



In-Kingdom Total Value Add (IKTVA) Program a platform for growth



Introducing the
In-Kingdom Total Value
Add Program (IKTVA)

Tuesday, December 1, 2015
Dammam Office Building

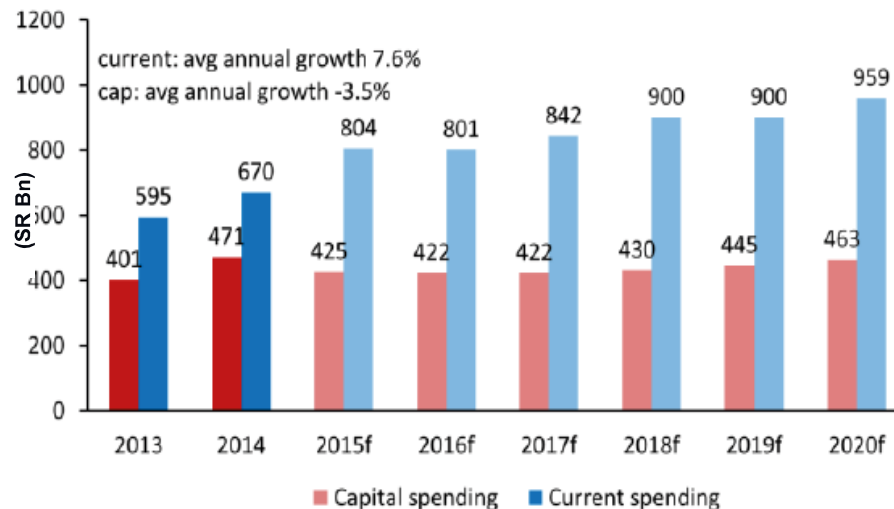
Contents

- Marco-economy setting
- Project pipeline: scope and focus
- Government-private sector enablers
- Centrality of private sector: SME, employment, R&I and economic diversification
- In for the long-run: Changing the economic relationship mode
- Conclusion and afterthoughts

Facing current challenges

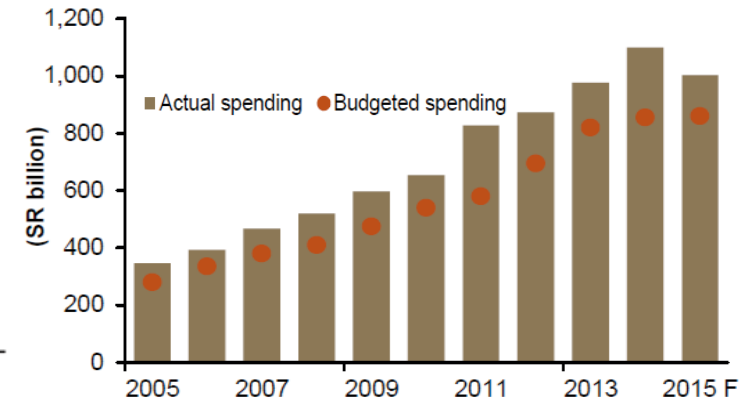
Revenues, expenditures, and budget overruns (SR 3.75 = 1 \$)

