

Saudi Arabia
**Assessment of the
National Transformation Program (NTP)**

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2016



The Gulf's International Bank

Assessment of the National Transformation Program 2016

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Background

Early this month, Saudi Arabia unveiled the long-awaited details of the National Transformation Program 2020 (NTP). The program outlines the strategic objectives and identifies the challenges faced by government bodies in achieving “Saudi Arabia Vision 2030” (Vision 2030) - a wide-ranging privatization and economic reform program introduced in April 2016.

Key points of the NTP include:

- Five-year program.
- Broadly based on three strategic objectives:
 - Public sector and fiscal reforms.
 - Economic diversification and enhancing the business environment.
 - Social reforms.
- Aims to build the institutional capacity and capability required to fulfill the Saudi Arabia Vision 2030 goals.
- Establishes 178 strategic objectives, 350 performance targets and 400 benchmark indicators for twenty-four government bodies up to 2020.
- The program starts in 2016 and includes 543 approved initiatives at an estimated cost of SR270 billion (US\$70 billion).
- The private sector is slated to fund 40% of the cost of the NTP’s initiatives.





National Transformation Program 2020

Key Targets:

	Sector	Targets for 2020	Initiatives Approved by the Government for 2016
1	Energy, Mineral Resources & Industry	<ul style="list-style-type: none"> Decreasing water and electricity subsidies by SR200 billion. Boosting annual non-oil commodity exports to SR330 billion from SR185 billion. Lifting the percentage of power plant electricity generation through "strategic partners" to 100% from 27%. Boosting dry gas production capacity from 12 billion to 17.8 billion standard cubic feet per day. Increasing the mining sector's contribution to GDP from SR64 billion to SR97 billion. Increasing local content in total expenditure of private and public sectors from 36% to 50%. Increasing the volume of private sector investments in high-potential less-developed regions from zero to SR28 billion. Increasing local pharmaceutical manufacturing percentage of total market value from 20% to 40%. 	The Ministry of Energy, Industry and Mineral Resources will spend over SR2.5 billion on new initiatives over the next five fiscal years, including coordinating with relevant authorities to build production centers for manufacturing and light industries in Raas Abu-Gamis, Bani-Tamim and Debaa to benefit from the local natural resources that are available.
2	Transport	<ul style="list-style-type: none"> Increasing private sector contribution to developing and operating railways projects (from 5% to 50%) and ports projects from 30% to 70%. 	The Ministry of Transport will spend over SR5.5 billion on new initiatives over the next five fiscal years, including the establishment of private sector operation and maintenance of concession contracts and development of an integrated program to increase the efficiency of ports.
3	Health	<ul style="list-style-type: none"> Increasing private healthcare expenditure (from 25% to 35%) and total revenue generated by the private sector (from SR300 million to SR4 billion). 	The Ministry of Health will spend over SR23 billion on new initiatives over the next five fiscal years, including reform and restructuring of primary health care, the establishment of private public partnerships, the privatization of one of the medical cities and localization of the pharmaceutical industry.
4	Saudi Arabian General Investment Authority (SAGIA)	<ul style="list-style-type: none"> Raising foreign direct investment (FDI) from SR30 billion to SR70 billion. Implementing 218 administrative and procedural reforms aimed at improving the business environment. Developing a unified national investment vision to promote and direct investments supporting the domestic economy, resulting in SR2.3 trillion in new investment opportunities. Reducing time needed to issue new business permits from 19 days to one day. 	SAGIA will spend over SR1 billion on new initiatives over the next five fiscal years, including the development and execution of plans for localizing construction material and equipment industries and the transportation and logistical services sector, establishment of a government agency to manage and execute mega projects, launching the unified permits for foreign investors and the execution of the "National Investment Plan."

