

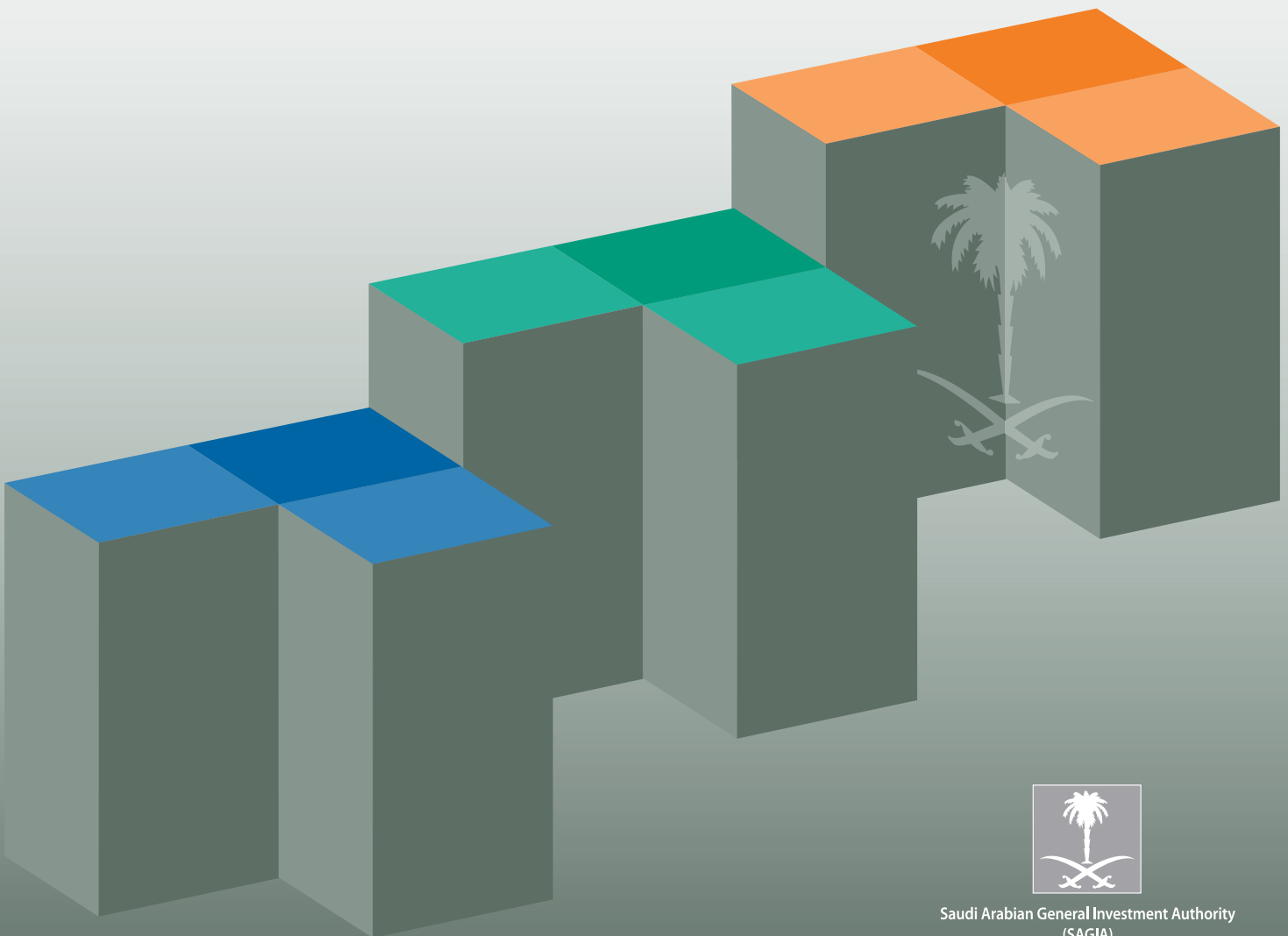


THE NATIONAL
COMPETITIVENESS CENTER

The Competitiveness Review

January 2009

An Update on Saudi Arabia's 10x10 Program



Saudi Arabian General Investment Authority
(SAGIA)

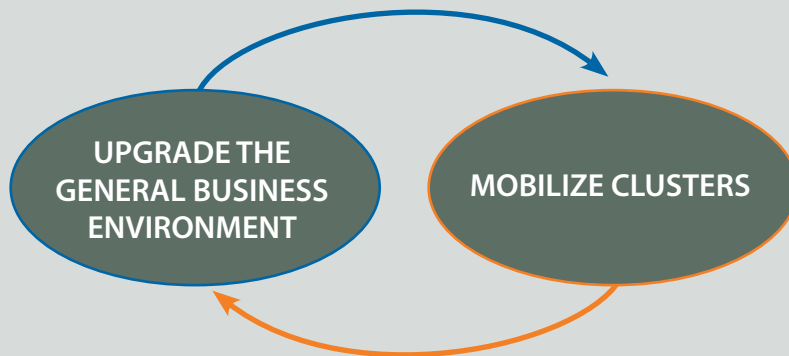
The NCC

NCC mission: *To support the Kingdom of Saudi Arabia's competitiveness agenda through objective, data-driven advice on regulatory reform and sector improvement opportunities that will contribute to increasing, sustainable prosperity for the people of Saudi Arabia.*

The National Competitiveness Center (NCC) was established by SAGIA in 2006 as a body to monitor, assess, and support competitiveness enhancement in the Kingdom of Saudi Arabia.

The NCC fulfills this role in three ways:

It serves as a think tank for change by conducting and developing competitiveness assessments and monitoring the implementation and results of change programs. These programs focus on two main areas: improving the ease of doing business in the Kingdom, through spurring modernization of the general business environment; and improving the microeconomic fundamentals of competitiveness, through mobilizing development of world-class clusters. During 2008, the NCC played a key role in advocating for a range of improvements to Saudi Arabia's business environment, including rules strengthening protection of shareholders and a reduction in commercial registration fees.



It works as a facilitator of change by creating forums for discussion between the public and private sector. The NCC is currently supporting the creation of Advisory Councils that bring together stakeholders from the private and public sectors in key clusters to identify and collaborate on competitiveness improvement initiatives.

Finally, it acts as a communicator for change, sharing the results of the Kingdom's ongoing competitiveness efforts through such channels as its Competitiveness Review.

www.saudincc.org.sa



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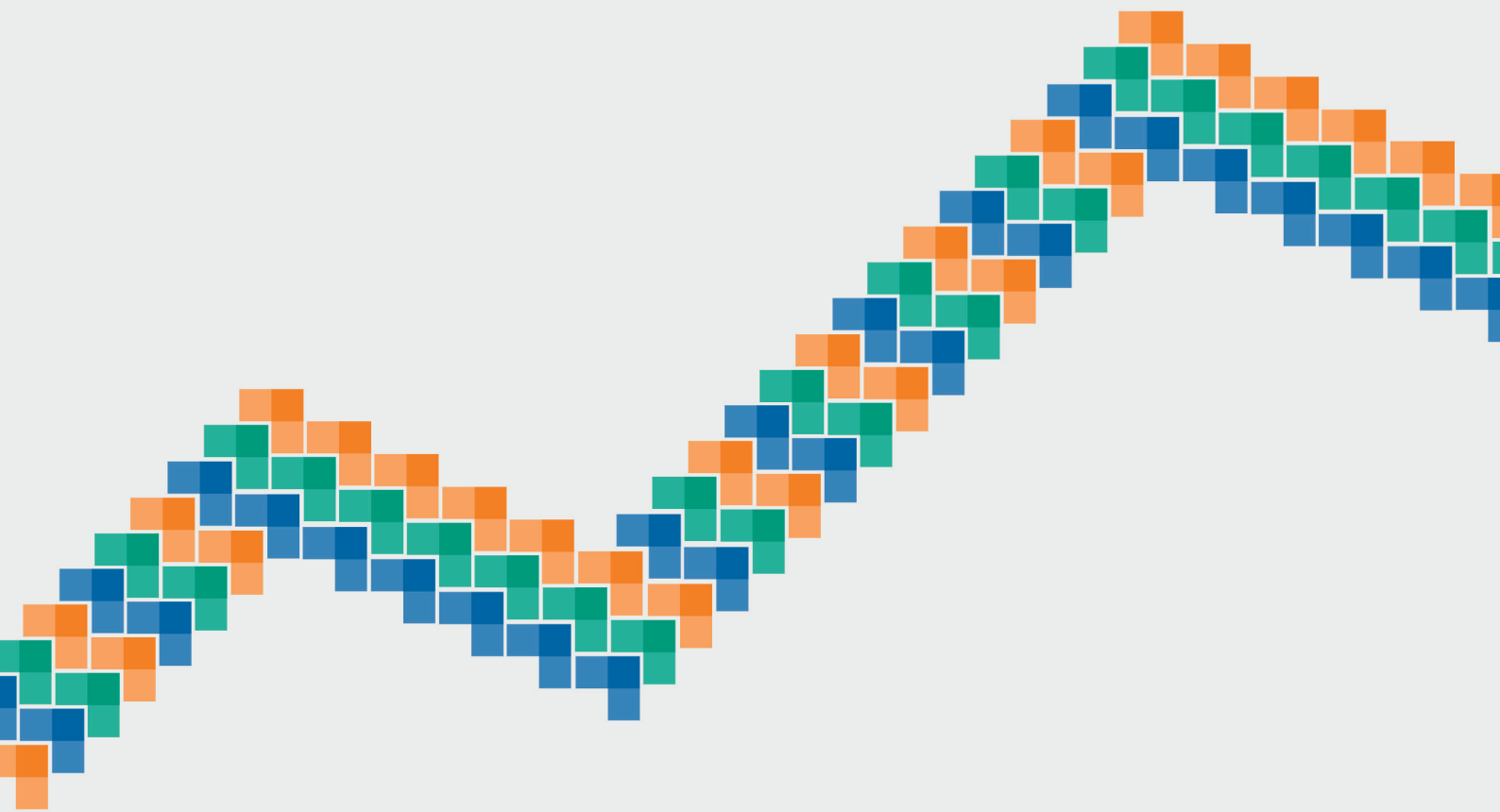




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Introduction by the Governor of SAGIA

Dear Reader:

This year's *Competitiveness Review* chronicles recent successes and highlights challenges facing the Saudi Arabian General Investment Authority and the National Competitiveness Center as we work to build domestic prosperity and international competitiveness in Saudi Arabia.

In 2008, Saudi Arabia joined the Top 20 countries in the World Bank/IFC's *Doing Business* report, advancing further than any other nation in the group. Our ongoing reform efforts have brought the Kingdom within reach of our goal of achieving 10x10, and foreign investors and domestic entrepreneurs are taking notice. UNCTAD's latest *World Investment Report* showed that Saudi Arabia received FDI inflows exceeding US\$24 billion in 2007, a 30 percent increase over 2006, making Saudi Arabia the region's largest FDI recipient.

Aided by this improved business environment, new ventures are attracting growing investment, providing greater employment, and contributing to economic diversification. The competitive economy we are creating today will enrich the lives of Saudi Arabia's young, hopeful population tomorrow. This is the vision of His Majesty King Abdullah, Custodian of the Two Holy Mosques, which guides our efforts.