SAUDI ARABIA: CENTRAL GOVERNMENT CURRENT SPENDING



SOURCE: MOF, IMF, SAMBA

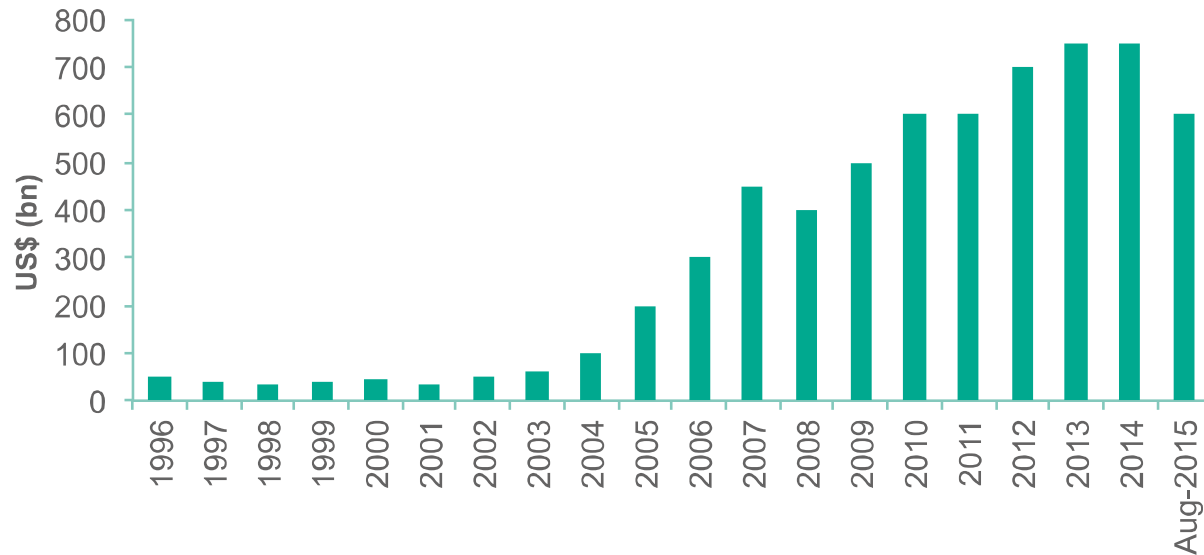
BUDGETED VERSUS ACTUAL SPENDING



Facing current challenges

Fiscal burden financing through mix of reserve drawdown and domestic debt issuance. SR100Bn in 2015 rising to nearly 20% of GDP by 2016/2017 (SR160Bn). Sovereign A+ (S&P), Aa3 (Moody's) some international borrowing

Saudi Arabia foreign assets (1996-2015) \$ billion

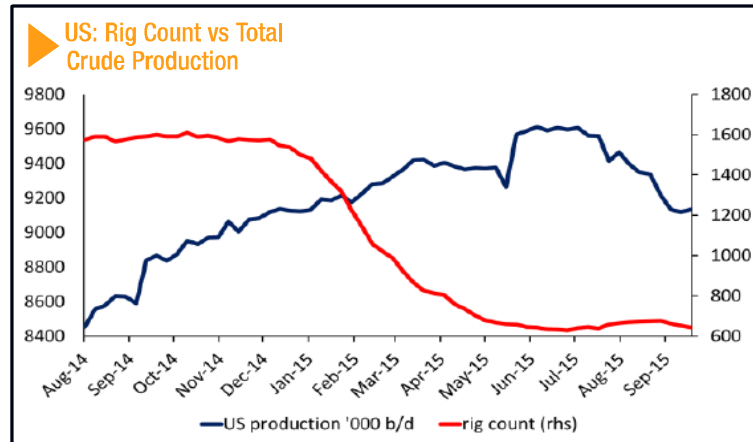


Reserve drawdown has now stabilized @ \$ 659B

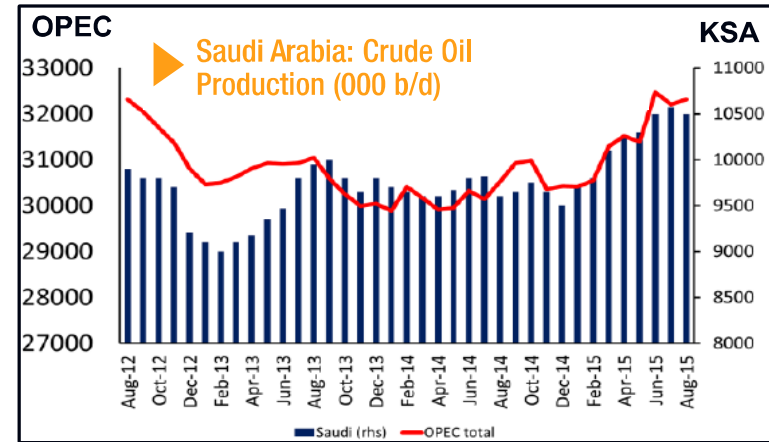
Oil market share at any cost: Light at end of tunnel?

Has Saudi/OPEC strategy finally succeeded? Prices bottomed out?
Saudi Arabia determined not only to protect market share, but to increase production

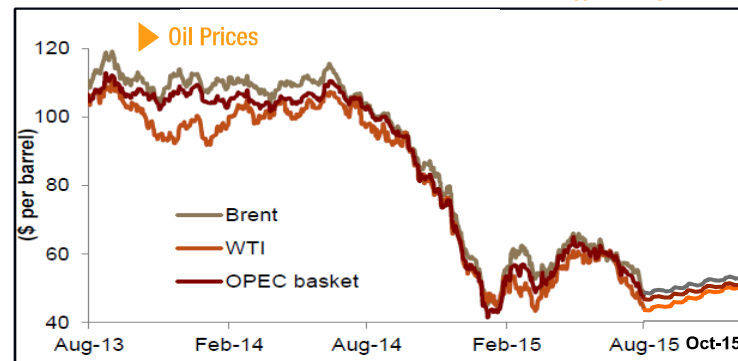
US Shale producers despite cost cutting. Junk bonds increasing and hedges maturing



Source: DOE, Baker Hughes



Source: Energy Intelligence



Source: Bloomberg

Project pipeline: Scope and focus

Saudi Arabia is still the LARGEST Middle East Economy with significant project expenditure pipeline . SR 293 Bn in 2013 , SR 220 Bn in 2014 . SR 140 Bn in Q2'2015.

