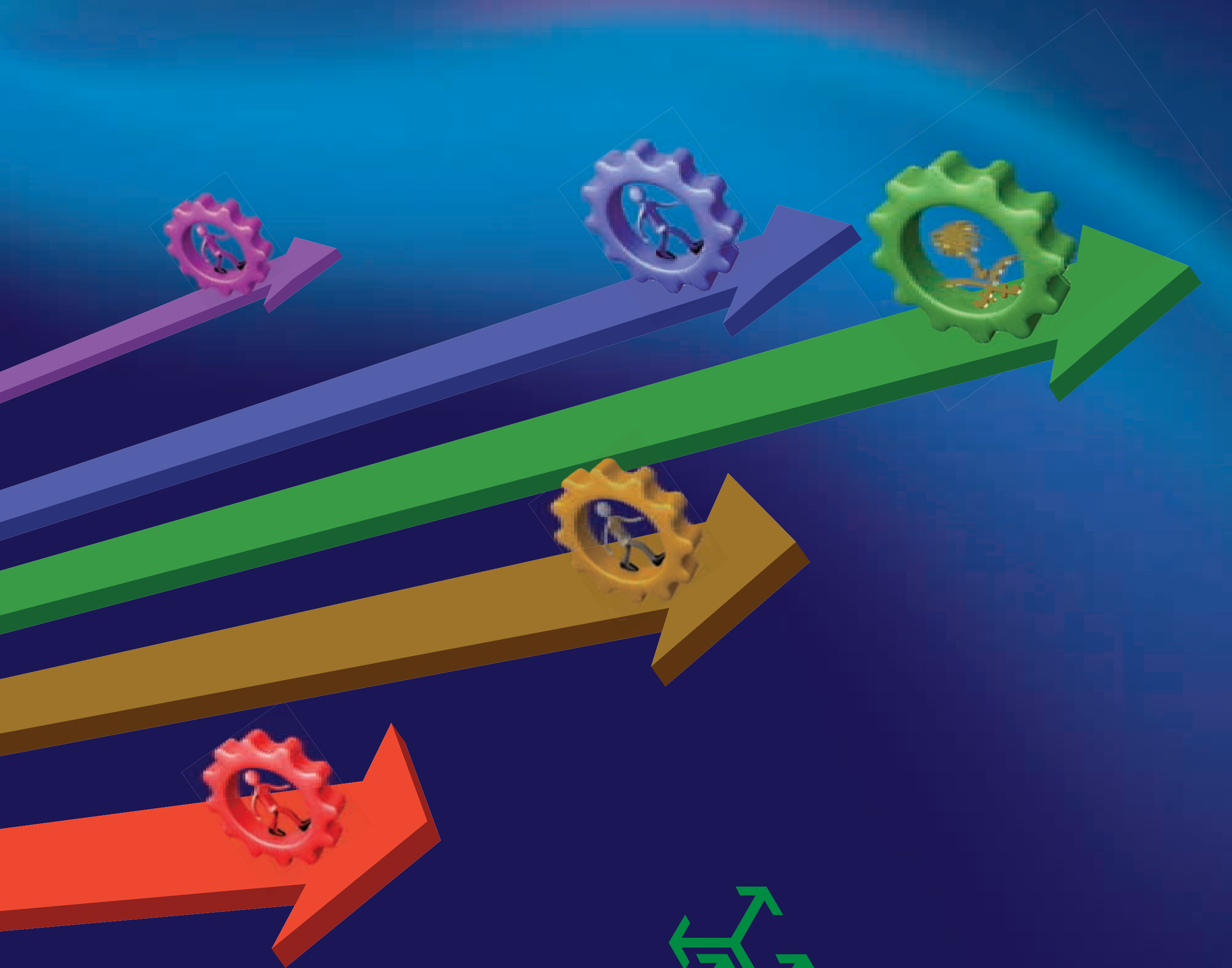
Kingdom of Saudi Arabia

Ministry of Finance



Saudi Industrial Development Fund

Annual Report for the Fiscal Year
1428 / 1429H (2008G)

IN THE NAME OF ALLLAH

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

Contents

Foreword by H.E. the Minister of Finance

It gives me great pleasure to introduce the annual report of the Saudi Industrial Development Fund for the fiscal year 1428/1429H (2008G). During the year, the Fund was able to accomplish several outstanding achievements, as detailed in the report.

As usual, the Fund continued to set all time records of performance in the value of loans committed. The value of such loans has soared by 3.1% over the commitments for the previous year 1427/1428H (2007G). Furthermore, the amounts disbursed during the year 1428/1429H (2008G) were 19% higher than the disbursements during the previous fiscal year, while repayments to the Fund by borrowers rose by 14% over repaid amounts during the same year.

Since its inception up to the end of the fiscal year 1428/1429H (2008G), the Fund has approved a net of 2605 loans to implemented and underway projects, which assisted in the construction of 1725 industrial projects Kingdom-wide, with total cost reaching SR 260,128 million and net financial commitments amounting to SR 67,994 million. Out of that total, an amount totaling SR 47,458 million was disbursed, and beneficiaries from extended loans have so far repaid SR 30,283 million.

On the other hand, the Small and Medium Enterprises Loan Guarantee Program continued its influential role; likewise the number of guarantees issued by the Program since its inception in 1426/1427H reached (607) Guarantees with a total value of SR268 million, against bank financing of SR 608 million extended to (457) enterprises.

Despite the obstacles experienced currently by the international economy, the accomplishment of these achievements, year after year, is testimony to and translates into figures the solidarity of the Saudi economy. It further reflects the sound approach adopted by the Saudi government in diversifying the sources of national income and providing ample work opportunities for all citizens.

Finally, I take this occasion to express my high appreciation and gratitude to the Custodian of the Two Holy Mosques, and his faithful Crown Prince for their continued support to the Fund and other development funds. I would also like to thank the Fund's Board of Directors, executive management, and all employees for their dedicated efforts and professionalism towards the attainment of the highest achievements as manifested in the Fund's outstanding accomplishments annually.

May Allah guide our actions!

Ibrahim Bin Abdulaziz Al-Assaf
Minister of Finance

Board of Directors

H.E. Eng. Yousef bin Ibrahim Al-Bassam
Vice Chairman and Managing Director, SFD
and Chairman of the Board, SIDF

Eng. Abdullah M. Al-Aboodi
Director General Directorate
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Dr. Khalid M. Al-Sulaiman
Deputy Minister for Industry

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

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

Chairman's Statement

As the fiscal year 1428/1429H (2008G) has ended, I am pleased to introduce the Fund's Annual Report, which reflects the remarkable performance level attained during the year.

The Fund continued its creditable track record of first-rate performance over the year. By volume, loans approved during the year totaled SR8,811 million, representing an increase of 3.1% over the previous fiscal year's figure. The size of loan commitments for the year was the highest ever achieved by the Fund in any single fiscal year since its inception. As for disbursements to borrowers, the total amounted to SR5,057 million, i.e., 19% higher than the previous year's figure, and the highest ever disbursed in one year since incorporation of the Fund in 1394H (1974G). On another level, repayments by borrowers to the Fund aggregated to SR1,739 million, recording an increase of 14% over 1427/1428H (2007G) repayments.

During the year, the Fund approved 107 loans to industrial projects all over the Kingdom, including 72 loans committed to assist in the erection of new industrial projects. The remaining 35 loans were approved for assisting in the expansion of existing industrial projects that have already benefited from SIDF loans, and built on their success history to qualify for additional utilization of the Fund's services. Total investments of the projects the Fund approved financing during the report year reached SR 60,234 Million.

During the fiscal year 1428/1429H (2008G), the Small & Medium Enterprises Loan Guarantee Program, whose running was entrusted to the Fund three years ago, approved 292 guarantee documents with a total value of SR118 million against finance provided by commercial banks to program beneficiaries totaling SR 279 million.

Finally, I would like to extend my regards and appreciation to the Fund's management and employees and urge them to spare no effort in attaining further creditable achievements under the generous patronage of the Custodian of the Two Holy Mosques and his faithful Crown Prince. May Allah preserve them!

May Allah guide our steps!

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

Preface:

Trends and Indicators in the Domestic Economy

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KSA Economic Review for the Year 2008G

The Saudi economy witnessed one of its best years of growth and realized strong performance in 2008G, due to continued positive developments in the oil market, coupled with the continuity of successful economic policies and serious structural and organizational reforms adopted by the government. According to the government budget statement published by the Ministry of Finance, the Kingdom's GDP for 2008 is expected to reach SR 1,753 billion representing a positive growth rate of 22% in current prices and 4.2% in constant prices. Moreover, preliminary estimates indicate that the public debt volume will drop to around SR 237 billion (or 13.5% of the GDP) by the end of the fiscal year 2008G.

As for the private sector, it continued to perform strongly at an estimated growth rate of 8% at current prices and 4.3% at constant prices. Additionally, its contribution to the GDP for the current year is estimated at 46% at constant prices. Furthermore, all economic activities comprising the private sector are expected to achieve positive growth rates. The Communications, Transport and Storage sector is estimated to grow by 11.4%; Electricity, Gas and Water by 6.3%; the Manufacturing sector, other than Oil Refining, by 5.4%; Retail and Wholesale Trade, Restaurants and Hotels by 4.2%; Building and Construction by 4.1%, and Finance, Insurance and Real Estate Services by 2.2%.

With regard to inflation, the year 2008G witnessed increased inflationary pressures due to the expansion in government expenditure and the private sector activities, on the one hand, and higher global commodity prices, on the other. Estimates of the cost of living index show an increase of 9.2% in 2008 compared to that of 2007G. The non-oil GDP deflator, a key indicator for calculating inflation for the whole economy, is expected to increase by 3.6% in 2008 in contrast to the previous year's figure.

The current account for the balance of payments, according to the preliminary estimates of SAMA, is expected to achieve a surplus of SR 564.8 billion in 2008G against SR 354.3 billion in 2007G, i.e., an increase of 59.4%. In the same context, the balance of trade for the year 2008 is expected to achieve a surplus of SR 820.2 billion, i.e., 45.8% higher than the previous year. This higher growth in the balance of trade is attributed to the dramatic increase in the value of the Kingdom's commodity and service exports, which are expected to reach SR1,226 billion, or 31.2% higher than the last year's figure. Non-oil exports in 2008 are expected to achieve a growth rate of 10% to reach SR 115 billion, accounting for 10.2% of the value of the Kingdom's total commodities exports.