However, at SAGIA we are constantly reminded that each step in the reform process is more difficult than the last; our formidable peers in world competitiveness rankings are both a testament to our success and a challenge to redouble our efforts. To join the Top 10, we must work to reform our institutions and advance the spread of quality health care, education, infrastructure, and technology across the Kingdom. Moreover, we must strive to link the competitiveness agenda with a focus on regionally balanced development.

In this light, we invite world leaders to review this year's Global Competitiveness Forum on Responsible Competitiveness, taking place January 25–27 in Riyadh. To deliver sustainable prosperity, capitalism must be attentive to the social, environmental, political, and financial systems with which it is intertwined. This imperative is reinforced daily by the diverse stresses placed on the foundations of the world's economic well-being. Achieving responsible competitiveness has never been a more pressing challenge, for Saudi Arabia and other forward-looking nations, and we welcome this opportunity to bring together the world's leading thinkers in the interest of furthering this goal.

H.E. Amr Al-Dabbagh

*Governor and Chairman of the Board of Directors
Saudi Arabian General Investment Authority*

Chairman

National Competitiveness Center





Foreword by Dr. Awwad Al-Awwad

Dear Reader:

The great progress Saudi Arabia has made in its drive to achieve international competitiveness would not be possible without the exceptional commitment of the Kingdom's Economic Leadership to the reform agenda. Our work at SAGIA and the NCC is propelled by the vision of His Majesty King Abdullah, Custodian of the Two Holy Mosques, to dramatically increase the economy's productivity and prosperity, and is guided by the leadership of His Excellency Amr bin Abdullah Al-Dabbagh, Governor of SAGIA.

Moreover, while SAGIA and the NCC have guided the way on 10x10, economic reform in Saudi Arabia would not be possible without the invaluable collaboration and shared vision of our partners throughout the government. Over the past year, the Ministry of Commerce and Industry has bolstered entrepreneurship by cutting red tape and establishing the Unified Office for business registration. Meanwhile, complementary actions by the Ministry of Commerce and Industry and the Capital Market Authority have greatly enhanced the integrity of our financial markets.

In addition to the efforts to strengthen Saudi Arabia's business environment described in this year's *Competitiveness Review*, the 10x10 team is taking numerous initiatives to support private sector growth in strategic areas of the economy. One example is the NCC's Advisory Councils, which have brought together leaders from the real estate, education, and information and communications technology sectors to catalyze public-private collaboration.

As well as advancing the competitiveness agenda, one of the 10x10 team's most important tasks is to establish competitiveness as a core concept in the language of the Kingdom's economic policy. Therefore, in addition to our hands-on efforts to develop the private sector, SAGIA has invested significantly in the annual Global Competitiveness Forum. At the GCF in January 2009, to spotlight the path-setting best practices that define our vision for the economy, SAGIA will award the Saudi Porter Prize to a Saudi Arabian company that utilizes a distinctive competitive strategy.

We are also introducing the Saudi Responsible Competitiveness Index, a multi-year initiative to encourage and reward responsible leadership in the public and private sectors. The index assesses the strength of participating organizations' strategy, management, engagement processes, and performance systems. Organizations with exceptional SRCI results will receive the King Khalid Responsible Competitiveness Award.





These are just a few of the promising programs the 10x10 team has initiated to advance the Kingdom's economic competitiveness. At SAGIA, our minds are always open to domestic and international stakeholders, as well as to the leading economic thinking on national development and competitiveness, and we invite all of Saudi Arabia's citizens to collaborate toward our common aims. I encourage all Saudi Arabians to visit our website, www.saudincc.org.sa, to learn more about our work and contribute valuable feedback and ideas.

On behalf of the 10x10 team, I would like to thank the following people and institutions for their generous contributions, time, and effort dedicated to the NCC.

*H.E. Amr Bin Abdullah Al-Dabbagh
Governor and Chairman of the Board of Directors, SAGIA
Chairman, NCC*

*Mark Fuller
Chairman and CEO, Monitor Group*

SAGIA's Investment Affairs

Monitor Group

Dr. Awwad Al-Awwad

*Deputy Governor for Investment Affairs
Saudi Arabian General Investment Authority
President and Board Member
National Competitiveness Center*



Foreword by Mark Fuller

Dear Reader:

The publication of this year's *Competitiveness Review* marks the close of a watershed year for the world economy. Across the globe, governments are making unprecedented fiscal commitments to private industry. Massive government bailouts are certainly the most spectacular feature of the ongoing economic crisis, but it would be unfortunate if they come to form its most prominent legacy.

Clearly, extraordinary measures have a crucial role to play in managing short-term economic shocks. Less headline grabbing, yet much more important, are the steps policymakers can take to build the institutional foundations of a resilient market economy. These include mechanisms for addressing insolvency, enforcing contracts, and safeguarding creditors' rights. Strong institutions are more than components of Responsible Competitiveness, the theme of this year's Global Competitiveness Forum: they are crucial to sustainable development.

As catastrophic as the United States' sub-prime mortgage crisis has been, credit would have contracted even more sharply if not for the country's world-class credit information systems. Without sound bankruptcy systems, policymakers would have faced paralyzing constraints in coping with major cases of financial distress such as those suffered by Lehman Brothers and General Motors. Without efficient mechanisms for recovering debt and enforcing contracts, the clouds hanging over banks' loan portfolios would be even darker.

Laying the institutional foundations for long-term growth is arguably the most important challenge faced by emerging economies, one that Saudi Arabia is confronting head on. The past year has seen a number of important accomplishments in the Kingdom. Stricter protections against director misconduct have strengthened protection of minority shareholders and encouraged investor confidence. Streamlined bankruptcy proceedings will put Saudi Arabia in a stronger position to manage the burden of corporate insolvency. Going forward, a more powerful basis for creditors' rights will encourage lending to the small and medium enterprises that hold the future for Saudi Arabia's citizens.

This *Competitiveness Review* provides powerful evidence of the importance of institution building to Saudi Arabia's further economic development. The continued success of the Kingdom's prosperity agenda will not only be a boon to its citizens' livelihoods, but is also a guiding light to other emerging economies seeking to align public policy with their economic aspirations.

Mark Fuller

*Chairman and CEO
Monitor Group*





Executive summary

Overview

Saudi Arabia's recent economic successes have provided a historic opportunity for the government to make targeted policy changes and investments to lay the groundwork for a sustainable increase in the Kingdom's long-term rate of economic expansion. This opportunity has been coupled with ambitious vision on the part of His Majesty King Abdullah, Custodian of the Two Holy Mosques, to encourage the economy's advancement and diversification beyond the petroleum sector.

These efforts focus primarily on competitiveness: making Saudi Arabia a world-class investment destination and equipping it with the institutional basis for productivity gains. Far-reaching reforms are being implemented under the auspices of the 10x10 program, announced by His Excellency the Governor of SAGIA in 2006, an initiative to make Saudi Arabia one of the world's Top 10 most competitive nations by 2010. As this year's *Competitiveness Review* makes apparent, the Kingdom is rapidly upgrading its regulatory regime to provide an optimal business environment while steadily moving forward on other pillars of competitiveness, including the quality of its infrastructure and its capacity for innovation. Recent reforms have delivered tangible benefits: for example, following reforms streamlining the commercial registration process new business formation is up 81 percent this year.

Significant challenges remain. In too many areas, such as trading across borders and enforcing contracts, slow bureaucratic machinery increases transaction costs and prevents companies from fully realizing the benefits of newly enacted reforms. In education, outcomes have not kept pace with the high level of expenditure. Such crucial sectors as banking and information and communications technology remain underdeveloped by world standards, holding back investment and innovation. Yet these concerns are recognized at the highest levels of the Saudi Arabian government, and this year's *Competitiveness Review* highlights both the ongoing efforts being applied and outstanding areas that require investment.

The progress of the competitiveness agenda is benchmarked against two internationally recognized measures:

- The World Bank/International Finance Corporation Ease of Doing Business index, published in the annual *Doing Business* report.
- The World Economic Forum's Global Competitiveness Index, published in the annual *Global Competitiveness Report*.

The *Doing Business* report concentrates solely on aspects of the business environment, such as procedures and regulations around starting businesses, employing workers, and enforcing contracts. By contrast, the WEF report takes a wider view, employing an Executive Opinion Survey and statistical evidence to track such areas as the quality of education, health care, and infrastructure, as well as the efficiency and sophistication of business processes.



Other agencies and organizations also produce valuable reports dealing with various aspects of competitiveness, including levels of corruption, prevalence of red tape, and access to capital. For example, UNCTAD, the United Nations Conference on Trade and Development, ranks countries according to their performance in attracting foreign direct investment.

Current status

In the *Doing Business* report from the World Bank and IFC, Saudi Arabia was ranked 16th in 2008, up from 23rd in the preceding year. The most significant improvements were in protecting investors and closing a business. The former success was due to new rules on the disclosure and approval of related-party transactions, as well as stronger liability for directors. The latter improvement followed a directive limiting the duration of bankruptcy procedures to ensure swift recovery for creditors.

Reduced fees for import and export procedures also drove significant improvements in the trading across borders indicator, while starting a business saw benefits from reduced commercial registration fees and the consolidation of procedures within the Unified Office operation. The Kingdom's ranking improvement to 16th is a strong sign of progress, and places Saudi Arabia ahead of such advanced economies as Sweden, Germany, and Switzerland; however, more needs to be done for the country to reach the Top 10 by 2010.

Saudi Arabia advanced to 27th in the World Economic Forum's *Global Competitiveness Report*, from 35th in 2007, ahead of the United Arab Emirates (31st), Kuwait (35th) and Tunisia (36th). Qatar, at 26th the best-performing economy in the region, ranks just one place ahead of Saudi Arabia. Having registered the strongest improvement of any Top 30 economy, the Kingdom must now compete with such advanced economies as New Zealand and Luxembourg for further rankings improvements. The most important gains in 2008 resulted from reforms of the business environment, particularly the institutional framework for starting a business, and improvements in the efficiency of Saudi Arabia's goods markets.

The Kingdom also improved significantly in the UNCTAD *World Investment Report*, attracting nearly one-third more inward foreign direct investment flows in 2007 than in 2006. Saudi Arabia has now surpassed Turkey as the largest foreign investment platform in the Middle East/North Africa region, and is the world's 18th-largest FDI destination. These results indicate that investors are taking note of the strong and improving fundamentals of the Kingdom's economy, and are directing capital into the country.



Recommendations and next steps

Saudi Arabia's progress in internationally recognized competitiveness indexes validates the reforms and investments being made to strengthen the business environment. These reports also clearly indicate areas where more work is required, and the NCC has analyzed these to illuminate opportunities for further reform, including relevant international best practices. Among the indicators tracked by the *Doing Business* report, the Kingdom has the greatest room for improvement in contract enforcement, getting credit, closing a business, construction permits, and employment.

NCC recommendations:

Starting a business

- Consolidate procedures within the Unified Office, including registration with the Department of Zakat and Income Tax and the General Organization for Social Insurance.
- Reduce commercial registration fees to nominal levels or eliminate them entirely.
- Streamline procedures to remove unnecessary steps, such as publication of company Articles of Association in the official gazette.
- Invest additional resources, including e-government initiatives, to reduce the time required to complete each procedure.
- Implement Unified Office operations across Saudi Arabia, and consider providing business start-up procedures online to enable fast, simple access throughout the Kingdom.