- Rationalization of capital project expenditure is expected to continue, but both value and scope of Saudi project expenditure remains significant, at around 20- 25 percent of total spending.

Demographic trends. 30 Million plus Saudis by 2030

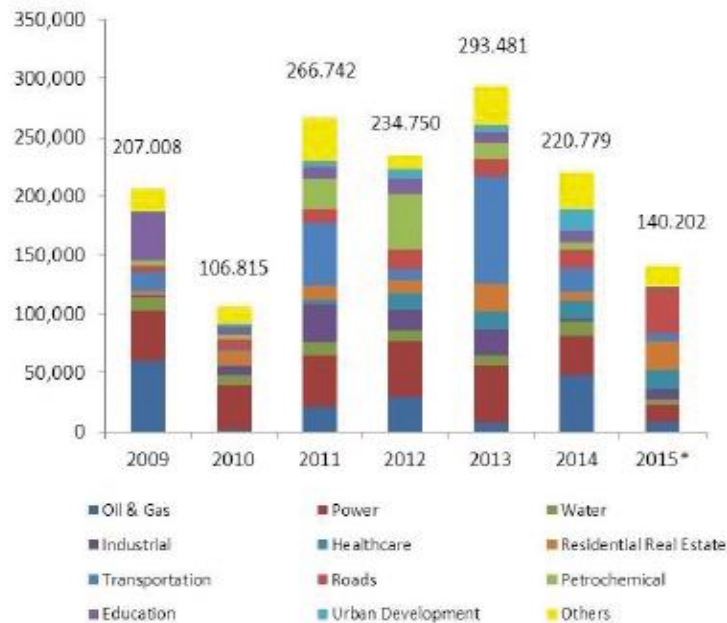
- Provides a supportive backstop to consumer demand and non-oil growth, coupled with Saudization drive that:
 - creates local employment
 - induces domestic consumption
 - increases local liquidity

Key areas remain a national priority

- Urban transport, infrastructure, power, housing, healthcare, oil and gas.
- The significant role of SME's and Supplier Chain Management becomes critical.

Project pipeline: Scope and focus

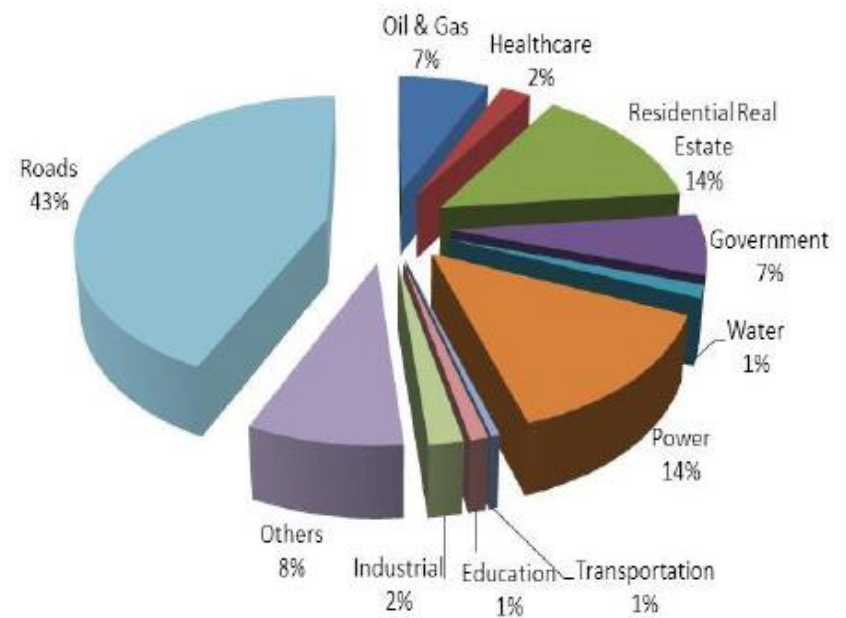
▶ VALUE OF AWARDED CONTRACTS BY YEAR (SAR MILLIONS)



* THROUGH 1H'15

SOURCE: VARIOUS SOURCES, NCB

▶ VALUE OF AWARDED CONTRACTS BY SECTOR DURING Q2, 2015



SOURCE:

VARIOUS SOURCES, NCB

The centrality of SMEs and expanding supplier chain integration

Why the new SME emphasis ?

- Absorbs fluctuation in a modern economy by reducing dependency on a few large firms,
- Significant potential for localization and job creation.
- Expands foreign/local supply chain synergy , helps in promoting social corporate responsibility
- Attracts foreign SME's to enhance local innovation
- Large potential: SR263 billion SME investment by end 2015.

Aims:

- Create an integrated chain of local and international suppliers and sub-suppliers of high standard.

How?