Concerning financial and monetary developments, particularly in the light of developments in local and global economies; the Kingdom's financial and monetary polices continued to retain an adequate level of liquidity to satisfy the requirements of the national economy. The money supply, in its broad definition, grew in the first ten months of the fiscal year 2008G by 14% by contrast with a growth rate of 13.5% in the same period of the previous year.

With regard to the banking sector, commercial banks continued their efforts to consolidate their financial capabilities. As in the first ten months of the fiscal year 2008G, their capital and reserves increased by 21.9% to SR 129 billion. Over the same period, their total claims on the public and private sectors increased by 30% and total deposits by 14.2% to reach SR 819 billion. 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 24.3% up to the third quarter of the year 2008G. A closer look at the details of the sub-sectors reveals that financing extended to the transportation and communication sector has increased by 82.5%; electricity, water and other services by 69%; manufacturing and production by 38%; trade by 33%; services by 24.4%; building and construction by 23.5%; agriculture and fisheries by 19.4%, and mining by 10%.

Likewise, the Saudi Industrial Development Fund continued to support local industry in all spheres of industrial activity. In the fiscal year 2008G, SIDF's loan approvals reached their highest level in any single year since its inception reaching a total of

SR8,811 million, representing an increase of 3% over the previous year. Moreover, the Small & Medium Enterprises Loan Guarantee Program (Kafalah) run by the Fund, has picked up substantially, with the number of guarantees issued during the year 2008G totaling 292 and amounting to SR118 million to guarantee SR279 million financing extended by local banks to 210 small and medium enterprises.

Furthermore, the general Saudi Stock Market index reached 4,803 points by the end of the year 2008G by contrast with 11,175 points at the end of the previous year. A total of 13 new companies have been enlisted in the market, bringing the number of companies registered in the market to 127. Moreover, the Capital Market Authority continued to draw up and issue a set of regulations and guidelines to organize and develop the market. During the current year, the Capital Market Authority has issued "By-laws for Anti-money Laundering & Anti-terrorism Funding" and amended the By-laws for Placement of Securities. Moreover, it licensed 30 new companies to be engaged in multifaceted securities trading business, bringing the number of companies licensed since the issue of the By-laws for Licensees in mid 2005G to date to a total of 106 entities.

In furtherance of the movement towards structural and organizational reforms targeting the augmentation of the structure of the national economy, the government approved the establishment of a number of new public organizations, and endorsed some new regulations and corporations. These included the Public Commission for Railroads; the General Survey Commission; the by-laws of the Consumer Protection Association; the Health Endowment Fund; Cooperative Associations law; the Regulations for the General Commission for Tourism and Antiquities, and the Law of Combating Commercial Fraud. Moreover, long and short term arrangements have been endorsed. These include rules & arrangements for ensuring the availability of food supplies, and keeping prices in the local markets under control; rules and procedures for coping with the delays in implementation of government projects; the General Training Plan for the Technical and Vocational Training Corporation; the National Strategy of Health & Environment, including the incorporation of the Public sector Performance Center, and the National Water Company.

In addition, the International Monetary Fund (IMF) confirmed the solidarity of the Saudi economy in 2008G, and highly regarded the financial policy of the Kingdom, its liberal business system, and its leading role in stabilizing the oil market by implementing an investment program to increase its oil production & refinery capacity together with the expansion of its gas processing facilities. Also, the IMF commended the structural reforms adopted to enable the non-oil private sector to achieve a strong large-scale growth. Another important indicator that reflects the strength of the Saudi economy is FETCH's raising of the Kingdom's credit rating performance from "A+" to "AA-". According to the FETCH report, the strength of the Kingdom's credit can be mainly attributed to its substantially high local and foreign assets and low public debt. These results are in line with Standard & Poors rating of the Kingdom for the previous year and stands as evidence of the favourable economic position of the Kingdom as an investment-attracting environment characterized by ease of obtaining low-cost financing by companies. In the same context, the World Bank in its 2009 "Ease of Doing Business" report ranked the Kingdom 16th among 181 World countries, advancing from 23rd position in 2008.

In general, all international indicators and reports indicate that the Kingdom's strong economic and financial environment has contributed, and will continue to contribute to the enhancement of the Kingdom's economic ability to achieve positive results. Moreover, the Kingdom's approach in economic reform will also contribute positively to the augmentation of the economic image of the Kingdom as a foreign investment-attracting environment. The steady growth of the foreign direct investment inflow in all sectors of the economy, particularly the production sectors, provides ample evidence of this development and reflects the extent of international investor confidence in the future of the Saudi economy.

The Kingdom's Industrial Sector's Performance (2008)

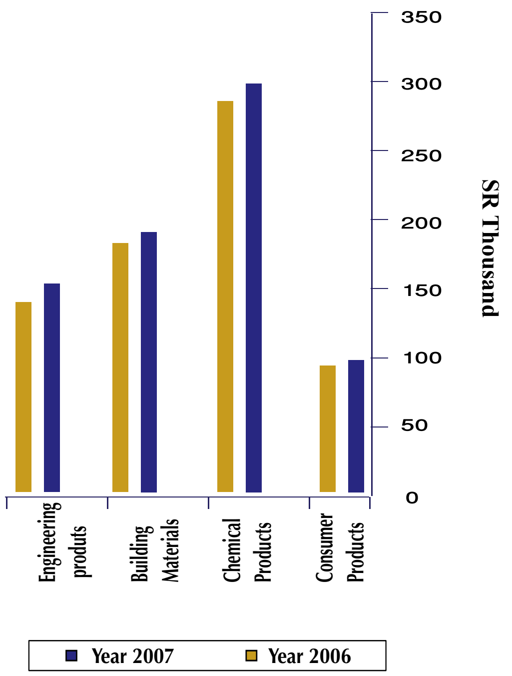
The manufacturing sector in the Kingdom experienced impressive real growth of approximately 5.4 % throughout the year 2008G. In addition, the industrial sector has contributed to a great extent towards the growth of non-oil goods exports to international markets: non-oil goods exports in 2008G are expected to reach SR 115 billions, an increase of 10% over 2007. This increase was mainly achieved by the remarkable success of the oil-based manufacturing sector, i.e., petrochemicals and fertilizers industries, in international markets.

In the context of the brief overview above of the industrial sector, we can identify and analyze some of the performance indicators of the sector. As data for the year 2008 has not yet become available, we will depend on the available data for the period 2006-2007G. Performance indicators for this period show continued good growth for most of the industrial branches in the Kingdom. Figures 1, 2 and 3 show performance features and trends by major manufacturing sectors for the period 2006-2007.

As for the industrial productivity indicator, figure 1 shows averages of value added per worker in the main industrial sectors for the years 2006-2007. In general, it can be observed that the Chemical Products sector ranks first in terms of average value added per worker. The Engineering Products sector is next, followed by the Building Materials sector. Lastly, the Consumer Products sector has the lowest average value added per worker. With regard to performance trends for the average value added during 2006-2007, figure 1 shows increasing trends in the main industrial sectors. In the Engineering Products and Consumer Products sectors, average value added per worker in 2007 increased by 10.5% and 5.7% respectively. In the Chemical Products & Building Material sectors, the increase was less: only 3.1% in 2007.

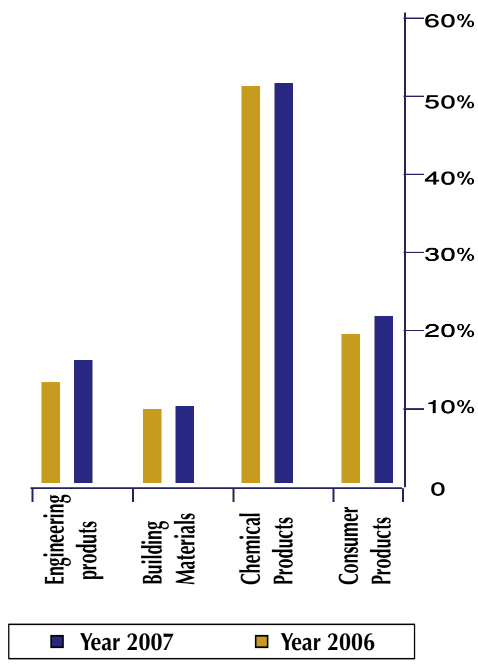
Another indicator of vital importance in the Kingdom, especially in recent years, is that of industrial exports level. The government's plans attach major importance to consolidating and increasing non-oil industrial exports as a strategic objective for the national economy and for national industry in particular. Figure 2 shows average export ratios as a percentage of total sales for the major industrial sectors during 2006-2007. A review of the ratio for the year 2007G shows that the Chemical Products sector leads all others, with an export to total sales ratio of about 52.8%. The Consumer

Figure (1): Value Added Per Worker (SR 000)



Source: SIDF Manufacturing Database (2007G)

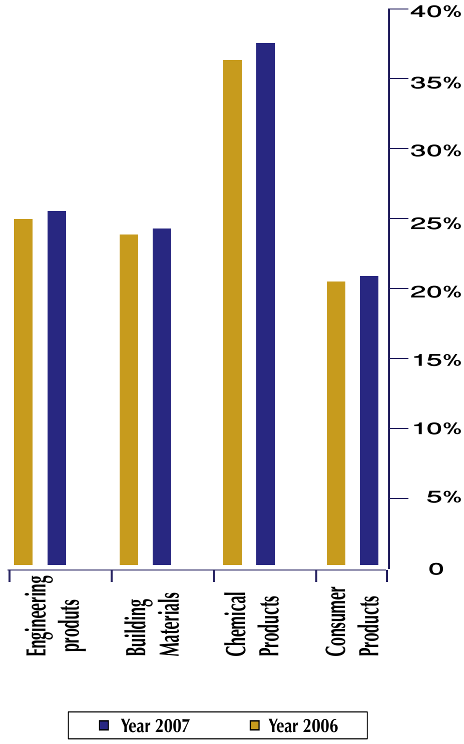
Figure (2): Exports to Total Sales Ratios (%)



Source: SIDF Manufacturing Database (2007G) products sector comes second, with an export ratio of 21.7%. The Engineering Products sector comes third with an export ratio of 15.8%. Finally, there is the Building Materials sector with an export ratio of 10.0%. The industrial exports indicators during 2007 show a slight increase in the Engineering Products and the Consumer Products sectors with 2.7% and 2.1% respectively; they also remained stable for the Building Material and the Chemical Products sectors during the period.