Dealing with construction permits

- Reduce fees to become competitive with Qatar and United Arab Emirates.
- Consolidate procedures to reduce the number involved and the time required to complete them, for example by bringing construction licensing under the purview of the Unified Office.
- Make all forms downloadable online, and accept submission of applications online.
- Implement fast-track reforms, such as silence-is-consent rules and expedited approvals for pre-qualified developers.
- Establish a central organizing body to provide a coordinated approach to reducing red tape.
- Continue MoMRA's nationwide efforts to streamline its services and reduce bureaucratic red tape.

Employing workers

- Reduce mandatory severance pay to alleviate burden on businesses. Replace mandatory severance with an unemployment insurance system.
- Consider reductions in mandatory paid vacation.

Registering property

- Require only the submission of a transfer application, signed by both parties, without the involvement of a notary or a lawyer.



Getting credit

- Update the Commercial Lien Act to allow contracts to provide flexible and generic specifications of collateral, while implementing a comprehensive collateral registry to ensure transparent property rights.
- Enforce absolute priority of secured creditors in bankruptcy proceedings.
- Permit unrestricted out-of-court settlements and enforcement of collateral.

Protecting investors

- Improve plaintiffs' access to material documentation from defendants during trials, and enable them to cross-examine defendants and witnesses.
- Require immediate disclosure of any director's or officer's conflicts of interest to shareholders, and strengthen liability for such conflicts.
- Allow all shareholders to request outside investigation of transactions.

Paying taxes

- Consolidate tax remittance into as few payments as possible: for example, require social security contributions to be paid every two months or every year.
- Provide a simple, time-saving online interface for tax filings.

Trading across borders

- Improve sharing of data among government agencies and ministries involved in the import/export process.
- Improve electronic submission and approval of documents, to accelerate the approvals process.
- Ensure ports have sufficient human resources, with regular, scheduled training, including language training.
- Establish One-Stop Shops for traders to access all necessary agencies and government departments in a single location, with one filing.
- Reduce fees associated with customs clearance and technical control by 50 percent or more.
- Reduce total processing times by at least 10 days, to match Top 10 benchmarks. Ideally, no single procedure should take more than one day to complete.

Enforcing contracts

- Complete implementation of the new Judiciary Law, including the creation of commercial tribunals that meet Top 10 performance levels, where trial, judgment, and enforcement occur within 300 days.
- Provide training to commercial judges in technical topics of commercial law.
- Ensure new courts are easy to use, implementing online services where helpful.
- Introduce public judgments and ensure judges respect precedents, to ensure predictable, transparent outcomes.
- Improve and expand available mechanisms to ensure swift enforcement of court decisions.

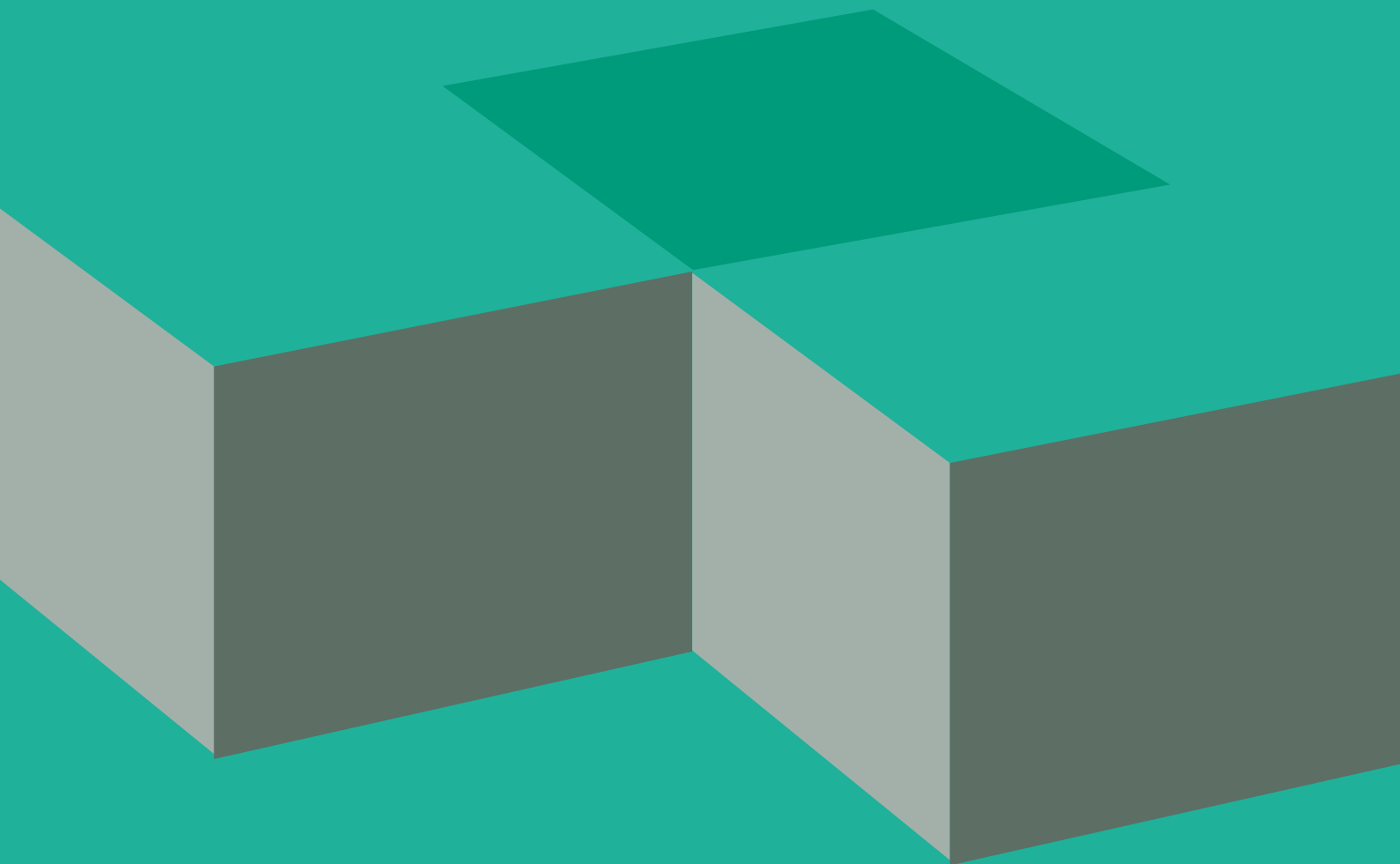


Closing a business

- Enact an updated, unified insolvency law to strengthen creditors' rights and approve acceptance of formal proceedings, informed by international best practices.
- Encourage the survival of viable firms as going concerns. For example, provide incentives for creditors to provide ongoing lending to distressed debtors.
- Create dedicated bankruptcy courts staffed by specially trained professionals, with procedures designed to minimize costs and complexity and maximize recovery rates.

These recommendations are informed by a detailed analysis of the areas where Saudi Arabia's business environment requires improvement, including specific international best practices that would represent the highest-value reforms if adopted. While implementation of some reforms identified would require relatively low investment, others raise contentious political challenges and require significant expenditures of time and cost. However, in each case the benefits to Saudi Arabia's citizens are significant and demonstrable; many of the reforms discussed are also mutually reinforcing. For this reason, it is important to convey the urgency of implementing reforms in a comprehensive manner, taking into account how the policy regime fits together and contributes to or detracts from the Kingdom's economic competitiveness.

What Is 10x10?





What Is 10x10?

Setting the context

Saudi Arabia's economy continues to expand steadily, thanks to growth in the non-oil sector and returns from a strong energy sector. The private sector shows increasing signs of vigor, contributing a growing share of non-oil GDP. Yet there are indications that further expansion will be challenging in the absence of structural reforms. Inflation has gathered momentum under pressure from global and domestic forces, and low rates of participation in the labor force limit the scope for increased output. For example, the Saudi Arabian Monetary Agency estimates that nearly 90 percent of private sector jobs belonged to non-Saudi Arabians in 2007, while Saudi Arabian citizens held roughly the same share of public sector jobs. Despite the recent strength of energy markets and the pace of government spending, the public sector cannot act indefinitely as a sponge for Saudi Arabian labor. With 38 percent of the population under the age of 14 and preparing to enter the workforce, the Kingdom's private sector will have to provide the jobs – and Saudi Arabian youths will require the training – to deliver prosperous lives to the next generation.

Unlike government programs, the private sector cannot be strengthened precipitously by government decree. Rather, it requires a long-term commitment to developing a competitive non-oil economy. This is the vision of His Majesty King Abdullah, Custodian of the Two Holy Mosques, who has been Saudi Arabia's strongest advocate for economic advancement. Driving this agenda forward requires a two-pronged approach. First, institutional reform will foster an economic environment that is friendly to business. Meanwhile, the government must continue to make the investments necessary to provide the private sector with vital resources, such as healthy, educated workers and the highest-quality infrastructure.

Charged with directing the drive for competitiveness by the Kingdom's Economic Leadership, SAGIA formalized its ambitions in the 10x10 initiative, a program to make the Kingdom one of the world's Top 10 most competitive nations by 2010. Progress toward this goal is benchmarked against internationally recognized competitiveness measures, which objectively assess Saudi Arabia's progress while indicating opportunities for further improvement of the Kingdom's economic potential.

How we measure competitiveness

Competitiveness is assessed across countries by various international ranking agencies, using a uniform set of criteria. The NCC uses two primary indexes to measure Saudi Arabia's competitiveness (Figure 1). These indexes measure, at a more detailed level, the drivers of competitiveness in the countries they cover. The *Doing Business* report from the World Bank and International Finance Corporation focuses on the business environment. It compares the ease of performing various business functions among countries, using standardized case studies to assess such areas as starting a business, getting credit, dealing with construction permits, and enforcing contracts. The NCC uses this report to benchmark the legal and regulatory environment in which businesses operate, and to initiate reforms based on other countries' best practices.



The NCC also uses an index developed by the World Economic Forum to benchmark the Kingdom’s competitiveness at both the macroeconomic and microeconomic levels. This index considers a much wider set of factors, such as education and health care, than the World Bank/IFC’s *Doing Business* report, and informs the larger reform programs currently underway in many ministries.

Figure 1: The Two Measures of Competitiveness Currently Used by the NCC to Evaluate Progress



Other agencies also assess various elements of economic performance (Figure 2). For example, the Institute for Management Development produces a competitiveness report similar to that of the WEF, but covering fewer countries; the Milken Institute evaluates access to capital in its Capital Access Index; the Heritage Foundation’s Index of Economic Freedom rates countries by their relative lack of restrictive regulation; Transparency International and Gallup assess perceived levels of corruption; and the World Bank’s Investment Climate Assessment measures FDI and investment opportunities. These are all good indicators of particular aspects of competitiveness, but none provides an assessment of competitiveness as comprehensive as the two main indicators used by the NCC.



Figure 2: Ranking Agencies and Their Reports

RANKING AGENCY	FOCUS OF REPORT	COUNTRIES COVERED	RANK	YEAR
World Bank/International Finance Corporation (IFC)	Environment for doing business	181	16th	2008
World Economic Forum (WEF)	Overall competitiveness	134	27th	2008
Institute for Management Development (IMD)	Overall competitiveness	55	N/A	2008
UNCTAD	Total FDI inflow FDI performance relative to potential	188	18th 51st	2008
Milken Institute	Company access to capital	122	36th	2007
	Corporate transparency	48	43rd	2008
Heritage Foundation	Degree of government economic interference	162	60th	2008
Gallup Organization	Perceived levels of corruption	101	5th	2006
Transparency International	Perceived levels of corruption	180	79th	2007

As well as helping policymakers to develop, prioritize, and implement appropriate competitiveness initiatives, the WEF and World Bank/IFC rankings strongly influence investors' and business executives' decisions regarding investment in a country.

