Industrial Projects by Province

Province	During 1427/1428	Cumulative Total
Riyadh	19	764
Makkah	10	518
Madinah	8	73
Qassim	1	50
Eastern Province	29	558
Asir	-	30
Tabouk	-	8
Hail	-	16
Jizan	-	17
Najran	1	11
Al-Baha	-	9
Al-Jouf & Northern Frontier	1	14
Total	69	2068 *

* Of which 401 loans were terminated

Table - 4

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

Province	During 1427/1428	Cumulative Total
Riyadh	1,327	15,072
Makkah	1,104	12,745
Madinah	1,264	7,061
Qassim	35	1,287
Eastern Province	3,896	27,484
Asir	-	597
Tabouk	-	490
Hail	-	46
Jizan	-	720
Najran	455	626
Al-Baha	-	28
Al-Jouf & Northern Frontier	463	650
Total	8,544	66,806 *

* Of which SR 7,357 Million were terminated

Saudi Industrial Development Fund

www.sidf.gov.sa