The indicator of labor in industry is another which has been gaining increased importance at the national level. Figure 3 shows the ratio of Saudi employment to total employment for the major industrial sectors during 2006-2007. On the basis of 2007 levels, the Chemical Products sector leads the other sectors with a 37.6% Saudi employment ratio. The Engineering Products sector is next, with a 25.1% Saudi employment ratio. The Building Materials sector follows with a 24.1% Saudi employment ratio. Finally, the Consumer Products sector shows a 20.8% Saudi employment ratio. Although the Saudi employment ratios for the last three industrial sectors is considered moderate at about 21% to 25% on average, the ratios as indicated in figure 3, clearly show the rising trend in Saudi employment during recent years. This latter Saudization trend points to the success of the private sector's efforts and its continued cooperation with the government in achieving the objectives of increased Saudi employment levels in industry.

Figure (3): Percentages of Saudi Workers to Total Workers By Major Sectors (%)



Source: SIDF Manufacturing Database (2007G)

SIDF'S Lending Activity

SIDF's Lending Activity

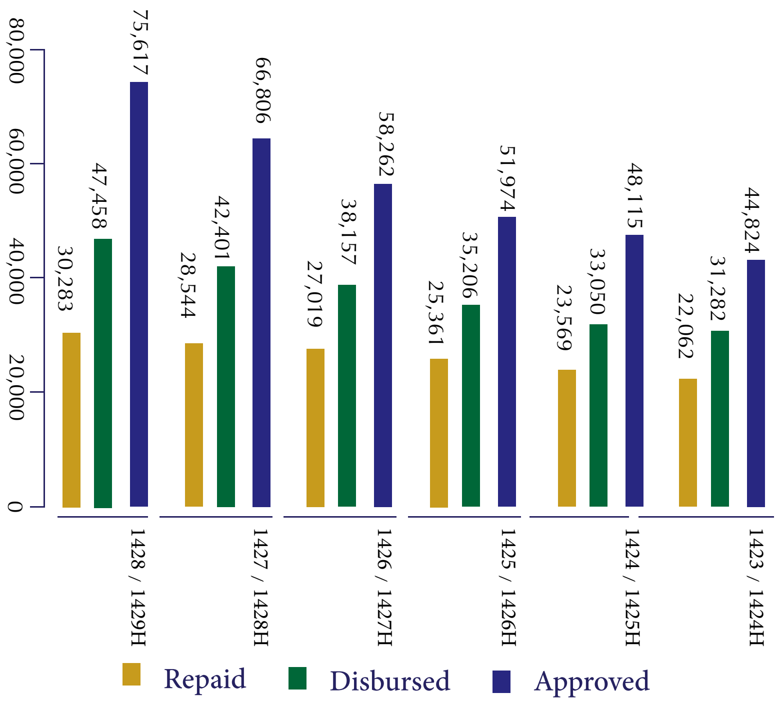
I. Summary of Lending Activity During 1428 / 1429H (2008G)

The Fund continued its dynamic activity in the support and development of the domestic industrial sector by providing soft, medium and long term loans as well as rendering appropriate consultancy services to borrowing projects in the financial, technical, marketing, and management fields.

Loans committed by SIDF during the fiscal year 1428 /1429H (2008G) totaled SR 8,811 million, i.e. 3.1% higher than commitments for the year 1427 /1428H (2007G). Disbursements for the year have grown by 19% to reach SR5,057 million: the highest ever disbursed over any one year since inception of the Fund. Moreover, repayments amounted to approximately SR1,739 million, representing an increase of 14% over the previous year's figure. Overall, the number of industrial loans committed by the Fund since its founding up to the end of 1428 / 1429H (2008G) totaled 3020 loans with a total value of SR 75,617 million approved for support of 2140 new industrial projects Kingdom-wide. Of the gross amount of committed loans, a total of SR 47,458 million was disbursed and SR30,283 million repaid as of the end of the fiscal year 1428 /1429H (2008G). 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.

During the year 1428 /1429H (2008G), the Fund approved 107 loans of which 72 loans were committed to new projects, and 35 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. Moreover, the Small and Medium Enterprises Loan Guarantee Program run by the Fund issued 292 guarantee documents during the year for a total sum of SR 118 million, against commercial banks financing of SR279 million

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



II. Distribution of Loans by Sector

A review of the main industrial sectors by the value of loans committed shows the following:

Chemical Industries

Total Amount of Loans

This sector still leads all other sectors by amount of loan commitments. Since SIDF's inception up to the end of the fiscal year 1428/1429H (2008G), the cumulative value of total commitments to this sector amounted to SR 30,749 million, representing 41% of total value of loans approved by the Fund during the period.

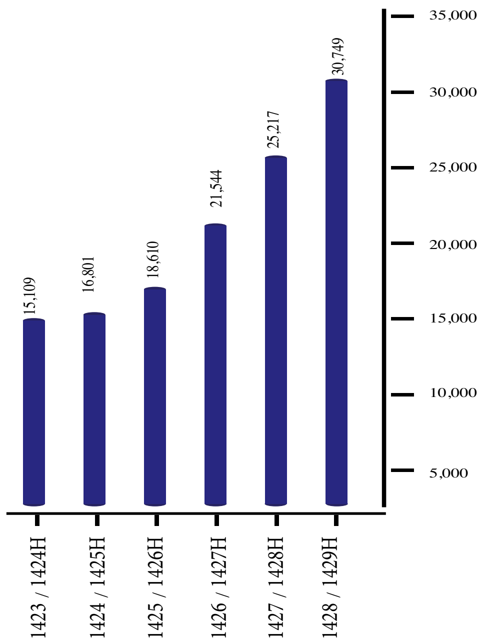
Projects Approved During the Report Year:

During the fiscal year 1428/1429H (2008G), SIDF approved 32 loans to this sector representing 30% of the total number of loans approved during the year. Total commitment to this sector amounted to approximately SR 5,532 million (63% of all loan approvals during the year). These loans supported the establishment of 18 new industrial projects and the expansion of 14 existing projects. Accordingly, the sector was ranked first in both the number and the value of loans approved during the report year, reflecting the competitive edge of the Kingdom in this industrial domain, particularly in the chemical sector. This reflects also the huge investment in such industries.

Among the new loans approved to this sector, six loans of SR 600 million each were approved for the erection of five plants in the industrial city of Jubail, and one in Ras Al Zore. The product mix of such plants covers a variety of products including ethylene, propylene, hexane, benzene, engine fuel mix, polyethylene, polystyrene, polypropylene, Kiomine, phenol, acetone, base-phenol, polycarbonate, glycol, ammonium phosphate fertilizer, ammonia, and phosphoric acid.

As for expansion loans, they included a loan for the sum of SR 452 million committed to the expansion of a polypropylene producing plant in Jubail, a loan for the sum of SR287 million for the expansion of a polyethylene terephthalate preforms plant in the industrial city of Yanbu, and SR 210 million loan for the expansion of a Jubail-based, epoxy resin factory.

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 1428/1429H (2008G). Cumulative commitments extended to this sector totaled SR 14,822 million representing 20% of total loans approved by SIDF.

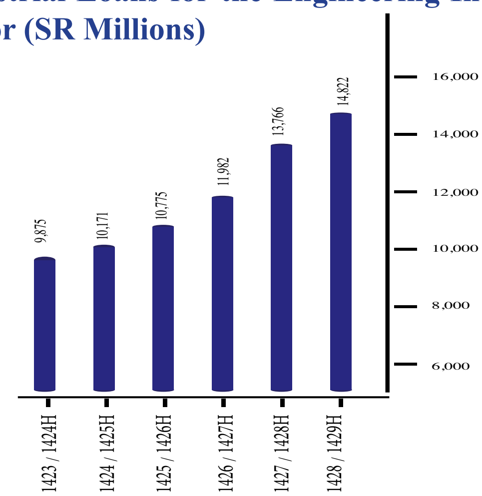
Projects Approved During the Report Year:

SIDF approved 32 loans to this sector amounting to SR 1,056 million, or approximately 12% of the total value of loans approved during the fiscal year 1428/1429H (2008G). Thus, the sector came first by number of loans granted during the year, and second in terms of their value. These loans financed the erection of 22 new industrial projects and the expansion of ten existing plants.

Among the new loans committed to this sector during the year, a loan amounting to SR 200 million was extended to assist in the erection of a plant in Yanbu for the production of electrical cables and copper and aluminum wires. Another loan of SR90 million was approved for the construction of a plant in Al Khomrah area, south of Jeddah, for the manufacturing of steel billets and steel reinforcement bars. A third loan for the sum of SR84 million was approved to support the establishment of a Riyadh-based electric transformer factory.

Moreover, expansion loans included an SR57 million loan to expand a Riyadh-based electric water-heater factory, and another for the sum of SR30 million to finance the expansion of a plant in Riyadh for the production of painted aluminum profiles.

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 1428/1429H (2008G), cumulative commitments extended to this sector totaled SR 12,972 million representing 17% of total loans approved by SIDF since inception up to the end of the said period.

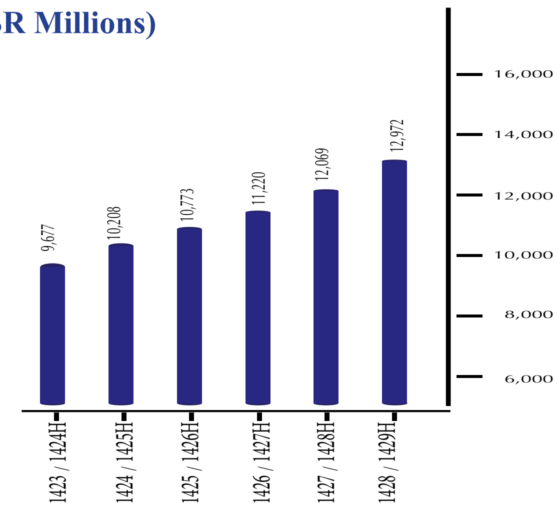
Projects Approved During the Report Year:

During the fiscal year 1428/1429H (2008G), SIDF approved 17 loans to this sector totaling SR 903 million representing 10% of all loans approved during the year. Thus, it was ranked fourth by number and value of loans approved. The loans extended to this sector assisted in the erection of 11 new industrial projects and the expansion of 6 existing plants.