Other governments use the rankings as a guideline or benchmark when aiming to enhance their economic competitiveness. Azerbaijan, for example, is coordinating across the government to achieve gains in every indicator tracked by the World Bank/IFC. In 2008, it improved in seven of the 10, advancing from 97th in the Ease of Doing Business rankings to 33rd. Bahrain has sought to position itself as the most business-friendly economy in the region, posing a competitive challenge to such peer countries as Qatar, Saudi Arabia, and the United Arab Emirates.

The indexes are an invaluable source of information for planning national reforms, but it must be borne in mind that these ranking agencies' assessments are essentially guidelines. While Saudi Arabia can certainly use them to measure progress and highlight areas for action, the Kingdom must chart its own path to greater prosperity.

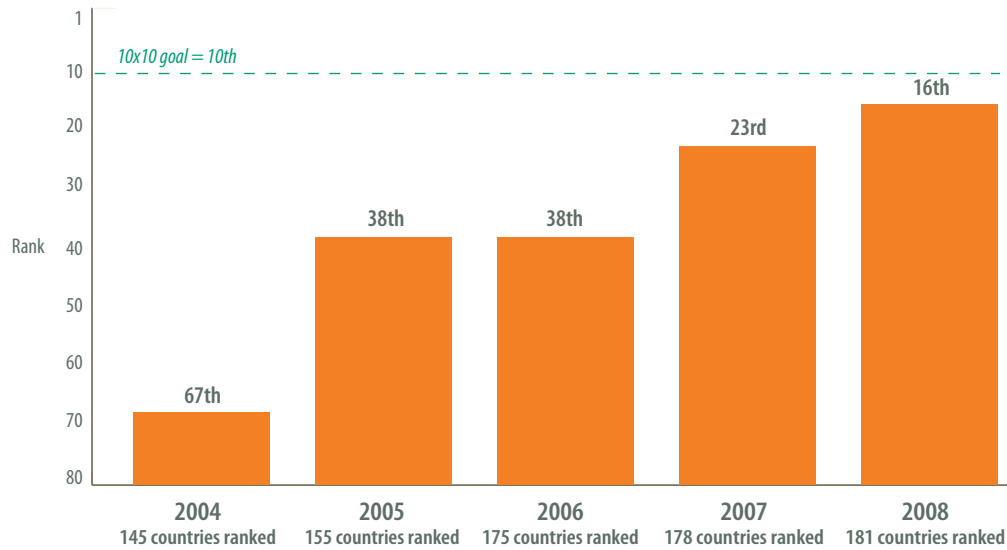
Overview of results

Doing Business, *World Bank/IFC*

Saudi Arabia's ranking in the World Bank/IFC's *Doing Business* report advanced from 23rd in 2007 to 16th in 2008 (Figure 3, Figure 4). Once again, Saudi Arabia is the top-ranked country in the Middle East and North Africa (Figure 5). To advance further and compete with the world's best, the Kingdom's business environment must consistently meet or exceed international standards.



Figure 3: Saudi Arabia's Overall Ease of Doing Business Ranking



Source: *Doing Business 2005–2009*, World Bank/IFC

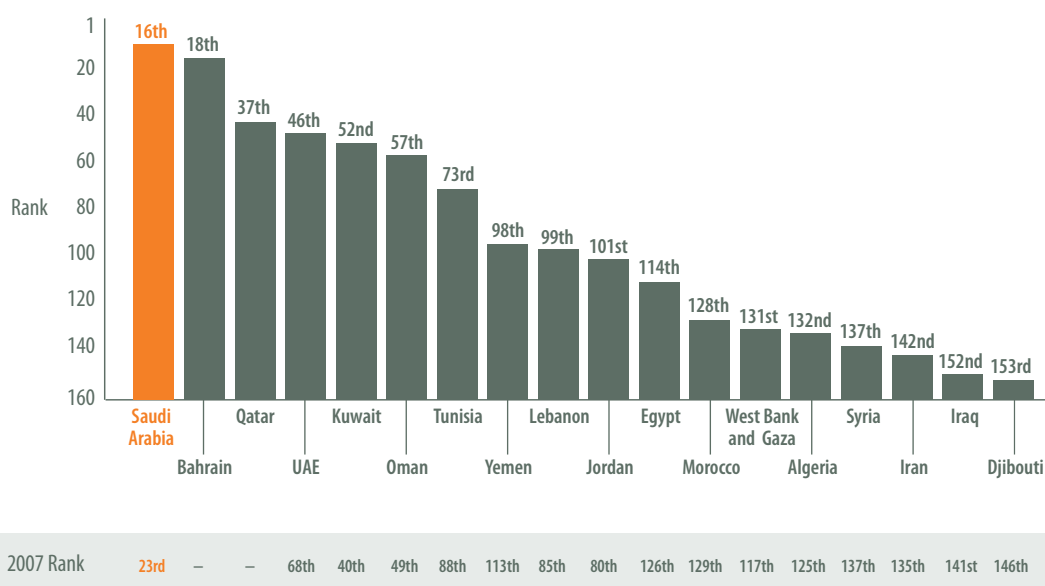
Figure 4: Top 20 Countries in *Doing Business 2009*

COUNTRY	2008 RANK	2007 RANK	CHANGE
Singapore	1	1	0
New Zealand	2	2	0
U.S.	3	3	0
Hong Kong	4	4	0
Denmark	5	5	0
U.K.	6	6	0
Ireland	7	8	↑ 1
Canada	8	7	↓ 1
Australia	9	9	0
Norway	10	11	↑ 1
Iceland	11	10	↓ 1
Japan	12	12	0
Thailand	13	15	↑ 2
Finland	14	13	↓ 1
Georgia	15	18	↑ 3
Saudi Arabia	16	23	↑ 7
Sweden	17	14	↓ 3
Bahrain	18	—	—
Belgium	19	19	0
Malaysia	20	24	↑ 4

Source: *Doing Business 2008–2009*, World Bank/IFC; NCC analysis



Figure 5: Ease of Doing Business Rank 2008, MENA Countries



Source: *Doing Business*, World Bank/IFC; NCC analysis

Investor protection showed the most significant improvements, thanks to new rules governing related-party transactions and director liability; and closing a business, due to a directive imposing time limits on bankruptcy proceedings. Reduced port fees drove improvement in trading across borders; lower commercial registration fees and the rollout of a centralized Unified Office operation significantly eased the processes for starting a business (Figure 6). Still, the Kingdom's overall ranking – and its competitiveness – is hindered by lower rankings in areas including contract enforcement, getting credit, closing a business, construction permits, and employment, where further reform is required to reflect international best practices.

Figure 6: The 10 Subindexes in *Doing Business*

SUBINDEX	2007 RANKING (OUT OF 178)	2008 RANKING (OUT OF 181)
1. Starting a business	36	28
2. Dealing with construction permits	47	50
3. Employing workers	40	45
4. Registering property	3	1
5. Getting credit	48	59
6. Protecting investors	50	24
7. Paying taxes	7	7
8. Trading across borders	33	16
9. Enforcing contracts	136	137
10. Closing a business	79	57
OVERALL RANKING	38	16

Source: *Doing Business 2008–2009*, World Bank/IFC



All 10 areas of the *Doing Business* report are analyzed in detail later in this report, along with a description of two new areas the NCC expects to be included in future *Doing Business* reports.

The Global Competitiveness Report, *World Economic Forum*

Overview

Ranking 35th in the World Economic Forum’s 2007 Global Competitiveness Index, Saudi Arabia has since improved more rapidly than any other country in the Top 30, advancing to 27th place (Figure 7). The Kingdom’s competitiveness score now exceeds those of Kuwait and Tunisia, making Saudi Arabia the highest-ranked country in the region after Qatar (Figure 8). The World Economic Forum credited the Kingdom’s “robust improvement” to “the government’s determination to improve its performance on a number of competitiveness indicators under the ambitious 10x10 program.”

Figure 7: Top Countries in the Global Competitiveness Index

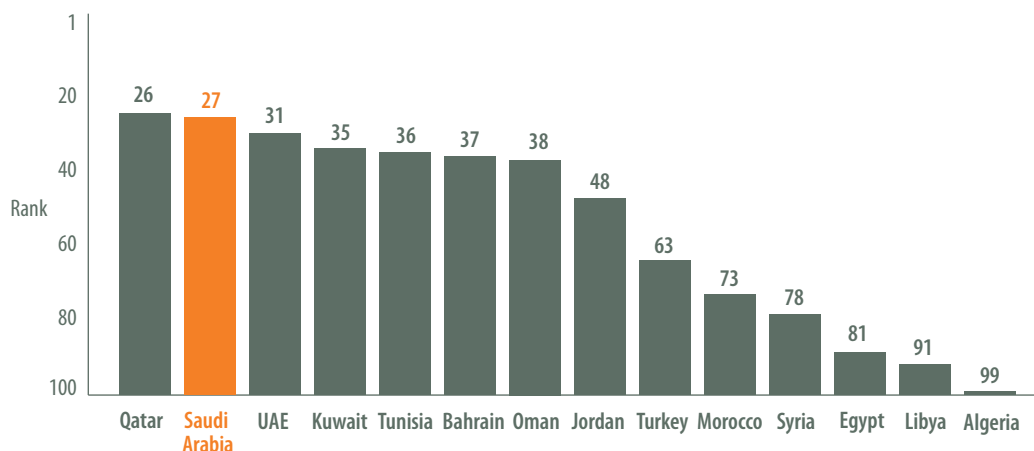
COUNTRY	2008 RANK	2007 RANK	CHANGE	COUNTRY	2008 RANK	2007 RANK	CHANGE
U.S.	1	1	0	France	16	18	↑2
Switzerland	2	2	0	Taiwan	17	14	↓3
Denmark	3	3	0	Australia	18	19	↑1
Sweden	4	4	0	Belgium	19	20	↑1
Singapore	5	7	↑2	Iceland	20	23	↑3
Finland	6	6	0	Malaysia	21	21	0
Germany	7	5	↓2	Ireland	22	22	0
Netherlands	8	10	↑2	New Zealand	24	24	0
Japan	9	8	↓1	Luxembourg	25	25	0
Canada	10	13	↑3	Qatar	26	31	↑5
Hong Kong	11	12	↑1	Saudi Arabia	27	35	↑8
U.K.	12	9	↓3	Chile	28	26	↓2
Korea	13	11	↓2	Spain	29	29	0
Austria	14	15	↑1	China	30	34	↑4
Norway	15	16	↑1				

Source: *The Global Competitiveness Report 2008–2009*, World Economic Forum; NCC analysis

Saudi Arabia was particularly successful in reforming the institutional framework for doing business, and in upgrading the efficiency of its goods markets, where it improved by 17 ranks. While the Kingdom faces continuing challenges in its education sector and additional opportunities for upgrading institutions and the financial sector, the World Economic Forum cited Saudi Arabia’s impressive progress in stimulating entrepreneurship and improving the judicial system.