National Transformation Program 2020

Key Targets (cont'd):

	Sector	Targets for 2020	Initiatives Approved by the Government for 2016
5	Haj, Umrah & Tourism	<ul style="list-style-type: none"> Increasing total new tourism investment from SR145 billion to SR171.5 billion. Increasing total revenues from partnerships with the private sector from SR80 million to SR19 billion. 	The Saudi Commission for Tourism & National Heritage will spend over SR10 billion on new initiatives over the next five fiscal years, including the development of Ola City, Uqair, Farasan Islands and Okaz City.
6	Royal Commission for Jubail and Yanbu (RCJY)	<ul style="list-style-type: none"> Increasing the number of value-added basic manufacturing and transformation products from 432 to 516. Increasing the total industrial production of RCJY cities from 252 million tons to 309 million tons. Increasing the size of private sector's new investments from SR681 billion to SR1.065 trillion. 	The Royal Commission for Jubail and Yanbu will spend over SR41.5 billion on new initiatives over the next five fiscal years, including the development of new infrastructure in Yanbu Industrial City (including the localization of the renewable energy industry and rubber industry and establishment of industrial gases and steam networks), Jubail Industrial City, Ras Al-Khair Industrial City and Jazan Economic City.
7	King Abdullah City for Atomic and Renewable Energy	<ul style="list-style-type: none"> Enabling atomic energy to contribute to the national energy mix. Enabling renewable energy to contribute to the national energy mix in the amount of 3.45 gigawatts (gw). Increasing the local content in the industrial and service value chains and localization of expertise in the renewable energy sector (from 25% to 35%) and the atomic energy sector (from 25% to 30%). 	King Abdullah City for Atomic and Renewable Energy will spend over SR5 billion on new initiatives over the next five fiscal years, including in relation to: the atomic energy sector, identification and preparation of the construction locations of the first nuclear power plant sites and provision of necessary infrastructure, development of necessary human capabilities, localization of small nuclear reactors and industry, localization of nuclear fuel cycle in uranium production to achieve investment returns and development of necessary legislation; and the renewable energy sector, the launch of the "King Salman Renewable Energy Initiative," development of necessary human capabilities, localization of renewable energy technology to support the Kingdom's power and water desalination sectors and development of necessary legislation.
8	Water	<ul style="list-style-type: none"> Percentage of desalinated water production through strategic partners to increase from 16% to 52%. Percentage of treated water production through strategic partners to increase from zero to 20%. Percentage of cities covered with water and sewage services through The National Water Company to increase from 42% to 70%. 	The Ministry of Environment, Water and Agriculture will spend over SR12.9 billion on new initiatives over the next five fiscal years, including the expansion of the number of cities covered by the services of The National Water Company in collaboration with the private sector.