Among the new loans committed to this sector, a loan of SR175 million was granted for the establishment of a water desalination plant in Jeddah, and another for SR64 million for construction of a new juice and dairy products plant in Haradh.

Expansion loans included an SR328 million loan for the expansion of a plant in Kharj for the production of a variety of dairy and food products. Another loan of approximately SR133 million was extended for the expansion of a Dammam-based tissue paper rolls factory.

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



Cement Industry

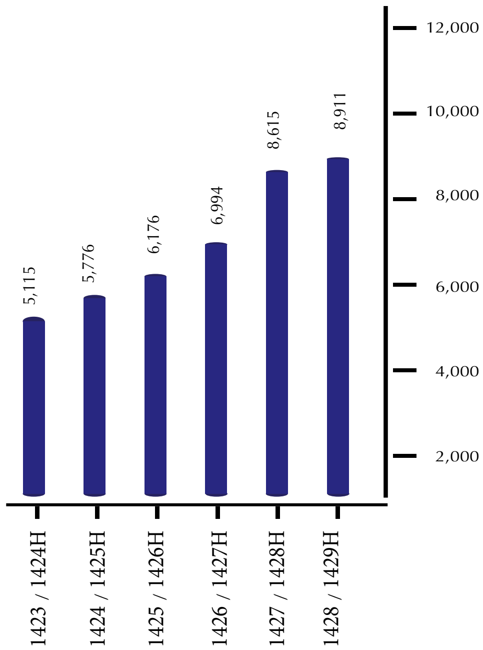
Total Amount of Loans

The amount of loans committed to this sector since inception of the Fund up to the end of the fiscal year 1428/1429H (2008G) totaled SR 8,911 million or 12% of total loans approved, thereby ranking the sector fourth by the amount of loans committed.

Projects Approved During the Report Year:

SIDF approved only one loan to this sector totaling SR 296 million for the expansion of a cement factory in the Eastern Province.

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 1428/1429H (2008G), the loans SIDF committed to the “other building materials” sector totaled SR 7,533 million, or 10% of the cumulative loans approved to industrial projects since inception of the Fund. Thus, the sector was ranked fifth by the size of loans approved.

Projects Approved During the Report Year:

During the year 1428/1429H (2008G), SIDF approved 23 loans to this sector totaling SR 982 million or 11% of all loan approvals for the year. These loans were extended in support of 19 new industrial projects and the expansion of 4 existing ones.

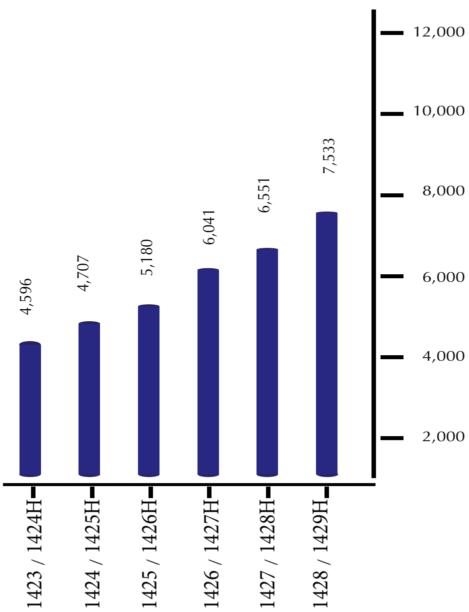
Among the new loans approved to this sector, a loan of SR190 million was extended for the construction of a Dammam-based factory for the production of ceramic and porcelain tiles. Another loan amounting to SR102 million was committed for the erection of a clay pipe and fittings plant in Riyadh. A third loan for the sum of SR84 million was committed to support the establishment of a new prefab concrete and hollow ceilings plant in Dammam.

Expansion loans included an SR42 million loan approved for the expansion of a plant in Muzahimiya producing granite slabs, tiles, and blocks, and another for the sum of SR29 million to support the expansion of a Dammam-based fiberglass insulation materials plant.

Projects Which Commenced Production During the Report Year:

The number of SIDF financed Industrial Projects which commenced production during 1428/1429H (2008G) totaled 52 out of which 21 were new projects and 31 were expansion projects to existing plants. The breakdown of these projects by sector is as follows:

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



Sector	Number of Projects Which Commenced Production During The Report Year
Chemical Industries	18
Engineering Industries	20
Consumer Industries	4
Cement Industry	3
Other Building Materials Industries	7
Total	**52**

III. Distribution of Loans by Region

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

Riyadh Region

Total Amount of Loans

The number of loans committed by the Fund towards the setting up of industrial projects in the Riyadh region totaled 1108 loans granted to 777 projects, or 37% of the total number of loans approved since inception of the Fund up to the end of the year 1428/1429H (2008G). Thus, the Riyadh region was ranked first in terms of the number of approved loans. However, the region came second by the value of loans committed, with a total of SR 16,141 million representing approximately 21% of the value of all loans approved by SIDF.

Loans Approved During the Report Year:

During the fiscal year 1428/1429H (2008G), SIDF approved 28 loans to industrial projects in the Riyadh region, representing 26% of the total number of loans approved. These loans were extended for the financing of 13 new industrial projects and the expansion of 15 existing ones. The Riyadh region ranked second in terms of the number and value of approvals, which totaled SR 1,069 million, or 12% of the total value of loans approved during the report year.

Makkah Mokarramah Region

Total Amount of Loans

The Fund approved a total of 788 loans to assist in the initiation of 530 industrial projects in the Makkah region. In terms of value, these loans totaled SR 13,171 million, representing 26% of the total number and 17% 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 1428/1429H (2008G).

Loans Approved During the Report Year:

During the fiscal year 1428/1429H (2008G), SIDF approved 18 loans amounting to SR426 million for industrial projects in the Makkah region, representing about 17% of the number and 5% of the value of loans approved. Thus, the Makkah region was ranked third in terms of number of approvals but fourth in terms of the value of loans approved during the year 1428/1429H (2008G).

Eastern Region

Total Amount of Loans

The Fund approved a total of 838 loans to assist in the construction of 594 industrial projects in the Eastern region, with total commitments amounting to SR33,726 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 its inception up to the end of the fiscal year 1428/1429H (2008G).

Loans Approved During the Report Year:

During the report year, SIDF approved 49 loans amounting to SR6,242 million for industrial projects in the Eastern Region, placing the region first in terms of both the number and value of loans approved in 1428/1429H (2008G). As percentages, these figures represent 46% and 71%, 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 underline the importance of Jubail Industrial City as an attractive region for high investment, particularly in the petrochemical industries sector where the Kingdom enjoys a high comparative advantage.

Madinah Monawarah Region

Total Amount of Loans

By the end of 1428/1429H (2008G), the Fund had committed loans towards the erection of 81 projects in this region totaling 107 loans in the amount of SR 8,109 million, representing 4% and 11% respectively in terms of number and value of the loans approved. Thus, the region was ranked fourth in terms of both the number and value of loans committed by the Fund since its inception up to the end of the fiscal year 1428/1429H (2008G).

Loans Approved During the Report Year:

During the fiscal year 1428/1429H (2008G), SIDF approved 9 loans for industrial projects in the Madinah region for the sum of SR1,048 million, respectively, representing 8%, and 12% of the total number and value of approved loans. Thus, the Madinah Region was ranked third and fourth, respectively, in terms of the number and value of loans approved during the year. The high percentage of the value of loans in contrast to their number can be explained by the substantial investment in industrial projects erected in the industrial city of Yanbu in the Madinah Region.

Qassim Region

Total Amount of Loans

The Fund approved 62 loans in support of the construction of 51 industrial projects in the Qassim region for a total sum of SR 1,305 million, 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 1428/1429H (2008G).

Loans Approved During the Report Year:

During the fiscal year 1428/1429H (2008G), SIDF approved one loan of SR18 million for the construction of a steel billets plant in the Qassim Region.

Other Regions of the Kingdom

Total Amount of Loans

By the end of 1428/1429H (2008G), SIDF had approved 117 loans amounting to SR 3,166 million for industrial projects in other regions of the Kingdom, representing 4% of the total number and value of loans approved by SIDF since inception. Jizan, Najran, Aseer, Al-Jawf, the Northern Borders, and Al-Baha regions were ranked highest in the list in terms of the value of approved loans.

Loans Approved During the Report Year:

During the fiscal year 1428/1429H (2008G), SIDF approved 2 loans amounting to SR 9 million towards the construction of two plants in Aseer, one for polyethylene tanks, and the other for sweets.

IV. Joint-Venture Financing

Direct foreign investment is considered an effective means of attracting to, and implementing in the Kingdom state-of- the-art technologies, creating new job opportunities for Saudi citizens as well as 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 industrial projects, particularly in partnership with reputable international companies, based on its firm belief that all the factors which ensure the success of such projects are already in place in the Kingdom.

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, the 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 1428/1429H (2008G) totaled 588 projects, or 27% of all projects approved. Moreover, loans committed to such joint-venture projects amounted to SR 28,517 million or 38% of total SIDF loans. Foreign Partners' share in these projects accounted for 34% of their capital.

It should also be noted that 105 of these projects, with commitments amounting to SR 8,091 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, in view of the substantial investments required for the sector's projects. The Chemical Industries Sector acquired a share of 60% of the value of SIDF cumulative loans, followed by the Engineering Industries Sector, with 24%, and the Consumer Industries Sector with 11%.

During the report year 1428/1429H (2008G), SIDF approved 23 loans for the establishment of 17 new projects and the expansion of 6 existing ones. Commitments to these projects totaled SR3,746 million or 43% of SIDF commitments for the year. Loans for the new joint-venture projects comprised seven loans to projects in the chemical industries sector; six loans to the Engineering Industries Sector; two loans to the Building Materials Sector, and one loan each to the Consumer Products and "Other Products" sectors.

Joint-venture projects approved during the year provided 3417 jobs, representing approximately 25% of the total jobs provided by all projects approved by SIDF during the year 1428/1429H (2008G), representing 13,892 employment opportunities, approximately.