Figure 8: Global Competitiveness Index Ranking, MENA Countries

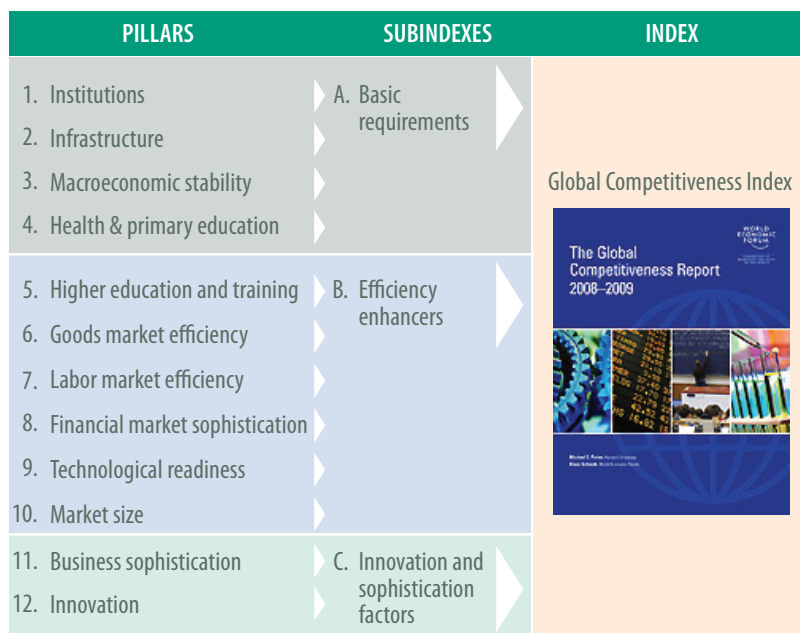


Source: *The Global Competitiveness Report 2008–2009*, World Economic Forum

Methodology

The Global Competitiveness Report examines 12 pillars of competitiveness in each of the 134 countries covered. Each pillar represents a broad theme of competitiveness, such as institutions, innovation, and higher education and training, and each is assigned to one of three subindexes. These subindexes make up the overall Global Competitiveness Index. Figure 9 shows the relationship between the pillars and the subindexes.

Figure 9: Structure of the Global Competitiveness Index



Source: *The Global Competitiveness Report 2008–2009*, World Economic Forum



Each pillar consists of a number of related variables. For example, the higher education and training pillar comprises eight variables:

- Secondary enrollment
- Tertiary enrollment
- Quality of the educational system
- Quality of math and science education
- Quality of management in schools
- Internet access in schools
- Local availability of research and training services
- Extent of staff training

Countries are assessed on each individual variable, and these scores are used to calculate the ranks for each pillar and to produce an overall GCI rank for each country.

The WEF relies on two main sources of data to generate its country rankings: from responses to a questionnaire, the World Economic Forum Executive Opinion Survey; and from external reports and research, including the *Doing Business* report. Data from other sources is converted to the same one-to-seven scale when calculating scores for the Global Competitiveness Index, but presented in its original form in the report.

Results

Although the Global Competitiveness Index is the highlight of *The Global Competitiveness Report*, it is only one of a number of sections in the report. The index uses a subset of the questions in the Executive Opinion Survey, and complete results from the survey are included separately in the report.

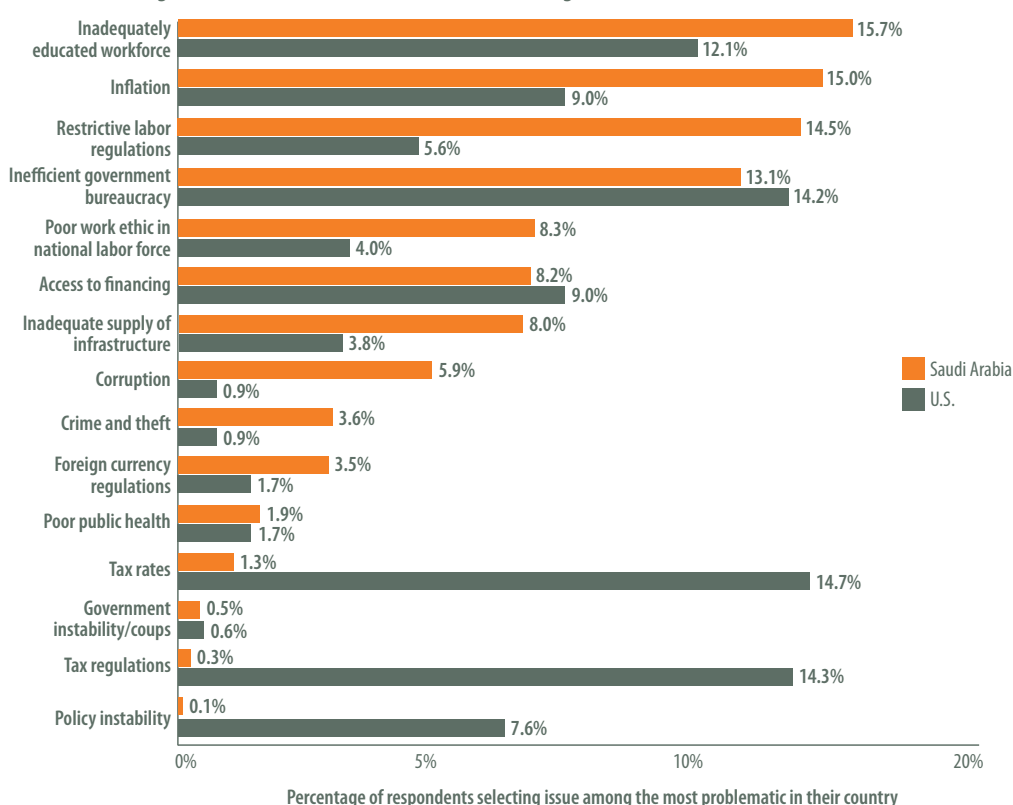
As part of the Executive Opinion Survey, respondents are asked to select the five most problematic areas for doing business in their country, and to rank their choices (Figure 10). This gives a high-level view of the areas companies would like to see prioritized for reform.

The results indicate the significance of challenges posed by Saudi Arabia's labor market. Respondents to the Executive Opinion Survey cited inadequate education (15.7 percent), restrictive labor regulations (14.5 percent), and poor work ethic (8.3 percent) among the top five most problematic factors for doing business, totaling nearly 40 percent of responses. These indicate the need for policymakers to improve the quality and number of qualified Saudi Arabian workers, as well as to remove barriers to employment. These objectives are made all the more urgent by the booming population of young people entering the workforce.



Concerns about inflation have also attained prominence, suggesting that rising prices may begin to have a detrimental effect on the real economy. Finally, inefficient government bureaucracy remains a barrier to doing business, reinforcing the importance of continuing efforts to eliminate red tape and professionalize public services.

Figure 10: The Most Problematic Factors for Doing Business in Saudi Arabia and the U.S.



Source: *The Global Competitiveness Report 2008–2009*, World Economic Forum

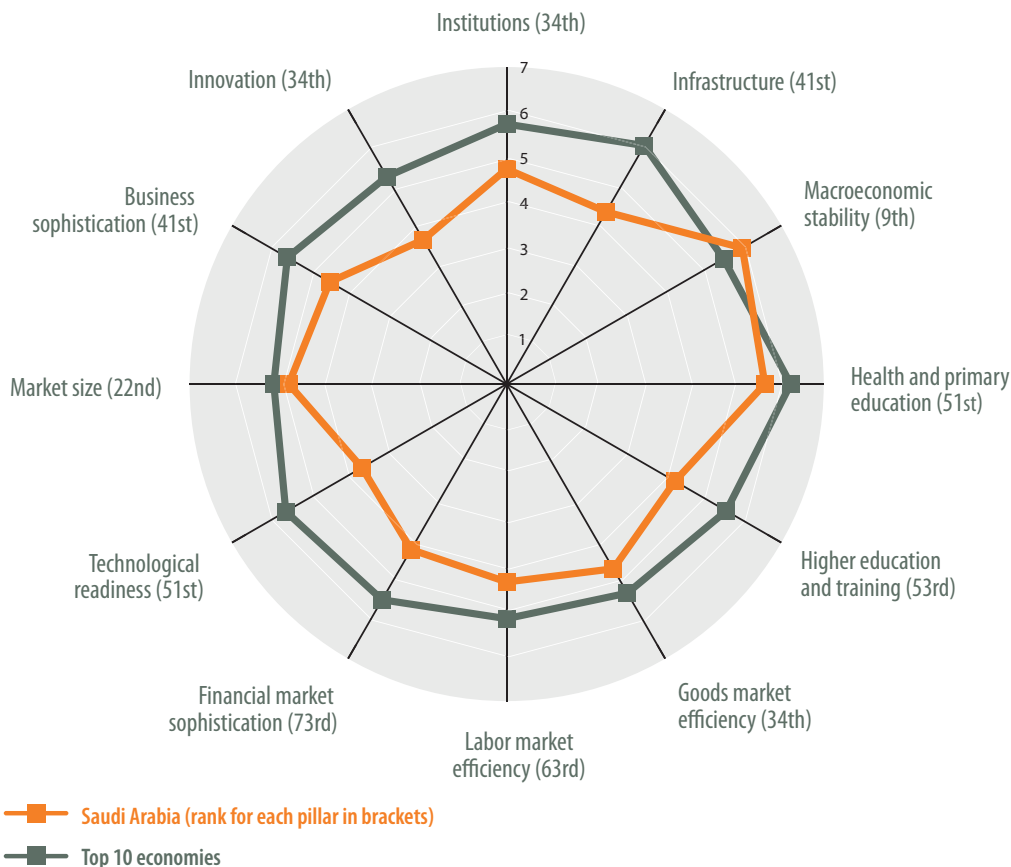
As for the Global Competitiveness Index, Saudi Arabia's strong performance in *The Global Competitiveness Report 2008–2009* underscores the seriousness of the Kingdom's reform efforts while highlighting ongoing opportunities for policy intervention. Having advanced from 35th to 27th place in the Global Competitiveness Index, Saudi Arabia enhanced its competitiveness more quickly than any other country in the Top 30.

The most important areas of advancement in Saudi Arabia this year were in the institutional framework for doing business (from 41st to 34th place in the institutions pillar) and in the goods markets efficiency pillar (from 51st to 34th). These results are credited to the reforms of business start-up procedures reflected in the *Doing Business 2008* report, as well as the October 2007 overhaul of the judiciary. Saudi Arabia's rank and performance against the Top 10 Countries on a pillar-by-pillar basis is shown in Figure 11. In addition



to the Kingdom's newly improved institutions, the report notes Saudi Arabia's favorable economic conditions: specifically, its large domestic and export markets, which support efficient scale, and the continuing strength of its macroeconomic environment.

Figure 11: The 12 Pillars in the Global Competitiveness Index



Source: *The Global Competitiveness Report 2008–2009*, World Economic Forum

However, the results also underscored the daunting reform challenges ahead. The quality of basic services, notably education, remains a barrier to economic development. The Kingdom's ranks of 51st in health and primary education, and 53rd in higher education and training, indicate how much more could be done to prepare its citizens to enter the workforce. While Saudi Arabia devotes ample public spending to education (ranked 8th in the world), its academic institutions lag in enrollment and quality across all levels.

Meanwhile, its labor market, ranked 63rd, should become substantially more flexible in order to meet the needs of the private sector and deliver rewarding opportunities to Saudi Arabian citizens, most of whom are not employed or are currently absorbed by the public sector. High firing costs and low female participation remain salient challenges.



