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MARMORE FIRST TAKE

Kingdom of Saudi Arabia's Privatization Plan



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HIGHLIGHTS

On April 24, 2018, the Kingdom of Saudi Arabia's Council of Economic and Development Affairs (CEDA) approved the executive plan for the country's Privatization Program¹. The program has been named 'Delivery Plan 2020'. It is part of the larger Saudi Vision 2030 Realization Program. The Privatization Program supports two main Vision 2030 aims. Called Direct Objectives, they are²—

- Unlocking state-owned assets for the private sector.
- Privatizing selected government services.

Moreover, the Privatization Program also supports 11 indirect objectives. The indirect objectives were selected based on the Privatization Program initiatives scope, so that they include the ones that are most likely to be impacted by the various initiatives under the Privatization Program. The Indirect Objectives, numbering 11, include items like easing the access to healthcare services and developing an advanced capital market.

A Key Aim of Saudi Vision 2030 is to increase the country's private sector's contribution from around 40% to 65% of national GDP by 2030. As part of strategically achieving Vision 2030, the Privatization Program has committed itself to the realization of a number metrics of successes by 2020. This is anticipated to constitute the foundation required to realize 2030 Vision ambitions. The following are key 2020 Commitments³.

¹ Saudi Gazette

² Saudi Delivery Plan 2020

³ Ibid.

⁴ Saudi Gazette

⁵ Saudi Research & Publishing Company

- **Contribution to GDP:** SAR ~13-14 Billion
- **Total government proceeds from asset sales (driven by public sector companies or PSCs):** SAR ~35- 40 Billion
- **Government net savings (Capex & Opex) from privatization/PPP (driven by PSCs):** SAR ~25-33 Billion
- **Government net saving (Opex) from privatization (assets sale-does not include assets transferred to companies):** SAR ~1 – 1.2 Billion
- **New private sector jobs created:** 10,000 – 12,000

It is notable that the Privatization Program targets privatization of 10 key sectors in its first phase⁴. They are health; housing; education; labor and social affairs; energy, industry and mineral resources; municipalities; transport and aviation; environment, water and agriculture; Haj and Umrah, and communications and IT. In all, there are over 100 privatization initiatives likely to be implemented in more than 10 identified sectors.

The ambitious program of privatization of some state assets, one of the biggest in Saudi history, faces the constraint that the country has limited experience of private-sector involvement in the national economy, and that too confined to specific sectors (like construction)⁵. Thus, needed expertise, knowledge and human capital related to the privatization of selected state assets may be not that easy to obtain.

The fact that many sectors in Saudi Arabia has little private sector involvement or interest and that there are little clear procedures currently with respect to the process of privatization may make it difficult to achieve the full benefits of the privatization program. Moreover, potential private sector investors in state-owned entities may seek stronger and transparent governance, including the presence of independent board members. To what extent the Saudi authorities can satisfy the private sector and international investors' need for independent board members is currently difficult to gauge.

It is also possible that private sector investors may be less tolerant of excess spending, even if some of it is necessary for long-term national economic good. For e.g., company policies aimed at increasing domestic procurement of goods or services as part of local content encouragement may find disfavor among private sector investors who may be wary of any additional costs⁶. Moreover, investors might want to focus more on already existing and revenue-generating projects; rather than focus on efforts of companies that are aimed at creating new opportunities for economic diversification and job creation. Controlling expectations and managing varying interests will be essential for making the privatization program in the Kingdom.

⁶ Financial Times Ltd.

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About marmore

Our vision

To be the first choice for obtaining strategic intelligence on the MENA region.

Our mission

Serving businesses and institutions with reliable information and intelligence about MENA, needed to catalyse growth, understand the larger environment and facilitate decision-making

Our aim

Advocate intellectual research on MENA economics, businesses and financial markets and provide customized, actionable solutions.

Our foundation

- A subsidiary of Markaz: Investment bank and asset management firm with 40+ years of history
- Markaz research activities commenced in 2006
- Marmore established in 2010 to intensify the research activities
- Publishes research reports and provides consulting services

Published research

Industry research

Marmore's industry reports provide information on industry structure, key players, market analysis, demand drivers, competitive analysis and regulatory requirements.

Economic research

These reports are produced as thematic discussions based on current issues in the economy. The reports aid key stakeholders such as investors, businessmen, market participants, and policy makers in understanding the impact of a particular theme on the economy.

Infrastructure research

Infrastructure research highlights bottlenecks in the sector and areas requiring urgent investments. Our infrastructure report analyses the link between economic development and infrastructure and showcases supply & demand challenges in the GCC and investment opportunities.

Capital market research

Capital market reports provide an analysis of stock & bond markets in the MENA region including outlook. These reports are strategic in nature and provides investment perspective to readers.

Policy research

Marmore has partnered with several leading thought leaders and institutions of repute to generate economic policy research studies in key areas like energy, labor, economic structure and public sector.

Periodic research

Our periodic reports capture GCC stock markets' earnings, risk premium studies, and economic development & outlook.

Regulatory research

Our regulatory research series is an effective consolidation, analysis and summary of key business, economic, and market regulations that impact business environment.

Consulting services

Marmore provides customized consulting services based on specific requirements of our clients. Marmore's bespoke consulting services marries the challenges of cost, time, scope and data availability to generate actionable outcomes that are specific to our clients' needs.

What type of consulting services we provide?

- Industry market assessment (market size, competitors, regulations)
- White label reports (industry reports, company newsletters, periodic research)
- Databases (competitors' information, target clients insights)
- Company valuation (buy/sell side advisory)
- Due diligence / Business evaluation
- Feasibility studies (market and financial)
- Business plans
- C-Suite support to leaders with intellectual, industry related needs

How do we execute consulting engagement?

Our seven step process to execute consulting engagements:

- Step 1: Requirement and scope analysis
- Step 2: Proposal submission
- Step 3: Project initiation
- Step 4: Fieldwork / research
- Step 5: Analysis & reporting
- Step 6: Review & approval
- Step 7: Report submission / presentation