V. Small & Medium Enterprises Loan Guarantee Program

The third year of the program set the benchmark for outstanding performance. During the year 1428/1429H (2008G), the program management issued 292 guarantees, i.e. 11% higher than the previous year's figure, for a total of SR118 million (against commercial bank commitments totaling SR279 million) in loans extended to 210 small and medium enterprises.

Since its launch at the beginning of 1426/1427H up to the end of the fiscal year 1428/1429H (2008G), the Small & Medium Enterprises Loan Guarantee Program has issued a total of 607 guarantees for the sum of SR268 million against a total commercial-bank financing of SR 608 million extended to 457 small and medium enterprises.

The contracting sector led all other sectors with 184 guarantees amounting to SR 68 million, or 30% of the number and 25% of the value of total guarantees issued up to the end of the year 1428/1429H (2008G). The services sector came second with 180 guarantees for SR 82 million, i.e., 30% of both the total number and value of approved guarantees. The industrial sector ranked third with 177 guarantees valued at SR87 million, representing 29% and 33% of the total number and value of issued guarantees, respectively. The remaining 66 guarantees, representing 11% of the total number of issued guarantees, are distributed among the remaining sectors: Commercial 32, Medical 9, Educational 11, Agricultural 2 and Entertainment 2. These results demonstrate the leading position of the industrial sector in terms of value of the guarantees issued by the program.

Central Region ranked first in terms of value and number of guarantees issued by the program up to the end of the year 1428/1429H (2008G). It received 348 guarantees amounting to SR154 million, or 57% of the total number and value of guarantees issued during the year. Western

Region came second with 114 guarantees for the sum of SR 51 million, followed by the Eastern Region with 91 guarantees totaling SR 38 million. While the foregoing three major regions took the leading positions in terms of the number of guarantees issued, the performance for the year 1428/1429H (2008G) improved remarkably in the case of guarantees extended to the southern and northern regions. The number of guarantees issued soared from only 7 in 1427/1428H (2007G) to 13 in 1428/1429H (2008G) for the northern region, and from 11 guarantees in 1427/1428H (2007G) to 22 guarantees in 1428/1429H (2008G) for the southern region, a development clearly reflecting the efforts of the KAFALA program in promoting its services towards achievement of a balanced geographical distribution of guarantees issued.

The National Commercial Bank headed all other banks in terms of the number and value of guarantees with 190 guarantees amounting to SR 88 million, or 31% of the total number and 33% of the total value of the guarantees issued by the Program since its launch up to the end of the report year. Riyadh Bank was next with 127 guarantees for the sum of SR 45 million though it came first in terms of Guarantees issued during 1428/1429H (2008G).

It is worth noting that enterprises owned by businesswomen were granted 41 guarantees out of the total number of guarantees issued by the Program up to the end of the fiscal year 1428/1429H (2008G).

Table (1): Number and Value of SIDF Loan Guarantees Issued by the End of 1428/1429H (2008G) by Financing Bank

Financing Bank	No. of Guarantees	Value of Guarantees (SR)	Financing Value (SR)
National Commercial Bank	190	88,433,120	180,020,188
Riyadh Bank	127	44,799,001	104,047,670
SABB	81	51,547,500	104,990,000
Rajhi	77	40,865,000	108,278,000
Arab National Bank	93	24,612,750	68,313,000
Saudi French Bank	22	11,543,750	27,250,000
SAMBA	13	5,597,500	12,770,000
Jazirah Bank	4	993,500	2,187,000
Total	**607**	**268,392,121**	**607,855,858**

VI. Manpower and Training

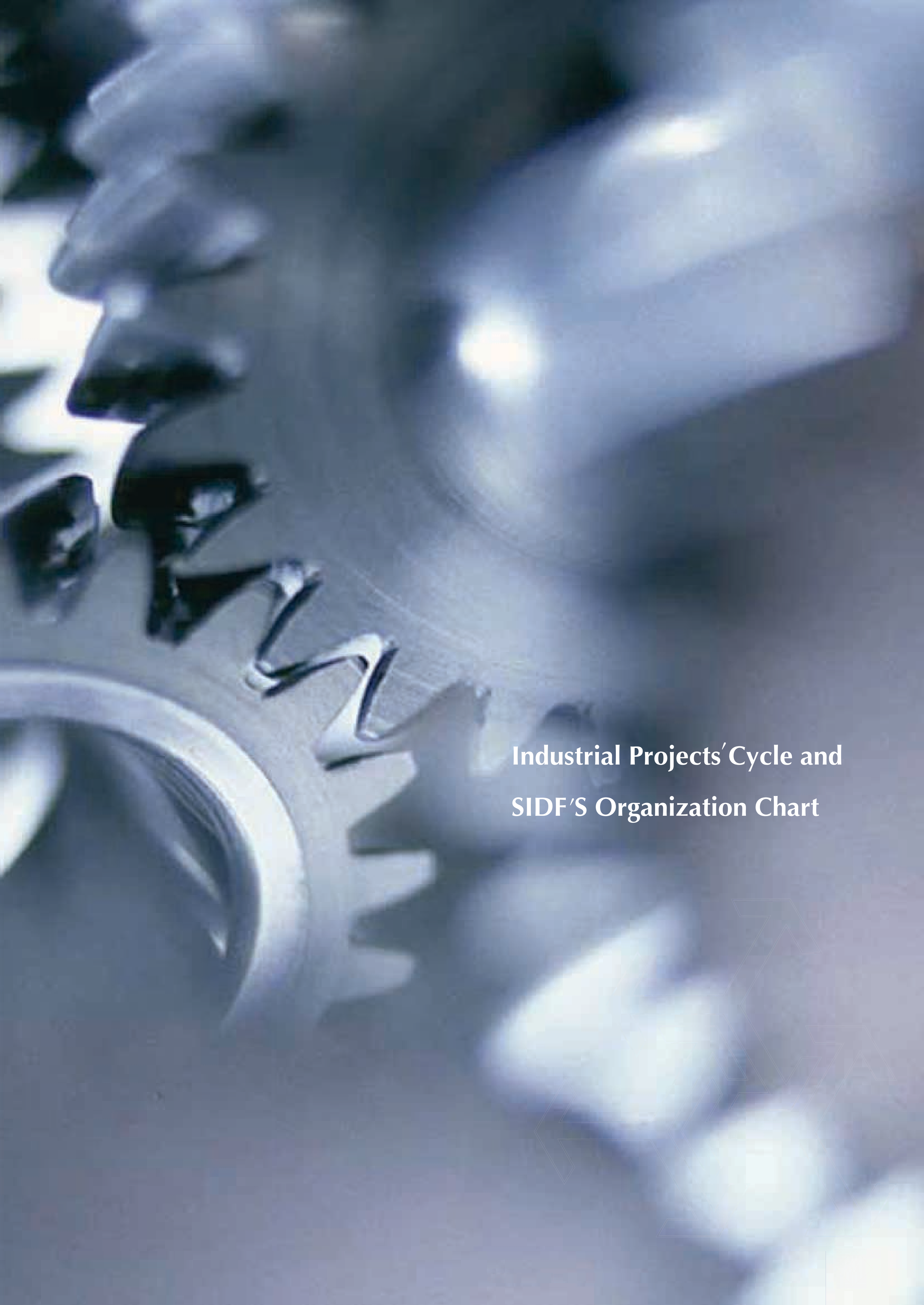
By providing a range of well-designed programs, the Fund's management was able to attract to, and employ qualified Saudis in, various professions and specializations relating to SIDF activities. The recruitment process is linked to career development and efficiency upgrading programs. These programs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

During the fiscal year 1428/1429H (2008G), 335 training programs were implemented for Saudi employees, both domestically and abroad. These included specialized core courses; master's degree programs; short-term courses; workshops; professional conferences, and in-house training courses. A total of 225 Saudi employees received training courses commensurate with work requirements and in accordance with scheduling of domestic and overseas training courses. Of this number, 52 employees joined specialized core courses, including master's degree programs and 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 improving the professional capabilities of its professional Saudi employees. This is achieved through active participation in specialized professional conferences, symposiums, and practical workshops in which these organizations have a role. Such participation ensures the exchange of professional know-how and scientific expertise, which, in turn, broadens the capabilities of Saudi employees while simultaneously 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 1428/1429H (2008G). Ninety nine (99) Saudi employees were recruited during the year in accordance with the provisions of the approved budget to fulfil the recruitment demands of the various departments and divisions of the Fund.

Mohammad Bin Salem Al-Dobaib
Acting Director General



Industrial Projects' Cycle and SIDF'S Organization Chart

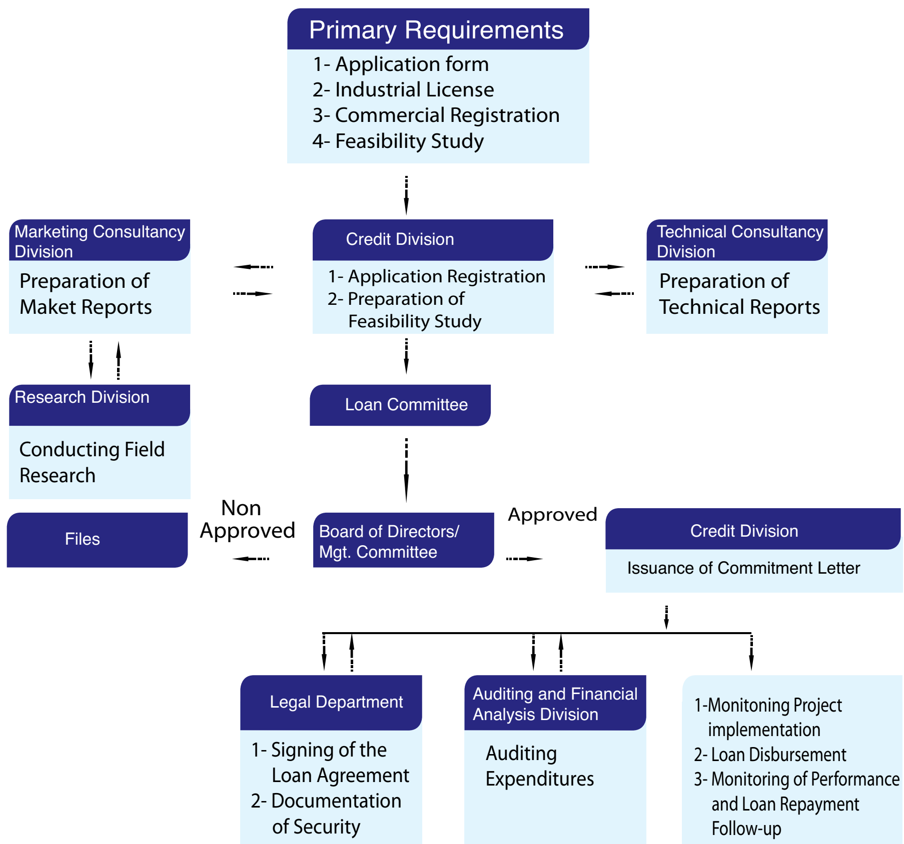
Industrial Projects' Cycle

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.