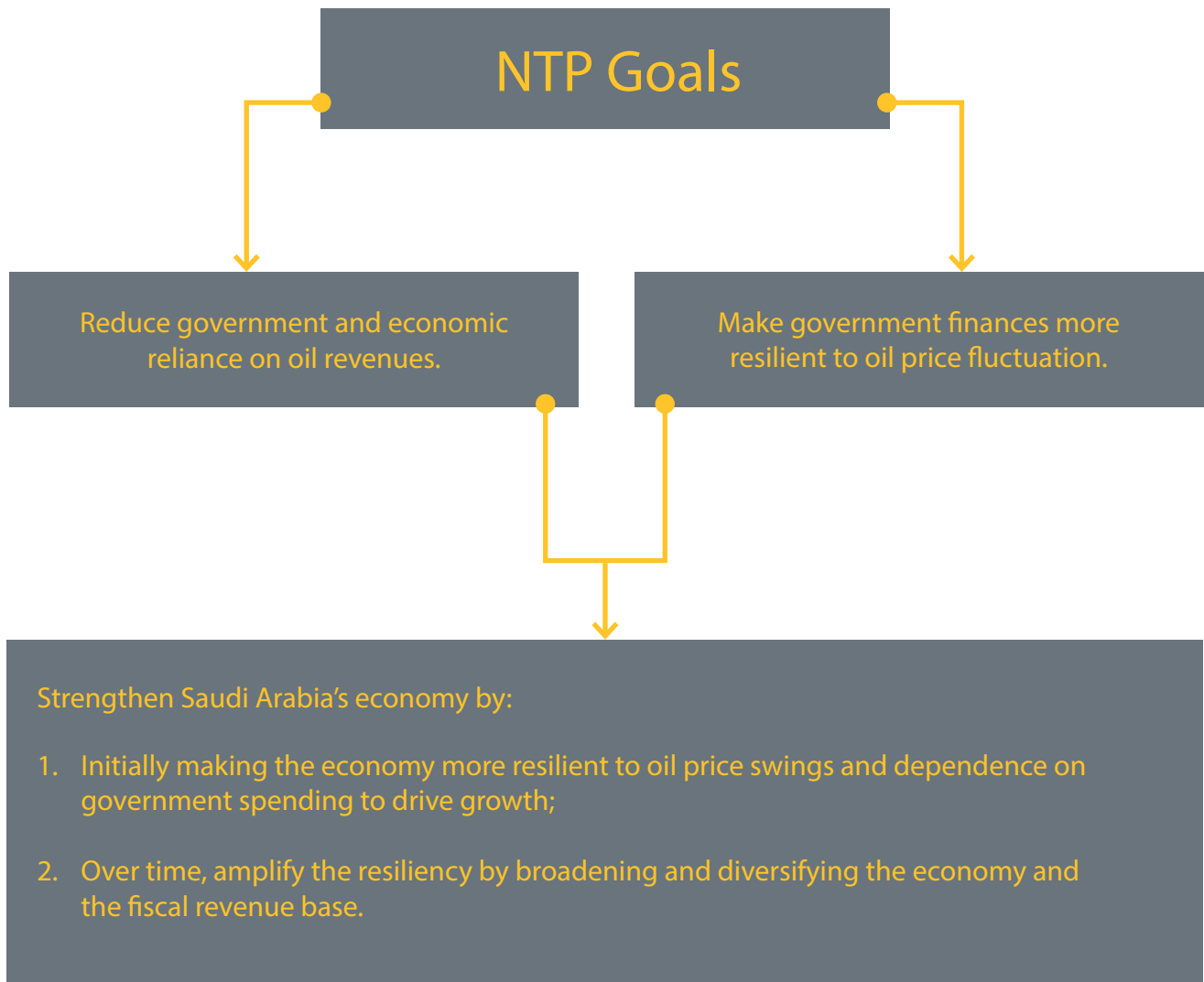
National Transformation Program 2020

Key Targets (cont'd):

	Sector	Targets for 2020	Initiatives Approved by the Government for 2016
9	Housing	<ul style="list-style-type: none"> Percentage of real estate sector contribution to the GDP to increase from 5% to 10%. Percentage of available housing units (new and unoccupied) to total number of subsidy-eligible citizens to increase from 10% to 50%. 	The Ministry of Housing will spend over SR59 billion on new initiatives over the next five fiscal years, including savings programs to enable financing applicants to save a portion of the cost of owning their own home, encouraging private sector real estate developers to invest in housing projects (including the use of fast track licenses and special finance packages) and establishing partnerships with private sector developers to develop government lands into large-scale housing projects.
10	Education	<ul style="list-style-type: none"> Increasing the percentage of students in non-government higher education from 6% to 15%. 	The Ministry of Education will spend over SR24 billion on new initiatives over the next five fiscal years, including encouraging private sector investment in public education in the Kingdom.
11	Technology	<ul style="list-style-type: none"> Number of establishments created to develop local content to increase from 8 to 17. Number of technology companies emerging from universities through the "Innovative Companies Program" to increase to 800. Number of localized and developed technologies in targeted sectors to increase to 125. Number of patents issued by the Kingdom to increase from 700 to 5,000. 	The King Abdulaziz City for Science and Technology will spend over SR8.3 billion on new initiatives over the next five fiscal years, including the localization and transfer of technology in building and construction, mining and advanced materials, health, energy, information and communication, water, oil and gas and transport and logistics.



Key Goals of the NTP



Source: GIB Economics

NTP Implementation: Gauging the Potential

Historically, Saudi Arabia's track record in implementing structural reform has been weak in spite of numerous ambitious announcements and plans. Therefore, it comes as no surprise that the announcement of Vision 2030 and more recently, the unveiling of NTP has led to some debate on its potential to be actually implemented.