While Saudi Arabia has undertaken significant reforms to cut red tape and improve the flexibility of its domestic markets, the government should take additional steps to encourage foreign participation. The Kingdom has recently concluded double taxation treaties at an impressive rate, and should continue to pursue bilateral investment treaties. However, market entry, including even the process for securing business visas, remains challenging. The prevalence of foreign ownership is correspondingly low, ranked 114th in the world. Despite Saudi Arabia's accession to the World Trade Organization, there is still room to lower trade tariffs. These are areas of ongoing reform, and foreign direct investment has grown markedly in response to liberalization of Saudi Arabian markets. To the extent that the momentum toward reform continues, citizens will benefit from expanded economic opportunities and more rapid knowledge transfer.

As Saudi Arabia puts in place the basic prerequisites of a growing economy, it should also push forward on initiatives to prepare itself for a transition into more advanced economic activities. This includes ongoing efforts to facilitate adoption of information and communication technologies by households and in schools.

In addition to technology, an advanced economy requires a sophisticated financial infrastructure to support entrepreneurship, encourage corporate expansion, and insure against significant risks. Saudi Arabia's financial sector (ranked 73rd) continues to receive low marks for sophistication, transparency, and investor protection. The new Capital Market Authority has addressed some of these issues, but achieving a fully developed financial sector requires more wide-ranging changes. The establishment of commercial courts, envisaged in a Royal Decree in October 2007, must be completed to give force to the legal intricacies of financial contracts. Laws governing lending and the use of collateral must be modernized to set a thriving credit market on a firm Islamic footing. Corporate governance must be strengthened, and a modern bankruptcy system is needed to cope efficiently with corporate distress. These reforms will require patience and tenacity, but will pay large dividends to Saudi Arabian commerce through lower capital costs and greater financial flexibility.

World Investment Report, *UNCTAD*

Foreign direct investment is a long-term controlling investment from abroad in a domestic enterprise.¹ If investment flows across borders, it indicates that the investor is attracted to the recipient country, so that country has a competitive advantage in some area. The UNCTAD *World Investment Report* measures flows and stocks of FDI worldwide over time, and ranks countries on their performance.

The UNCTAD *World Investment Report* examines all types of FDI, and records actual FDI inflows as well as relative performance. Saudi Arabia continued to make remarkable gains in these areas, passing Turkey to become the world's 18th-largest recipient of FDI and the largest foreign investment platform in the region.

¹ FDI is defined by UNCTAD as "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor" in its *World Investment Report 2007*



In terms of actual FDI inflows, Saudi Arabia ranks among the top 20 FDI recipients in the world, having attracted US\$24.3 billion in FDI in 2007 (Figure 12), up from \$18.3 billion in 2006 and just \$1.9 billion in 2004. In terms of relative FDI performance, which is based on a comparison between actual and projected FDI inflows given a country's economic size, Saudi Arabia ranks 51st, up from 66th in the previous year. The lower ranking in relative performance indicates the Kingdom's tremendous potential for capitalizing on its already impressive FDI performance, and for attracting far greater sums of foreign investment in the future, across a diversified range of industries.

Figure 12: Top 20 Countries for FDI Inflows

COUNTRY	2008 RANK	FDI INFLOWS (USD BN)
U.S.	1	\$232.8
U.K.	2	\$224.0
France	3	\$158.0
Canada	4	\$108.7
Netherlands	5	\$99.4
China	6	\$83.5
Hong Kong	7	\$59.9
Spain	8	\$53.4
Russian Federation	9	\$52.5
Germany	10	\$50.9
Belgium	11	\$40.6
Switzerland	12	\$40.4
Italy	13	\$40.2
Brazil	14	\$34.6
Austria	15	\$30.7
Ireland	16	\$30.6
Mexico	17	\$24.7
Saudi Arabia	18	\$24.3
Singapore	19	\$24.1
India	20	\$23.0



Analysis of the World Bank/IFC *Doing Business* Report



Analysis of the World Bank/IFC Doing Business report

In the *Doing Business 2009* report, the World Bank/IFC examined the following 10 areas affecting businesses in Saudi Arabia.

1. Starting a business

	SAUDI ARABIA 2007	SAUDI ARABIA 2008	TOP 10 AVERAGE ¹ 2008
Overall rank	36th	28th	
Procedures	7	7	3.9
Time (days)	15	12	6
Cost (% of income per capita, USD)	32% (\$4,025)	15% (\$2,346)	1.4%
Minimum capital (% income per capita)	0%	0%	0%

¹Top 10 Average refers to the average of the 10 best countries in this indicator

NCC recommendations:

- Consolidate procedures within the Unified Office, including registration with the Department of Zakat and Income Tax and the General Organization for Social Insurance.
- Reduce commercial registration fees to nominal levels or eliminate them entirely.
- Streamline procedures to remove unnecessary steps, such as publication of company Articles of Association in the official gazette.
- Invest additional resources, including e-government initiatives, to reduce the time required to complete each procedure.
- Implement Unified Office operations across Saudi Arabia, and consider providing business start-up procedures online to enable fast, simple access throughout the Kingdom.

The first indicator tracked by the World Bank/IFC relates to the first stage of a company's life cycle, examining the level of red tape interfering with business start-up. Specific parameters include the number of procedures required, the time and cost involved, and, finally, any paid-in minimum capital.

Lowering barriers to business start-up should be a priority for Saudi Arabia, where new ventures will play a crucial role in addressing an array of interrelated economic challenges. New entrants promise to enhance competition in the Saudi Arabian marketplace, delivering higher productivity and better value to consumers. Diversifying the Kingdom's economy will depend in large part on encouraging the entry of new players into currently underdeveloped sectors. This is particularly the case in knowledge-based industries: small entrepreneurial firms contribute disproportionately to innovation in advanced economies. One reason for this is that entrepreneurial firms provide stronger incentives for innovation, as higher returns accrue to innovators who are equity holders than to salaried employees with large corporations.

This speaks to a more fundamental rationale for encouraging small business formation: the benefits of diffusing ownership broadly throughout an economy. Widespread ownership of capital helps to spread



the benefits of prosperity across society while giving citizens a more active role in their economic destiny. To the extent that start-up of Saudi Arabian businesses is hindered by excessive regulation, foreign companies fill the void, relegating local citizens to lower positions on the corporate ladder. More important, barriers to market entry are in effect barriers to hiring: encouraging the setup of businesses thus plays a crucial role in addressing the challenge of unemployment.

Finally, a number of studies confirm that lower start-up costs will likely produce substantial gains in productivity and, hence, prosperity. By stimulating competition and innovation and encouraging capital mobility from less to more efficient projects, reducing entry costs by 80 percent of income per capita increases total factor productivity by more than 20 percent and labor productivity by nearly 30 percent. In addition to driving higher incomes, an economy that flexibly absorbs new entrants delivers lower prices to consumers and exhibits greater resilience in the face of economic shocks.² One can view reforms streamlining market entry as augmenting the benefits from other areas from reform, such as openness to trade. As World Trade Organization membership and other reforms create opportunities for Saudi Arabian firms to compete globally, it is important that such firms are not held back by domestic red tape restricting market entry.

Reforms in this area have been significant. Before 2007, Saudi Arabia had one of the world's most burdensome minimum capital requirements, requiring new companies to show capital of at least SAR 500,000. The Kingdom eliminated this requirement on July 17, 2007, and since then new company registrations have increased by 81 percent, validating NCC predictions. Similar results were seen in Senegal, where business registration reforms enacted in July 2007 resulted in an 80 percent increase in new registrations as of May 2008.

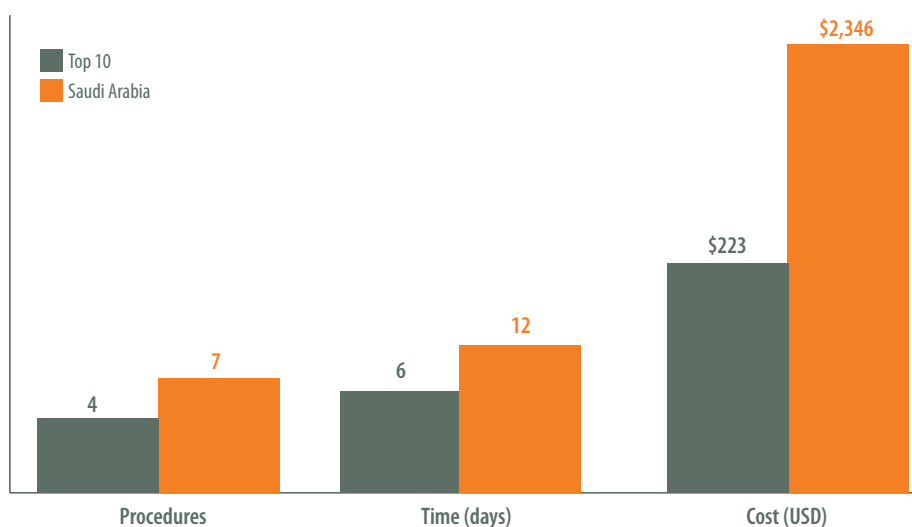
Saudi Arabia continued its commitment to reform in this area during 2008. The Ministry of Commerce and Industry relaxed regulations requiring new companies to publish a summary of their Articles of Association in the official gazette, thus reducing registration costs by SAR 1,500. Furthermore, the ministry reduced commercial registration fees by 80 percent, from SAR 6,000 to just SAR 1,200. Registration with the General Organization for Social Insurance is now offered online, shortening the time required by two days. Finally, the Ministry of Commerce and Industry launched a Unified Office in Riyadh, which consolidates a number of business start-up procedures, thus reducing both the number of procedures and time required.

These reforms are expected to accelerate the pace of business creation in the Kingdom, and the World Bank/IFC recognized these reforms by ranking Saudi Arabia 28th for ease of starting a business. However, there are still a number of relatively simple steps the Kingdom could take to enable business start-up and better position itself to achieve 10x10. Company registration still costs US\$2,346, or nearly 15 percent of per capita gross national income. This represents a significant burden on would-be entrepreneurs with fewer resources, and is over 10 times as expensive as the average total cost required in the Top 10 countries in the starting a business rankings.



Similarly, the time and number of procedures required are twice and nearly twice the Top 10 benchmarks, respectively (Figure 13). Performance here is expected to improve in next year's *Doing Business* report with the recognition of the establishment of a Unified Office operation for commercial registration. This institution consolidates business start-up processes under one roof, reducing both the time and number of procedures required to register a new company. During 2009, Saudi Arabia should build on the success of the Unified Office operation by assimilating two procedures not currently offered: registration with the Department of Zakat and Income Tax and the General Organization for Social Insurance.

Figure 13: Requirements to Start a Domestic Limited Liability Company, Saudi Arabia versus Top 10 Countries¹



Source: *Doing Business 2009*, World Bank/IFC

¹Top 10 Countries in starting a business indicator

In addition to offering considerable economic benefits, improving business registration processes in the Kingdom is attractive because it is highly achievable from a technical standpoint: the establishment of the Unified Office operation in Riyadh illustrates how relatively simple administrative reforms can represent a significant step toward a streamlined, world-class system.

Looking around the world, Saudi Arabia does not lack successful reform models. Fifty-four countries require fewer procedures for commercial registration than Saudi Arabia does. For example, New Zealand uses a single procedure that takes just one day to complete online. Company registration is less costly (as a share of per capita GNI) than in Saudi Arabia in 86 countries; in Denmark, there is no charge. Saudi Arabia can emulate these models by consolidating all procedures within the Unified Office, including registration with the Department of Zakat and Income Tax and the General Organization for Social Insurance. Fees should be reduced or eliminated, and more resources should be invested to minimize processing times. Unnecessarily complicated steps should be streamlined; online procedures are especially effective in reducing processing times.