These aspirations 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, financial analysis and advanced technology.

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 commitments to borrowing projects, and the monitoring of loan maturities' repayment by beneficiary borrowers:

Loan Application's Processing Flow Chart

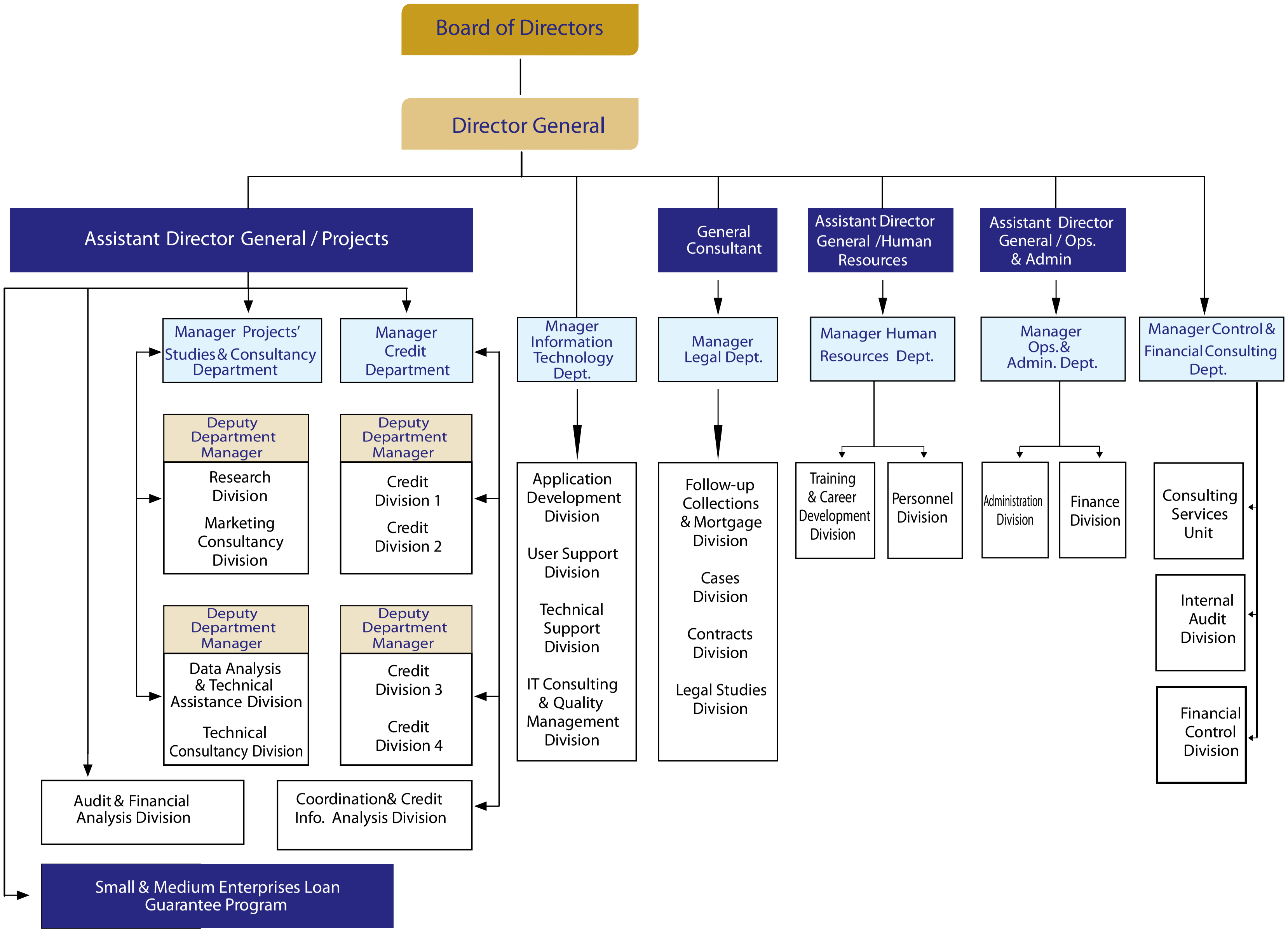


Note:

1. The length of the evaluation period depends on the 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.

SIDF'S Organization Chart



In Focus: Human Resources Department:

Human Resources is a key SIDF department carrying out all functions and responsibilities relating to the Fund's manpower. These functions and responsibilities are performed through two specialized divisions working in tandem with the Regulations and Positions' Classification Unit. The following is a brief description of the principal roles of the relevant parties involved

1- Personnel Division:

The Personnel Division consists of the Recruitment Section; Salaries and Benefits Section, and Administrative Support Section. The Division fulfils its duties and responsibilities via a number of specialist sections, as follows:

A. Administrative Support Section:

- Processing of appointments, promotions, and annual salary increments of the Saudi SIDF employees on the basis of annual performance appraisal reports, pursuant to the regulations, guidelines, and directives issued by the Fund's senior management in this connection.
- Processing of employment contracts with non-Saudi SIDF employees as well as follow-up subsequent to their being issued with official residence permits; exit/re-entry visas, and all other formalities relating to contracted staff, commensurate with the applicable policies ; issued guidelines; contract provisions, and Saudi Labor Law.
- Processing of all types of leave for SIDF employees in compliance with the provisions of SIDF by-laws governing SIDF business activities and the contracts of non-Saudi staff.
- Processing of accommodation allocation to SIDF employees and appropriate follow-up in accordance with the relevant policies, criteria, and controls.
- Follow-up relating to the preparation and implementation of the objectives and general procedures concerning personnel matters in accordance with the applicable regulations and policies.

B. Salaries and Benefits Section:

- Preparation, verification, and follow-up with regard to employees' salaries and benefits commensurate with the approved financial and administrative criteria and controls.
- Participation in the costing of employment and training schemes during the preparation of the budget for each fiscal year.
- Monitoring closely the attainment of the objectives of the Human Resources Department determined for each fiscal year with regard to salaries and benefits and related regulations and policies together with the continuing automation of the Section's principal activities.

C. Recruitment Section:

- Implementation of plans for the recruitment of qualified manpower to fill SIDF positions in order to meet adequately the Fund's requirements in terms of national professionals and foreign expertise in line with the provisions of the approved budget.
- Establishment of satisfactory professional relations with universities and specialized institutes for the purpose of attracting Saudi professionals to the Fund's workforce, through the adoption of all adequate means for the achievement of this purpose, including newspaper advertisements; participation in University "Profession Days"; direct communication with suitably qualified personnel, and various other available means.

2- Training & Career Development Division:

The Training & Career Development Division consists of the Local and Overseas Training Unit and the Career Development Unit. The chief functions of this division are as follows:

- Preparation and implementation of training plans and programs for SIDF staff within and outside the Kingdom in coordination with the managers of relevant departments and divisions in accordance with budget allocations for each individual fiscal year.
- Preparation of the Fund's budget allocation for training in accordance with local and overseas training requirements.
- Conducting studies and proposals for the development and upgrading of local and overseas training policies.
- Preparation of specialized career development programs for Saudi staff on the basis of appointment requisites in keeping with the approved career hierarchy, and the development of the necessary plans of action.
- Activation of the channels of communication with relevant training centers, specialized bodies, and institutions of professional expertise related to the specific nature of the Fund's activities. The ultimate objective is the recruitment of Saudi professionals to training programs, both theoretical and practical, which underline the participation of the Fund's professionals and officials in conferences, seminars and specialized workshops.

3-Rules & Positions Classification Unit

The major functions of this unit are as follows:

- Preparation of studies and consultations relating to SIDF's human resources regulations and rules prior to the drafting and revision of the existing appointments' descriptions in current use. These activities are carried out to meet the necessary criteria for the description and classification of positions. They also apply to employee-related administrative processes and regulations upon appointment, promotion, transfer, or position modification.
- Participation in the identification, preparation and declaration of the general objectives of the department as well as preparation and revision of the department's policies and procedures. Finally, the unit's brief also includes its involvement in the preparation of descriptions of career progression and development in the various departments of the Fund.

Economic Study:
Saudi Industry Competitiveness & Production Efficiency

Economic Study: Saudi Industry Competitiveness & Production Efficiency

Industrial competitiveness is defined as "the ability of the industrial sector, represented by local industrial companies, to compete with major international companies in both local and international markets." Companies in the industrial sector base their competitiveness on several factors, most important of which are: lower costs; improved quality; marketing efficiency; the use of modern technology, and upgrading of technical and managerial skills. A booster to all these factors is an encouraging macroeconomic environment, where the policies adopted by the government to upgrade industrial production efficiency play a key role in developing the competitiveness of the industrial sector, and in turn, its production capacities and capabilities. Consequently, competitiveness is closely related to productivity as a high level of competitiveness implies more efficient use of human, natural, and capital resources, thus increasing productivity of projects. There is a big difference between comparative advantage and competitive advantage. Comparative advantage is an endowed one, which originates in the availability of resources like oil, iron, etc, while competitive advantage is an advantage gained as a result of optimal utilization of resources and production factors by local companies, foreign companies, or both. Therefore, most developing countries suffer a problem of weak competitiveness, (despite the availability of comparative advantages), owing to poor technical know-how and the organizational skills needed to compete with international companies, so as to maximize returns and value from national resources. The following is a review of the determinants, conditions and mechanisms for upgrading the competitiveness of industry, building on comparative experiences and visions; the current status of the Saudi industry and its performance indicators; and, lastly, a number of proposals for enhancing the competitiveness of national industry.