However, there are a number of reasons that support the current structural reform effort and the ability of the government to translate this into action:

- The nature of the challenges facing Saudi Arabia in a post-shale oil world are unlike the Kingdom has ever faced before. Shale oil is only the beginning of the disruptive potential of unconventional hydrocarbon resources on oil prices; for a country like Saudi Arabia, this mandates a dramatic upheaval of the economic status quo as espoused in Vision 2030.
- Saudi Arabia is well-positioned to make the economic transformation given its robust financial starting point; a decade-long economic boom has enabled the Kingdom to accumulate large financial and non-financial assets while overall debt levels remain limited.
- In the aftermath of the 2011 events across the Arab world, there is a strong domestic political desire and willingness to introduce important change to ensure economic and social development and growth.
- After the announcement of the NTP, Moody's Investor Service issued a comment and noted that the approval of the NTP is a 'credit positive'. It added that the plan is an 'enormous undertaking' and implementation risks are high due to untested political willingness, commitment and ability as well as the logistical challenges of implementing such a broad range of reforms. However, it concluded that even the partial implementation of the NTP will support the Kingdom's credit quality.

Opportunities

The strategic objectives of the NTP include diversification of revenues, privatization of government services and assets, and restructuring of the private sector. This will significantly enhance the fiscal position and set Saudi Arabia on the path towards reducing dependence on oil and diversifying the economic base. Granted, this is a long term process and therefore entails significant risks in the interim.

Recent developments have, nevertheless, added credibility to Vision 2030 and the NTP, and the Saudi government's commitment to implement the necessary changes. As a result, there are likely to be tremendous opportunities for the local and foreign investors as well as the financial sector. These developments include:

1. In May 2016, General Electric and Saudi Arabian Industrial Investments Company announced a raft of investments worth between US\$1.5 billion to US\$3.5 billion across various industries in Saudi Arabia, including plans by General Electric to double its workforce in the kingdom by 2020 to 4,000 employees. There are expectations of many more such joint venture transactions between Saudi Arabia and foreign companies, facilitating direct foreign investment, increasing local employment opportunities and growing the participation of the private sector across the Kingdom's economic sectors.

2. Saudi Arabia's Public Investment Fund (PIF) announced US\$3.5 billion worth of investments in Uber in early June. This is being viewed as an important indication of the Kingdom's commitment to move beyond oil and also sets the course for the PIF to further pursue other foreign investments most notably after the partial divestment of Saudi Aramco.

3. Recently, US-based Dow Chemical Company became the first foreign company to receive a trading license from Saudi Arabia which gives it full ownership the Kingdom's trading sector. The license will allow Dow Chemical to sell products including oil and gas, alternative energy, and products in the areas of sustainable development.

The financial sector is likely to be the foremost to benefit from the changes planned under the NTP and Vision 2030, with Saudi banks viewed as the key sponsors of the program. Given the sheer scale of the programs, there are expected to be plentiful opportunities for institutions of various specialties across the financial industry including mandates for IPOs, debt issuance, private equity, and mergers & acquisition advisory as the Saudi government plans to divest public assets. There are expectations of up to 150 initial public offerings in the pipeline as the NTP initiatives get underway, while this will also contribute towards diversifying the loan portfolios of domestic banks.

In a report published in December 2015, the consultancy firm McKinsey & Company noted that Saudi Arabia had the potential to double its GDP by 2030 by shifting from its government-led economic model to a more market-based approach.

Challenges

There remain concerns and reservations about the likelihood of either the NTP or Vision 2030 being fully implemented or indeed being implemented at all.

This is the first time in the Kingdom's history that such a detailed country plan toward structural reform and liberalization has been articulated. Yet, the scale of the envisioned change is a massive undertaking and this entails a number of challenges, the most notable ones being:

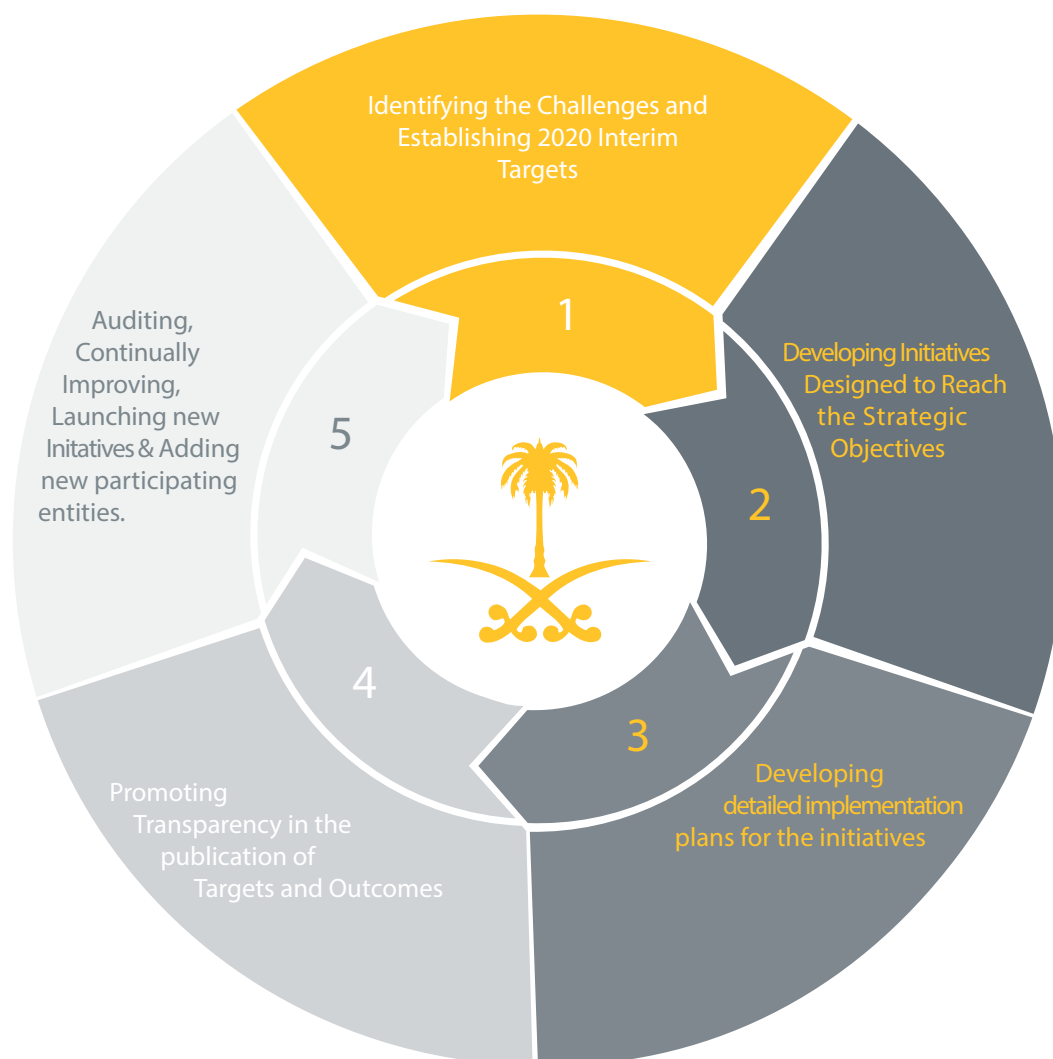
1. The key driver behind the NTP and Vision 2030 is deputy Crown Prince Mohammed Bin Salman Al Saud and this has fuelled a number of perceived concerns associated with a 'key person dependency' of such a massive economic transformation program. The plan needs to be supported by a strong steering committee with competent and capable members.
2. The Saudi population will have to work harder and receive fewer state subsidies if the plan is to be delivered, and there are concerns whether this will be politically palatable or socially acceptable.
3. Liquidity and asset quality issues also pose challenges given that the government plans to restructure the whole Saudi economy at a time when the global oil demand is still muted; there is widespread economic and financial uncertainty across the globe; and the advent of shale oil has altered the dynamics of the traditional oil industry.
4. Although the NTP is anchored in economic objectives, these are very broad and still lack detail on how they can be effectively achieved. There are also concerns that the measures required to achieve the targets could stifle the economy, boost unemployment and weaken rather than strengthen the government's capability to achieve the goals envisioned under the NTP and Vision 2030.
5. The legal system needs to be overhauled if Saudi Arabia's economic transformation ambitions are to be achieved. Attracting foreign direct investment and building the sovereign wealth fund (key building blocks of the economic transformation plan), mandates a judicial system based on common law and foreign arbitration.
6. The Saudi authorities need to build institutional and administrative capacities, as well as enhance transparency to enable the government apparatus to effectively and efficiently implement the goals of the NTP and Vision 2030.