Finally, the streamlined procedures available in Riyadh should be rolled out across the Kingdom, either by opening additional Unified Office locations, or by enabling online applications. To the extent that government facilities that provide improved business start-up procedures are only available in major urban centers, they will perpetuate rather than ameliorate regional imbalances in economic development.

Saudi Arabian policymakers should continue to study ways to ease the process of starting a business, to build on existing momentum as the country undergoes a surge in entrepreneurship and strives to diversify its economy.

2. Dealing with construction permits

	SAUDI ARABIA 2007	SAUDI ARABIA 2008	TOP 10 AVERAGE ¹ 2008
Overall rank	47th	50th	
Procedures	18	18	10.1
Time (days)	125	125	76.5
Cost (% of income per capita, USD)	94.5% (\$11,778)	74.7% (\$11,788)	26.8%

¹Top 10 Average refers to the average of the 10 best countries in this indicator

NCC recommendations:

- Reduce fees to become competitive with Qatar and United Arab Emirates.
- Consolidate procedures to reduce the number involved and the time required to complete them, for example by bringing construction licensing under the purview of the Unified Office.
- Make all forms downloadable online, and accept submission of applications online.
- Implement fast-track reforms, such as silence-is-consent rules and expedited approvals for pre-qualified developers.
- Establish a central organizing body to provide a coordinated approach to reducing red tape.
- Continue MoMRA's nationwide efforts to streamline its services and reduce bureaucratic red tape.

Construction permits are another important source of red tape that firms face, and can be a major barrier to investment and employment. The World Bank/IFC tracks the procedures required for a construction company to build a warehouse, including completing regulatory procedures, obtaining utilities, and registering property.

Onerous red tape related to construction permits is problematic for a number of reasons. It is an impediment to firm expansion, hurting the business case for new asset formation and forcing companies to compete for scarce real estate. In this way, barriers to construction are particularly burdensome in less developed regions, where bureaucracy may be less efficient, entrepreneurs have fewer resources and smaller project scale may not justify costly investments. In addition to depressing economic activity and impeding balanced development, inefficient licensing has the unintended consequence of encouraging illegal construction by firms seeking to evade lengthy, expensive procedures. Perversely, such practices deny the government revenue and result in buildings that may not comply with safety and other building standards.



Opportunities exist for valuable reforms to be enacted in Saudi Arabia. While it is important for the Kingdom to maintain the integrity of licensing procedures so they serve their social purpose, it has significant opportunities to improve its processes, which are time consuming and, costing 75 percent of per capita gross national income, beyond the reach of many entrepreneurs.

At US\$7,500, obtaining an electricity connection alone costs as much as Singapore's entire licensing process (Figure 14). Costs of this magnitude will rule out many construction projects and permanently limit the Kingdom's potential for investment-led economic growth. Delays in construction licensing are also detrimental from a government revenue standpoint. Evidence from the United States indicates that accelerating approvals by 90 days (assuming a 22-month project cycle) could yield a 16 percent increase in property tax revenues.³

Figure 14: Cost of Red Tape for Building a Warehouse in Saudi Arabia

	COST (SAR)
Obtain electricity connection	28,636
Obtain water connection	9,000
Obtain sewage connection	5,000
Obtain building permit	1,200
Obtain telephone connection	300
Obtain Chamber of Commerce stamp on telephone application	25

Saudi Arabia could emulate 92 other countries that require fewer procedures to build a structure. Building in Singapore, for example, involves 11 procedures requiring only 38 days and US\$7,500 to complete. In Qatar and the United Arab Emirates, the total cost is even lower, just \$553 and \$387, respectively.

Existing procedures could be expedited. As a first step, construction licensing could be integrated within the existing Unified Office centers, building on recent improvements in business registration processes. This would further establish the Unified Office operations as a comprehensive government services portal for businesses while reducing the number of procedures and the time required for completion.

The United States, Singapore, and many other countries have streamlined construction licensing by allowing online submission of all applications. Their success suggests that construction licensing, like other processes evaluated by the World Bank/IFC, should be a focus of Saudi Arabia's ongoing e-government initiative. The Kingdom could also cap approval times by enacting silence-is-consent rules, as have France and Hong Kong. For simpler, lower-risk projects, it could pre-qualify developers for expedited approvals while holding them accountable for ensuring compliance with building standards, as in Finland and Singapore.

The NCC has previously recommended the establishment of a central body responsible for red tape reform across the Kingdom, building on such successful examples as the Netherlands' Interministerial Project Unit for Administrative Burdens. This organization would be charged with rationalizing administrative procedures across the government, and would find solutions tailored to Saudi Arabia's national interests and high standards of international best practices.

³ *Doing Business 2009*, World Bank/IFC



Investments in structures are some of the most critical decisions that a firm will make during its lifetime, yet also implicate significant government interests in issues such as safety, environmental protection, and urban planning. It is important, therefore, that a regulatory regime protect these interests while minimizing unnecessary steps and excessive costs.

3. Employing workers

	SAUDI ARABIA 2007	SAUDI ARABIA 2008	TOP 10 AVERAGE ¹ 2008
Overall rank	40th	45th	
Difficulty of hiring index (0–100)	0	0	1.1
Rigidity of hours index (0–100)	40	40	8.0
Difficulty of firing index (0–100)	0	0	2.0
Rigidity of employment index (0–100)	13	13	3.8
Firing cost (weeks of salary)	80	80	2.5

¹Top 10 Average refers to the average of the 10 best countries in this indicator

NCC recommendations:

- Reduce mandatory severance pay to alleviate burden on businesses. Replace mandatory severance with an unemployment insurance system.
- Consider reductions in mandatory paid vacation.

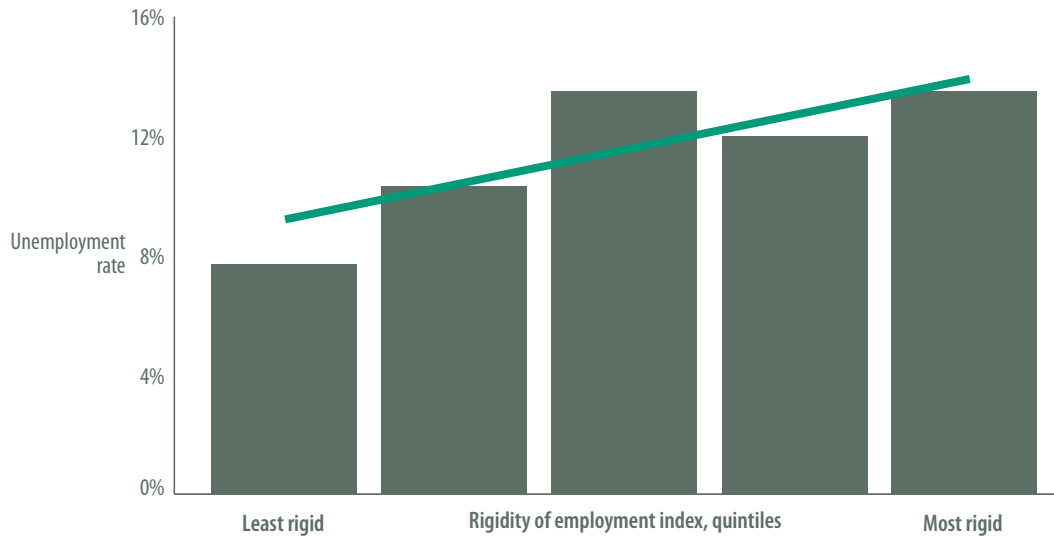
Providing a sound labor law regime is as challenging to policymakers as it is important to an economy's long-term success. Yet while employment reform can be politically sensitive, the economic rewards can be substantial.

Gainful employment forms the centerpiece of the livelihood of most families, and insufficiently protective labor laws may be perceived as having unacceptable social costs. This is particularly the case where lax regulations enable employers to endanger, harass, discriminate against, or otherwise harm their employees. Yet while labor laws have an important role to play in ensuring decent living standards for all Saudi Arabian citizens, excessively restrictive regimes may have the opposite effect.

To begin with, overly rigid employment rules tend to bring additional risks and costs into firms' marginal hiring decisions (Figure 15). For example, where termination of an employee requires substantial severance pay and/or unwanted bureaucratic involvement, a firm may conclude that a new hire implies unacceptable risks and choose to maintain its head count. Similarly, unreasonable rules on wages, hours, or holidays limit the contribution that an additional employee can make to the firm. The result is higher unemployment, particularly for vulnerable groups such as women, youths, and persons with disabilities.



Figure 15: Rigidity of Employment and Female Unemployment



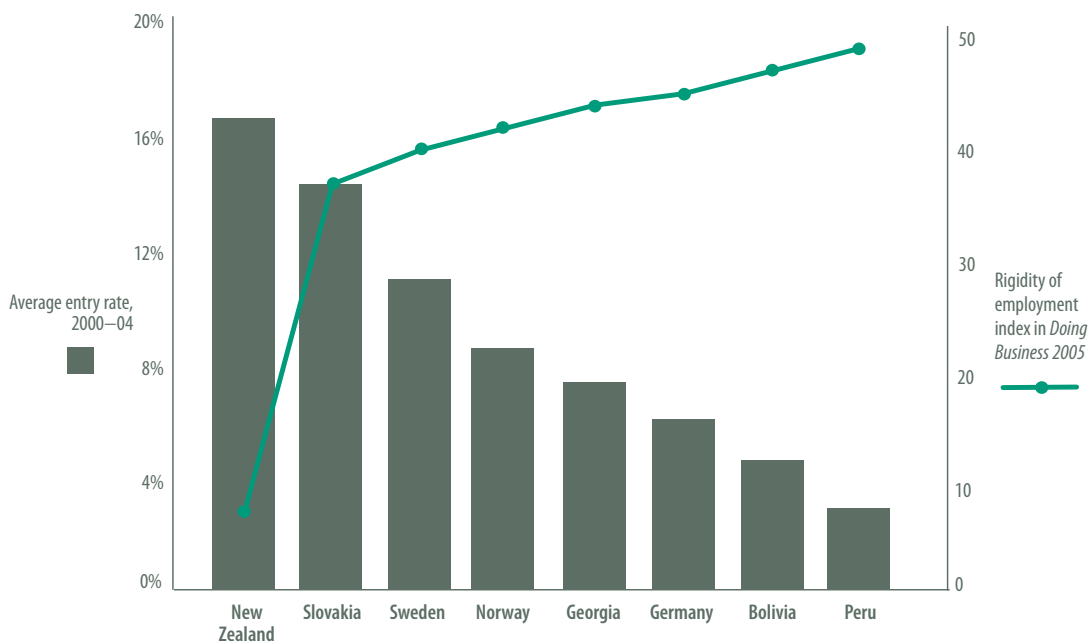
Source: *Doing Business 2009*, World Bank/IFC

To the extent that such workers can be hired, employers may respond to burdensome labor regulations by ignoring them entirely, denying workers the benefit of standards compliance, and the government the benefit of any tax revenues. There is a well-documented correlation between overly restrictive labor rules and a large informal economy, where workers are subjected to lower wages, contribute lower productivity, and enjoy fewer protections against abuse.