Determinants for Upgrading the Competitiveness of Industry as Revealed by Comparative/ Contrastive Study:

The success of many countries, especially developing countries in East and Southeast Asia, in upgrading their competitiveness over the last two decades, confirms that there are mechanisms and tools through which competitiveness can be improved, whether at the macroeconomic level, or at the particular level of any given project. Such mechanisms and tools can be summarized as follows:

[1] Production Factors:

They refer to the existence of production requirements, such as a skilled, professional work force; availability of raw materials; infrastructure; finance, etc. Production factors are not rigid, but rather can be improved and consistently upgraded to become more specialized in the course of time.

[2] Corporate Strategies & Competitiveness:

This implies competition among companies operating within a given economic group, sector, or industry. Competition provides the motivation for creativity and innovation, and the incentive to upgrade the level of business to keep pace with the latest technologies and standards. Companies compete to capture a share of the market and enhance their profit margins.

[3] Demand Factors:

Companies should assess market needs; consumer purchasing preferences, and the extent of their attraction to certain products. The existence of customers who are motivated to demand and buy certain products offers more opportunities for creativity and innovation, besides enhancing the degree of competition among companies.

[4] Supporting Activities & Institutions:

Universities, unions, industrial bodies, and vocational and industrial training institutions and centers play a key role in the acquisition and deployment of production knowledge and culture. For example in Malaysia, the government encouraged investment in education and training and attracted leading vocational and industrial training institutions which opened branches to train and raise the manpower-skills. The collaboration of community institutions also plays an equally important role in the coordination of efforts among the public, private, and academic sectors. The combined efforts of such institutions further augment the links between community institutions and citizens, while facilitating the process of data collection and analysis as well as information flow.

[5] Economic & Industrial Clusters:

Economic clusters are composed of a group of multiple related industries, corporations and institutions that are adjacent geographically, interlinked, with integrated objectives in common. Such clusters help raise the level of productivity and competitiveness through access to the best professional practices, stimulate creativity and innovation and provide new business and investment opportunities.

[6] The Role of the State:

The State is assumed to have an essential role in promoting and advocating competitiveness through specialized education and training programs; investment in infrastructure projects; the removal of barriers impeding national competition by eliminating or altering certain rules and regulations, and stimulating consumer demand....etc.

Saudi Industry Performance Review: (Export Structure, Labor Productivity, and Fixed Capital Formation):

Developments in industry performance can be identified as a set of indicators, particularly the **structure of exports**. Table No. 2 shows that, by the end of 2007G, the total value of commodity exports amounted to approximately SR 877 billion, of which oil exports accounted for about 88% of total exports. Over the past years, the stability of the export structure is conspicuous. This indicator reflects the Kingdom's high level of dependence on oil exports, making it less competitive at the global level owing to the low technology content of its exports.

Table (2): The structure of Saudi Exports (2004 – 2007G) (in SR billion)

	2004	2005	2006	2007
Total Commodity Exports	472.5	677.2	791.3	877.5
Oil Exports	415.3	605.9	705.8	773.0
Non-oil Exports	57.2	71.3	85.5	104.5

Source: Central Department of Statistics & Information - Ministry of Economy & Planning

Table (3) shows the development of the technological structure of Saudi manufactured exports contrasted with a range of other countries worldwide for the period 1990 to 2006. The technological structure of Saudi manufactured exports continued to depend largely on medium-technology products (including electrical and non-electrical equipment; chemicals; transport equipment; rubber and plastics; ferrous and non-ferrous metals; refinery products, metal products ,construction metals and ceramics), which represents the bulk of Saudi exports. However, its share of Saudi exports decreased from 92% to 81% during the same period, to the benefit of low-technology products (including paper, textiles, food industries, and wood), whose share increased from 7% to 16% over the period. High-tech products, however, (including computers; space and electronics products; pharmaceuticals and scientific instruments), which should presumably reflect the level of competitiveness, accounted for only a small share of total Saudi exports despite the increase in its share of total manufactured exports: from 1% in 1990 to 3% in 2006.

Table (3): Technological Content of Manufactured Exports over a range of Countries (1990 – 2006 G) (%)

Country	High-Tech Exports %		Medium-Tech Exports %		Low-Tech Exports %	
	1990	2006	1990	2006	1990	2006
Saudi Arabia	1	3	92	81	7	16
Egypt	1	1	40	80	59	19
Tunisia	6	13	34	32	60	55
Jordan	14	14	76	45	10	41
Indonesia	1	10	46	52	53	38
China	11	39	32	32	57	29
Malaysia	41	56	27	29	32	15

Source: Percentages were calculated based on Comtrade database. Classification is in line with OECD standards.

On the other hand, as shown in table (3) there are other Arab countries, such as Egypt and Tunisia, which succeeded in reducing their reliance on low-tech products and increased the share of medium technology products (Egypt), or high technology products (Tunisia) in the overall structure of exports. China, Malaysia and Indonesia are among the leading countries worldwide in terms of upstream improvement of exports structure. In fact, Malaysia is one of the best performers in this area as its exports of high-tech products accounted for more than 50% of its total exports for the year 2006G. Undoubtedly, foreign investments have played a major role in achieving this level of progress as reflected in the fact that foreign companies hold more than 60% of total investments in Malaysian industry. Therefore, by comparison, it is clear that the Kingdom continues to face major challenges in the area of competitiveness despite the slight improvement in the structure of its manufactured exports.

With regard to the productivity of manpower, an important indicator of economic performance: estimates of the International Labor Organization "ILO", show that labor productivity in the Kingdom - measured by "value-added" per worker – declined by a compound average growth ratio (CAGR) of 2.4% p.a. during the period 1980 to 2005G. Productivity per worker (at the fixed rate of the U.S. $ in 1990) amounted to U.S. $ 28,913 in 2005. While this value continues to be high in contrast to the other member countries of the ILO, the negative growth rate is also highest among these countries, with the exception of Iraq and Qatar. This trend continued throughout 2006 with a negative growth index of 1% during the period 2001 to 2006.

As for the composition of fixed capital, although the structure of gross fixed capital has increased substantially from about SR180.2 billion in 2004 to about SR312 billion in 2007, such fixed capital structure to gross domestic product ratio did not grow proportionately at the same rate as it only rose from 19.2% to 21.8% over the same period. This relative stability can be ascribed to the upsurge in GDP consequent to improved oil revenues. It should be noted that, according to the UNCTAD statistics, approximately 30% of fixed capital structure in 2007 consisted of inflowing foreign investments (foreign direct investment is one of the most important mechanisms to improve competitiveness). This is deemed a positive indicator in view of the fact that this percentage was less than 5% during the period 1990 to 2005.

Developments in Saudi Economic & Industrial Competitiveness in the Light of Global Indices:

The industrial sector in any country will not be able to upgrade its competitiveness without a supportive macroeconomic environment where it can develop and compete effectively in both the domestic and foreign markets. Therefore, macroeconomic competitiveness boosted by a healthy and stable economic environment is an essential precondition for the success, prosperity, and competitiveness of industry. All local and international indices irrefutably suggest that Saudi Arabia's macroeconomic environment is becoming highly competitive and thus, provides the impetus for national industry to prosper and compete effectively. The Kingdom's performance in this context witnessed substantial improvement as evidenced in indices such as "Doing Business" and "Global Competitiveness". On the "Doing Business Index", the Kingdom achieved a leading position: ranked 16th in 2008G (from a ranking of 25th in 2007G) out of 181 countries. Moreover, on the "Global Competitiveness Index" it was ranked 27th in 2008, up from 35th in 2007 (out of 134 countries). These two indices reflect the development of infrastructure, improved macroeconomic conditions and the volumetric efficiency of the market among the conventional set of variables that reflect the level of competitiveness of a country's economy.

Suggestions for Improvement of the Competitiveness of Saudi Industry:

The issue of upgrading the competitiveness of the national economy is of paramount importance to all government authorities as evidenced by Saudi Arabia's improved competitiveness at the macroeconomic level on a number of indices (as described above). Nevertheless, the upgrading of the level of competitiveness of national industry, particularly, still remained contingent on all concerned parties fulfilling their respective objectives. The following brief survey examines the crucial roles played by the government and industrial enterprise in this endeavour.

The Role of the Government:

- Government's principal functions include monitoring developments in macroeconomic indicators while ensuring transparency and efficiency of performance: providing accurate databases and developing the infrastructure. Other important activities involve the development of general and higher educational institutions, particularly those responsible for technical education, to ensure the attainment of the objectives of the industrial sector.
- Moreover, government must also promote and support the establishment of new industrial cities in various parts of the Kingdom as essential to sustaining the competitiveness of the national economy and industry, and attract foreign investment with a high-technology content. Such cities can provide various facilities to investors, in line with the provisions of the recent Cabinet of Ministers' Decision dated 26th Dhul Qaeda 1429H, granting a package of facilities and tax incentives to investors in the development of six new cities.
- Furthermore, government should support policies for promoting the establishment of industrial and technological business incubators as well as industrial clusters for private sector activities while monitoring overall progress and performance. Such clusters should cover the various regions, each according to its comparative advantages, along with all export and non-export oriented industries. In this regard, it should be noted that the Cabinet of Ministers' Decision of 15th Safar 1428H approved the National Program for the Development of Industrial Clusters in cooperation with the private sector in various industries. The resolution coincided with the conclusions of the Draft National Strategy for Industry which identified industrial clusters as a key element.
- Finally, it is also the government's responsibility to raise awareness of the importance of competitiveness and related concepts in upgrading productive capacity efficiency, while extending and reviewing industrial integration with other countries (especially those of the GCC Council) and assessing the level of achievements and constraints in accordance with the Consolidated Industrial Development Strategy signed by the GCC States in 1998.

The Role of Industrial Enterprise:

- Improving human capital by increasing the capabilities and skills of workers, both in technical and administrative areas, and providing the necessary training for this purpose. Moreover, marketing and distribution skills, at local and international levels, should also be improved, along with the study of global markets and demand mechanisms. Greater attention should also be paid to industries with a higher technology content that are more stable in the international markets.