Appendix National Transformation Program 2020 (NTP)



National Transformation Program 2020 (NTP)

Operating Model



Data Source: National Transformation Program 2020

National Transformation Program 2020 (NTP)

Participating Entities

The first phase of the National Transformation Program was launched across 24 government bodies, including the ministries represented in the Council of Economics and Development Affairs and a number of public entities associated mainly with the strategic objectives of Saudi Arabia's Vision 2030. Other entities were also invited because the ministries deemed their presence important for achieving strategic objectives of the Vision. The program is carried out in phases, so other entities will be added as the Vision and the decisions of the Council of Economic and Development Affairs require.

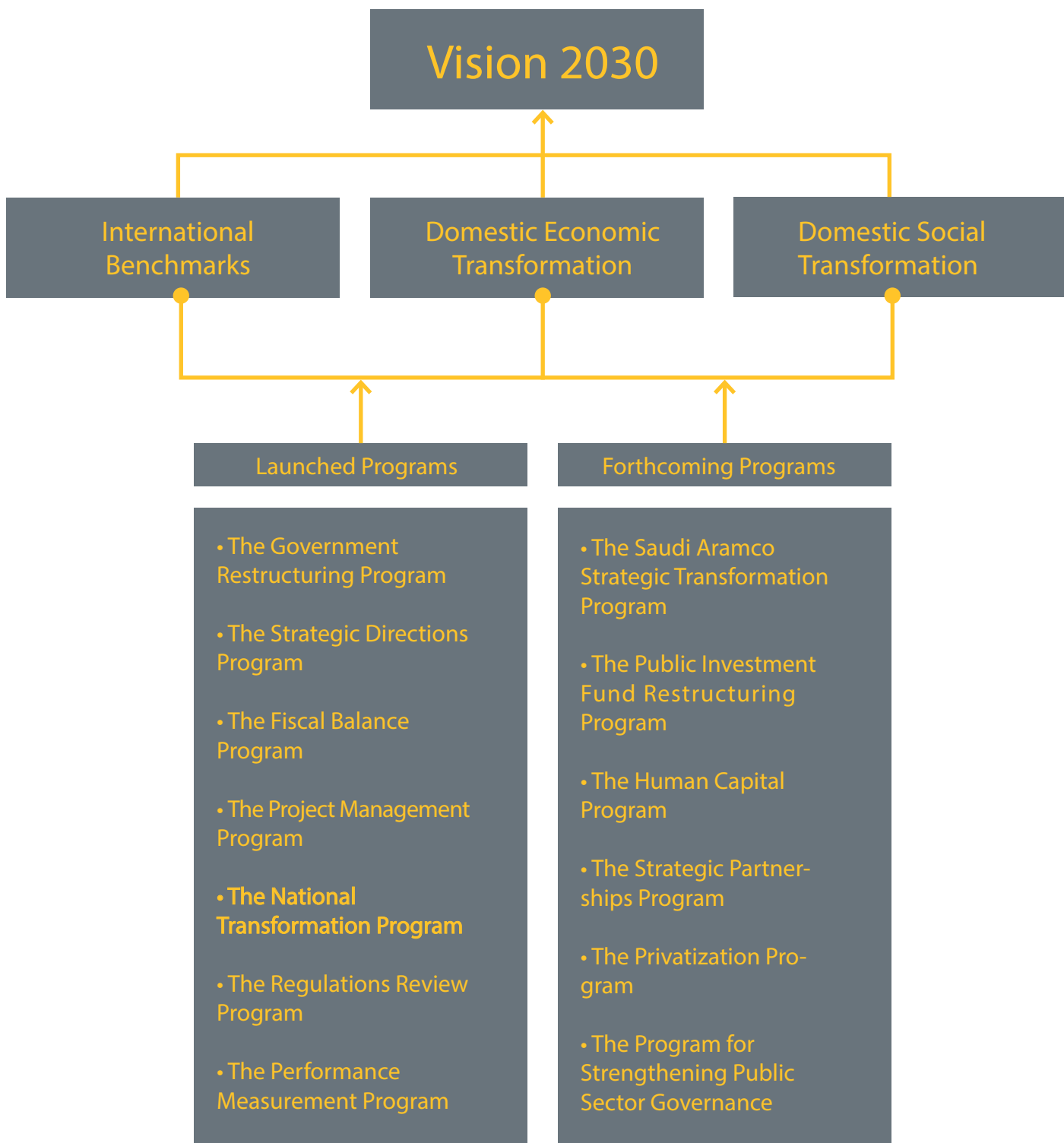
Participant	No. of strategic objectives	No. of indicators	No. of targets
Ministry of Justice	7	21	19
Ministry of Finance	6	12	12
Ministry of Economy and Planning	6	13	7
Ministry of Health	16	17	16
Ministry of Communications and Information Technology	10	17	17
Ministry of Commerce and Investment	7	10	9
Ministry of Municipal and Rural Affairs	7	25	24
Ministry of Civil Service	5	11	11
Ministry of Culture and Information	4	10	9
Ministry of Environment, Water and Agriculture	16	35	35
Ministry of Energy, Industry and Mineral Resources	15	24	24
Ministry of Labor and Social Development	13	37	37
Ministry of Housing	3	11	11
Ministry of Education	8	20	19
Ministry of Transportation	9	15	15
Ministry of Haj and Umarh	5	15	10
Saudi Commission for Tourism and National heritage	4	16	16
Sports Authority	4	7	5
Royal Commission for Jubail and Yanbu	9	12	10
King Abdulaziz City for Science and Technology	7	12	12
King Abdullah City for Atomic and Renewable Energy	4	8	8
Institute of Public Administration	2	4	4
Saudi Arabian General Investment Authority	5	12	11
Saudi Food and Drug Authority	6	7	5
Total	178	371	346