- State support through SIDF 'KAFALA' loan guarantees to local banks
- Aramco and multinationals / suppliers (WAED: Saudi Aramco Entrepreneurship Centre) initiatives to support local manufacturing in power, water, oil and gas, and energy management. Boost foreign suppliers global supply chain through a focus on localized innovation

Government - private sector obstacles and enablers

Structural bottleneck

Promotion of Large domestic firms vs. SME Promotion

Uncoordinated Government procurement policies

Local content requirement

Special IPR regulations, low R&I

Cost of economy

Hampers SME growth if artificial entry barriers imposed

Low incentives to be competitive

Low incentives to be competitive if insufficient competition

Mismatch with market demand if poor market intelligence

Benefits of solving

Scale economies, supply chain build-up

Transparent bidding

Incubating an integrated supplier base of local/ international firms

Planting the seeds of a localized knowledge based economy

R&I: A powerful tool for local content enhancement and job creation

According to the Global Innovation Index (GII) , R&I is important to total value added economic relationship between suppliers, GDP growth , value added employment generation, and *high tech exports*. SAUDI ARAMCO alone aims for 70% local content by 2021 and 500,000 new job creation. (Total 2014 private sector Saudi employment 1,700,000.)

R &I can *induce the following* economic impact on the Saudi economy

- A. **Job Creation:** These are ‘direct’ (those employed in the R&I sector), ‘Indirect’ (supplying services to the R&I sector eg. Logistics, transport), and ‘induced’ (expenditure on goods, housing and schooling). Assumed to increase by 3.1 according to the GII
- B. **GDP growth:** R&I spending is estimated at amplifying GDP growth by 2.9 according to the GII

Doubling of 2014 KSA GDP R&I TO 0.6% would add

\$13 bn to GDP (\$760 bn 2014)

New job creation of 32,000 in all categories:

- Direct 9,600
- Indirect 8,000
- Induced 14,400

In for the long-run: The changing economic supplier relationship mode

OBSERVATION:

Opportunities exist in the current **value-added project award** emphasis, rather than just short term price-Competitiveness

BRIEF EXAMPLES :

RESERVOIR PRODUCTIVITY ENHANCEMENT

Less costly to increase existing reservoir productivity/ output than new drillings/onshore and offshore

CARBON CAPTURE TECHNOLOGY

Climate change and fossil fuel disinvestment pressure, raise reserves

WATER RECYCLING /AGRI-BUSINESS FOOD SECURITY

- Effective R & I in water desalination and recycling reduces planned expenditure for desalination projects .
- Region is food deficit / large food import bill.

RENEWABLE /SOLAR ENERGY /ENERGY EFFICIENCY

- Enhanced industrial energy efficiency, green building technology , solar energy leading to reduction in yearly increase in fossil fuel and gas consumption

Key takeaways

Stability in face of regional instability

- Deep-rooted experience in managing oil price declines (1980's, early 1990's, 2008), domestic debt management and expenditure rationalization. Large appetite for govt. debt by Saudi banks
- Government debt to GDP lowest in the world (3.5%) , despite forecasted domestic borrowing. Private sector is not highly leveraged
- Government infrastructure and financial support to private sector still available
- Proven hydrocarbon reserves are large , excluding new finds, unconventional energy supplies and Enhanced Oil Recovery through carbon capture plans and product spillover effects
- Despite speculative attacks, SAMA expected to maintain Riyal/dollar peg.
- GDP growth expected to grow at over 3.5 %

Key takeaways

Significant economic restructuring agenda: taking a Kingdom-wide holistic approach:

- Council of Economic and Development Affairs chaired by Deputy Crown Prince. Key decisions:
 - Public Investment Fund - reports to council
 - SAAB - Ministry of Agriculture
 - Saudi Credit Bank - Ministry of Social Affairs
 - SIDF - Ministry of Commerce
 - REDF now a standalone bank
- SME sector focus - the Public Authority to SME's (consolidating 7 different institutions dealing with SME's)
 - 2015 Estimated SME's 2.5 million , 35% of GDP
- Local employment generation
 - Establishment of new 'Employment Council' to oversee process and help private sector achieve targets
- Focus on efficiency and economic rationalization:
 - Projects over SR100 million (awarded and new), re-examined by Council, avoiding duplication, ministerial coordination

Conclusions and afterthoughts

EFFECTIVE SME supplier chain integration in KEY areas of high recurrent expenditure can induce significant DIRECT and INDIRECT economic spillover and employment benefits to KSA

Ensuring a level and TRANSPARENT field for both local and international suppliers by developing in-depth and EASILY UNDERSTOOD project reward criteria

Culture of creativity and entrepreneurship partnership now needed rather than just a production process.

Suppliers (local and international) who are the most adaptable to change and raising their social responsibility towards local suppliers will survive , and not the fittest .

IKTVA not just a slogan: the power of words ...

Thank you

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www.saudi-economy.org