- Developing advanced research and development systems, and adoption and encouragement of all technology transfer approaches, whether through promotion of partnerships with high-profile foreign partners or through technical assistance agreements. It is equally important to carry out structural and administrative reform within relevant industrial enterprises in order to facilitate the improvement of skills and the encouragement of innovation and creativity, while ensuring commitment to the standards of governance and the principles of disclosure and transparency.

Subject Under Scrutiny: "Summary of an Industrial Sector Study on Steel Reinforcement Bars"

Steel Reinforcement bars are used as reinforcement elements for Reinforced Cement Concrete (RCC) constructions for structural load-bearing. Reinforcement bars (size 12mm) represent 19% of total demand, While two sizes: 14mm, and 16mm represent 29%, and 27% respectively. Currently, demand is steadily growing for larger sizes (i.e. 20mm, 25mm, and 32mm) due to the mega projects in the local market.

The overall licensed capacity of local operational and non-operational factories for steel reinforcement bar products totals 9,974,000 tons. In 2006G, installed capacity of the local operational factories was 3,730,000 tons contrasted with 4,655,000 tons in 2007G. The operational factories' total sales were 3,376,000 tons and 4,441,000 tons in 2006 and 2007, respectively. Table (4) shows steel reinforcement bar products total installed production capacity in local factories, total historical sales, and total utilization rates for the years 2005, 2006 and 2007.

At present there are five Local Steel reinforcement bar factories namely: Saudi Iron & Steel Company (HADEED); Al-Ittefaq Steel Industries Factory; Capital Steel Products Factory; Wofoor Factory, and Taybah Gulf Steel Factory. Furthermore, five new factories are now under construction. These factories are: Al-Raki Rolling Steel Factory in Rabegh with a planned installed capacity of 300,000 Tons annually which is expected to commence production by 2009G. The second factory is Al-Yamamah Factory in Yanbu with a planned installed capacity of 550,000 Tons annually, which has started test production. The Third factory is Al-Atoun Steel Billets & Bars Factory in Yanbu which is under establishment and is expected to start production in 2011G with a production capacity of 500,000 Tons annually. The fourth factory is Capital United Steel Manufacturing Factory in Riyadh, which is a small factory with a production capacity of 60,000 Tons annually. The fifth factory is South Steel Factory in Jizan with a production capacity of 500,000 Tons annually and is expected to start production in 2011G.

Table (5) shows the existing capacity and capacity expansion of existing local producers as well as potential capacity of new projects in the Kingdom for Steel Reinforcement Bar products.

Table (4):

Steel Re-bars Sales, Production Capacity and Utilization Rates in 2005, 2006 & 2007G ('000 Tons): Local Factories

	Sales			Installed Capacity	Utilization Rate
	Local	Export	Total		
Total Sales 2005G	2800	372	3172	3575	89%
Total Sales 2006G	3008	368	3376	3730	91%
Total Sales 2007G	3865	576	4441	4655	95%

Table (5):

Existing Local Factories & Potential Capacity in 2008 ('000Tons)	
Description	**Total**
Existing Factories: Capacity	4,655
Actual Expansion of Existing Factories	1,050
Planned Expansion of existing Factories	1,050
New Factories' Potential Capacity	1,910
Total	**8,665**

Demand for Steel Reinforcement bar products increased from 2,983,000 tons in 2004 to 3,472,000 tons and 4,360,000 tons in 2006 and 2007, respectively. These figures show a growth rate in the demand for steel reinforcement bar products in the Kingdom of 14% in 2006 and 26% in 2007. Local production represented 89% of the total market size in 2007, while imports represented 11% during the same year.

Table (6) shows the Kingdom's historical demand for Steel Reinforcement Bar products:

Table (6):

Historical Demand for Steel Rebar in the Kingdom ('000 Tons)				
	2004	**2005**	**2006**	**2007**
Factories' Local Sales	2,822	2,800	3,008	3,865
Imports	161	241	464	495
Grand Total	**2,983**	**3,041**	**3,472**	**4,360**
Annual Growth Rate (%)		**2%**	**14%**	**26%**

Demand for Steel Reinforcement Bar products is expected to increase from 4,360,000 tons in 2007 to 7,534,000 tons in 2010 with an annual growth rate of 20% for the next three years. This is due to the growth of building construction activities in the Kingdom, which is expected to continue into the immediate future, particularly upon the implementation of new mega projects such as King Abdullah Bin Abdulaziz Economic City and the other economic cities: Jizan, Hail and Madinah as well as Jabal Omar in Makkah, and other development projects under construction. Also, the increase in public expenditure on infrastructure and new projects projected for the 2009 public budget will substantially contribute towards absorbing the effects of the slowdown in the growth of international demand that has resulted from the current global financial crisis and accompanying economic deflation. Moreover, the steady decrease in steel bar prices is expected to increase demand, particularly at local level. Table (7) shows the projected demand for Steel Reinforcement Bar products:

Table (7):

Projected Demand for Steel Reinforcement Bars in the Kingdom ('000 Tons)					
	Actual Demand		Projected Demand		
	2006	2007	2008	2009	2010
Total Demand	3,472	4,360	5,232	6,278	7,534
Growth Ratio (%)	14%	26%	20%	20%	20%

During the first quarter of 2008, imports totaled 47,392 tons contrasted with a quarterly average of 123,750 tons in 2007.Many importers stopped importing Steel Reinforcement Bars due to the fact that local prices of Re-bar were lower than international prices primarily because of the lower selling price of Hadeed. During the two years 2007 and 2008, the GCC countries suffered a shortage in steel rebar supplies as Turkey, a major supplier to the region, ceased its exports of Reinforcement Bars to the region and diverted its exports to the U.S.A. China also imposed an export tax to discourage exports and Iran became an importer of steel rebar, rather than an exporter, due to the increase in local demand of Steel Reinforcement Bars in the Iranian market. Furthermore, Qatar reduced its exports of Reinforcement Bars to the Kingdom as a result of the increased demand in its local markets.

Hadeed led the market with a market share of around 50% followed by Al-Ittefaq Factory, and Capital Factory, while imports captured a market share of 11%. The price of local Steel Reinforcement Bar is correlated with world steel prices. Any change in the global steel price affects local price levels. Steel Reinforcement Bar price in the local market increased sharply at the end of 2007 from an average of SR 2,400 per ton to more than SR 5,000 per ton in May, 2008. Then, international prices decreased sharply causing local prices to fall to less than SR 2,000 by the end of 2008.

Conclusions:

Local producers have almost reached their full production capacity. Some have already started to increase their capacity by adding new production lines. There are additional new factories that will start production during the period 2008 – 2011 such as Al Raki, Al-Yamamah, Al-Atoun and South Steel factories. These capacities will gradually increase the supply of local production to cater for local market demand in the future, which is anticipated to increase as a result of the establishment of large construction projects such as King Abdullah Bin Abdulaziz Economic City, and other projects in Makkah, Madinah, and other parts of the Kingdom.

One problematic factor in the steel bar reinforcement market is the black market which originated in the lower prices of Hadeed products. Such prices have caused a shortage or disappearance of Hadeed products in the local market. This situation has affected the volume of imports brought to the Kingdom at global market prices which are much higher than Hadeed prices. Moreover, major exporting countries have either become more concerned about meeting their local market needs, or diverted their exports to other more profitable global markets. Other complications include the increase of raw material prices; a slowdown in the establishment of certain new steel mills, due to lack of power supply, and the inability of existing factory plans to undertake backward integration due to lack of power and gas.

Lending Activity Charts

Lending Activity Charts

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

Sector	1428/1429	Cumulative Total
Consumer Products:	11	587
Food	7	270
Beverages	2	47
Textiles	-	63
Leather & Substitutes	-	24
Carpentry Products	-	14
Wooden Furniture	-	50
Paper Products	2	83
Printing	-	36
Chemical Products:	18	529
Chemicals	11	249
Oil & Gas Products	1	26
Rubber Products	2	16
Plastic Products	4	238
Building Materials:	19	334
Ceramic Products	3	13
Glass Products	1	55
Other Building Materials	15	266
Cement	-	28
Engineered Products:	22	622
Metal Products	13	367
Machinery	2	86
Electrical Equipment	6	115
Transport Equipment	1	54
Other Manufacturing	2	40
Total	72	2140*

* Of which 415 loans were terminated

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

Sector	1428/1429	Cumulative Total
Consumer Products:	903	12,972
Food	492	6,329
Beverages	214	1,352
Textiles	32	2,072
Leather & Substitutes	-	133
Carpentry Products	-	205
Wooden Furniture	-	341
Paper Products	165	2,325
Printing	-	215
Chemical Products:	5,532	30,749
Chemicals	5,092	25,406
Oil & Gas Products	20	1,258
Rubber Products	256	473
Plastic Products	164	3,612
Building Materials:	982	7,533
Ceramic Products	236	1,129
Glass Products	114	2,034
Other Building Materials	632	4,370
Cement	296	8,911
Engineered Products:	1,056	14,822
Metal Products	424	10,696
Machinery	48	851
Electrical Equipment	573	2,343
Transport Equipment	11	932
Other Manufacturing	42	630
Total	8,811	75,617*

* Of which SR 7,623 Million were terminated

Table - 3

Table Showing Number of Newly Approved SIDF Industrial Projects by Province

Province	1428/1429	Cumulative Total
Riyadh	13	777
Makkah Mokarramah	12	530
Madinah Monawarah	8	81
Qassim	1	51
Eastern Province	36	594
Asir	2	32
Tabouk	-	8
Hail	-	16
Jizan	-	17
Najran	-	11
Al-Baha	-	9
Al-Jouf &Northern Frontier	-	14
Total	72	2140*

* Of which 415 loans were terminated

Table - 4

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

Province	1428/1429	Cumulative Total
Riyadh	1,069	16,141
Makkah Mokarramah	426	13,171
Madinah Monawarah	1,048	8,109
Qassim	18	1,305
Eastern Province	6,241	33,725
Asir	9	606
Tabouk	-	490
Hail	-	46
Jizan	-	720
Najran	-	626
Al-Baha	-	28
Al-Jouf &Northern Frontier	-	650
Total	8,811	75,617*

* Of which SR 7,623 Million were terminated

Saudi Industrial Development Fund

P.O.Box: 4143 - Riyadh 11149
Kingdom of Saudi Arabia
Tel: 966 1 477 4002
Fax: 966 1 479 0165
sidf@sidf.gov.sa

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