Data Source: National Transformation Program 2020

Appendix Saudi Vision 2030



Saudi Vision 2030 Roadmap



Source: GIB Economics

Saudi Vision 2030

International Benchmarks

Program Goals:

1	To move from Saudi Arabia's current position as the 19th largest economy in the world into the top 15.
2	To rise from the current position of 25 to the top 10 countries on the Global Competitiveness Index.
3	To raise Saudi Arabia's position from 26 to 10 in the Social Capital Index.
4	To have at least 5 Saudi universities among the top 200 universities in international rankings.
5	To raise Saudi Arabia's global ranking in the Logistics Performance Index from 49 to 25 and ensure the Kingdom is a regional leader.
6	To raise Saudi Arabia's ranking the Government Effectiveness Index.
7	To raise Saudi Arabia's ranking on the E-Government Survey Index from the current position of 36 to be among top 5 nations.

Data Source: Vision 2030 / GIB Economics

Saudi Vision 2030

Domestic Social Transformation

Program Goals:

		Current	2030
1	Increase SME contribution to GDP (% of GDP)	20.0	35.0
2	Increase Public Investment Fund Assets (SR billion)	600	7,000
3	Private Sector Contribution (% of GDP)	40.0	65.0
4	Non-oil exports (% of non-oil GDP)	16.0	50.0
5	Annual FDI inflows (% of GDP)	3.8	5.7
6	Increase non-oil government revenues (SR billion)	163	1,000
7	Increase military spending within Saudi Arabia (% of total spending)	2.0	50.0
8	Increase localization of oil and gas sectors	40.0	75.0
9	Household savings (% of household income)	6.0	10.0
10	Household spending on culture and entertainment (% of total)	2.9	6.0
11	Number of Umrah visitors per year (million pilgrims)	8	30
12	Doubling the number of Saudi heritage sites registered with UNESCO	-	-

Data Source: Vision 2030 / GIB Economics

Saudi Vision 2030

Domestic Social Transformation

Program Goals:

		Current	2030
1.	Lower unemployment rate (% of Saudi labor force)	11.6	7.0
2.	Increase female participation rate (% of working age females)	22.0	30.0
3.	Average life expectancy (years)	74	80
4.	Individuals exercising at least once a week (% of total)	13.0	40.0
5.	Non-profit output (% of total GDP)	Less than 1.0	5.0
6.	Number of volunteers (per year)	11,000	1,00,000

Data Source: Vision 2030 / GIB Economics

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