Not only does reduced hiring limit opportunities for gainful employment; it also retards the growth of firms and increases the prevalence of sub-scale, owner-operated establishments. Such firms cannot expand sufficiently to justify investment in capital equipment, resulting in lower employment, investment, productivity and long-term economic growth. Finally, because employment is so central to a firm's activities, a heavy regulatory burden in this area may deter entrepreneurs from starting legitimate companies. Instead, the high costs associated with legitimate employment may drive firms underground or out of the market entirely (Figure 16).



Figure 16: Rigidity of Employment and Firm Entry



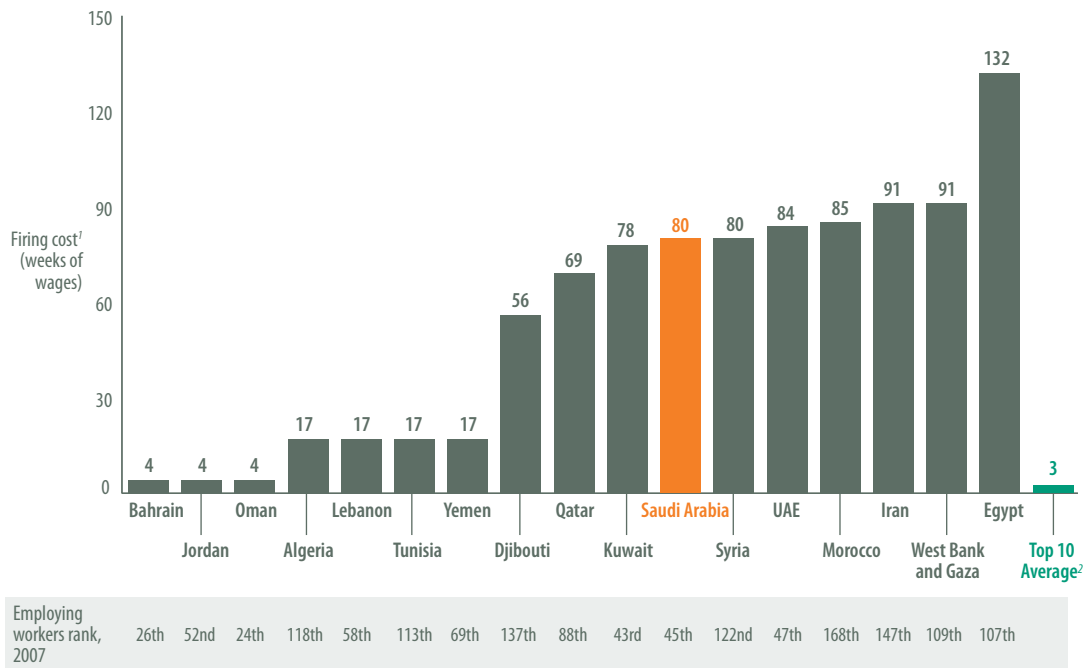
Source: *Doing Business 2009*, World Bank/IFC

Some aspects of Saudi Arabia’s legal regime are exemplary. Importantly, bureaucratic interference into hiring and firing decisions is minimal. Firms in the Kingdom are required to provide 26 days of paid vacation to an employee with 20 years of tenure – in contrast to nine other MENA countries, including Kuwait, Bahrain and Jordan, that require three weeks or less paid vacation.

More problematic, however, is the high cost of firing workers, which tends to undermine the flexibility of Saudi Arabia’s labor market. After counting weeks of notice and severance, the cost of dismissing a worker amounts to 80 weeks of salary (Figure 17). This is well above the regional average of 54 weeks: firing costs in neighboring Jordan, Oman, Bahrain, and Iraq equal less than one month’s salary. Saudi Arabia’s firing costs represent a deterrent to employment and a competitive disadvantage for the Kingdom’s business environment.



Figure 17: Cost of Firing Workers with 20 Years of Tenure, Selected MENA Countries, 2008



Source: *Doing Business*, World Bank/IFC

¹ Firing costs calculated assuming an employee provides 20 years of continuous service to one employer

² Top 10 Countries on the employing workers subindex

Scaling back firing costs raises sensitive political issues, but they need not be insurmountable. In most countries with highly flexible rules on firing, workers are insulated from the impact of unemployment. However, the burden of providing for dismissed workers is transferred from the firm to the government, so that benefits may be provided to the newly unemployed without hampering businesses with obligations. In this way, public unemployment compensation schemes serve the interests of workers and business.

Moreover, in times of economic distress, such programs act as automatic stabilizers, by providing fiscal stimulus commensurate with the number of workers being made redundant. By contrast, a system where employers are burdened with obligations to dismissed workers tends to deepen economic crises by weakening corporate balance sheets.

Developing an unemployment compensation system appropriate to the needs of the Saudi Arabian labor market is no small task and would entail a considerable investment of public resources. However, it provides a method for guaranteeing social welfare while freeing businesses from red tape, and therefore will play a crucial role in any attempt to substantially boost the competitiveness of Saudi Arabia's labor market.



4. Registering property

	SAUDI ARABIA 2007	SAUDI ARABIA 2008	TOP 10 AVERAGE ¹ 2008
Overall rank	3rd	1st	
Procedures	4	2	2.2
Time (days)	4	2	4.9
Cost (% of property value)	0%	0%	0.8%

¹ Top 10 Average refers to the average of the 10 best countries in this indicator

NCC recommendation:

- Require only the submission of a transfer application, signed by both parties, without the involvement of a notary or a lawyer.

Clearly established property rights are the bedrock of a functioning market economy. Where rights of ownership are guaranteed, entrepreneurs can leverage their assets to gain access to investment capital and enjoy strong incentives to make capital improvements to their property. The use of a formal public registry prevents confusion and fraud by providing clarity about ownership rights. For this reason, it is important to ensure that property registration is as simple and costless as possible in order to encourage comprehensive coverage.

In 2008, Saudi Arabia implemented significant reforms related to property registration. A new property transfer law has reduced the time and complexity involved in transferring property in Riyadh, and a comprehensive electronic system for title deed registration has been implemented across Saudi Arabia’s major cities. As a result, registering property now requires just two simple procedures and takes just two days.

Taken as a whole, the Kingdom’s property registration procedures are the world’s most competitive. It could further strengthen its leadership in this area by consolidating the steps required to register property into a single procedure, as in Sweden or Norway. Currently, legal representatives of both parties must appear before a notary public for the transfer of the title deed and to obtain the original new title deed; subsequently, a legal representative of the buyer must obtain the original new title deed from the notary public. In Sweden, neither a lawyer nor a notary must be involved. All that is required is a submission of two copies of the sale application, signed by each party, at a local bank. Saudi Arabia could adopt a process of similar simplicity, eliminate the cost of employing notaries and lawyers, and ensure that the entire process takes a single day.



5. Getting credit

	SAUDI ARABIA 2007	SAUDI ARABIA 2008	TOP 10 AVERAGE ¹ 2008
Overall rank	48th	59th	
Strength of legal rights index (0–10)	3	4	9.2
Depth of credit information (0–6)	6	6	5.3
Public registry coverage (% of adults)	0.0%	0.0%	7.6%
Private registry coverage (% of adults)	23.5%	14.1%	68.1%

¹ Top 10 Average refers to the average of the 10 best countries in this indicator

NCC recommendations:

- Update the Commercial Lien Act to allow contracts to provide flexible and generic specifications of collateral, while implementing a comprehensive collateral registry to ensure transparent property rights.
- Enforce absolute priority of secured creditors in bankruptcy proceedings.
- Permit unrestricted out-of-court settlements and enforcement of collateral.

Access to credit on reasonable terms is a critical pillar of a growing economy. Where firms face high barriers to getting credit – including high interest rates, short loan maturities, high collateral requirements, and overall scarcity of lending options – expansion and even day-to-day management of firms is substantially more difficult. Firms in such an environment exhibit low investment rates, and thus are less productive and competitive than their peers.

The World Bank/IFC's getting credit indicator recognizes the importance of two elements in a sound credit market framework: the information and legal rights made available to lenders. Without accurate credit information, banks cannot verify borrowers' creditworthiness and hesitate to extend loans. A tenuous legal basis for creditors' claims further compounds the riskiness of lending (Figure 18). The ultimate victims are the individuals and businesses that are denied access to capital, not because of their individual credit risk, but because of systemic problems hampering the flow of capital.



Source: *Doing Business 2008*, World Bank/IFC; *Country Finance*, Economist Intelligence Unit, 2007–2008

Such problems become particularly pronounced during periods of economic shock: banks, facing uncertainty about the solvency of their borrowers and their ability to recover outstanding loans, react to heightened risk by sharply deleveraging, pushing economies further into crisis.⁴

Saudi Arabia is ranked 59th in the World Bank/IFC's getting credit indicator and is relatively underleveraged, indicating a need for reforms to encourage access to capital. Saudi Arabia meets world standards for the depth of information provided by the private credit bureau, but only 14.1 percent of adults are covered, making it challenging for banks to screen borrowers. Ensuring comprehensive credit information should be a top priority.

Additionally, the legal framework for creditors' rights in Saudi Arabia is underdeveloped. The World Bank/IFC scores countries on a 0–10 scale for the strength of creditors' rights; while Singapore, Malaysia, and Hong Kong receive top marks, Saudi Arabia earns four points. Specific areas where the Kingdom could better equip creditors with legal rights include revising rules related to the specification of collateral, enforcing the priority of secured creditors in bankruptcy, permitting of out-of-court enforcement of collateral, and establishing a comprehensive collateral registry that meets international standards. These issues go to the heart of how security interests are created and enforced, and address gaps that currently hamper the development of a modern credit economy.

⁴ "Creditor Protection and Credit Response to Shocks," *World Bank Economic Review*, 2007; "Unlocking Credit," *Inter-American Development Bank*, 2004; "Credit Cycles," *Journal of Political Economy*, 1997



6. Protecting investors

	SAUDI ARABIA 2007	SAUDI ARABIA 2008	TOP 10 AVERAGE ¹ 2008
Overall rank	50th	24th	
Extent of disclosure index (0–10)	7	8	9.0
Extent of director liability index (0–10)	7	8	8.3
Ease of shareholder suits index (0–10)	3	3	8.5

¹Top 10 Average refers to the average of the 10 best countries in this indicator

NCC recommendations:

- Improve plaintiffs' access to material documentation from defendants during trials, and enable them to cross-examine defendants and witnesses.
- Require immediate disclosure of any director's or officer's conflicts of interest to shareholders, and strengthen liability for such conflicts.
- Allow all shareholders to request outside investigation of transactions.

Equity financing is a foundational element of any successful modern economy. Unlike debt financing, which affects the solvency of firms and restricts their use of cash, equity gives companies the flexibility necessary to pursue riskier, longer-term investments. At the same time, equity encourages entrepreneurship by spreading risk across many investors, who in turn can use diversified investments to achieve optimal levels of portfolio risk. Saudi Arabia's equity market is an increasingly important source of financing for companies.

Stock markets can only function effectively when minority shareholders are protected from misuse of their funds. Like banks, equity investors must have faith in the companies they are investing in, and a strong legal framework for preventing and rectifying corporate malfeasance is crucial to providing this confidence and fostering the development of robust, liquid financial markets. While companies are the target of regulations protecting investors, they are the ultimate beneficiary, as improved confidence comes with higher availability of capital and lower risk premiums.

The World Bank/IFC's protecting investors indicator measures minority shareholders' protections against misuse of corporate assets, including disclosure of related-party transactions, director liability, and the framework for shareholder suits.

Saudi Arabia has recently upgraded its regulatory regime for investor protection. Policies implemented by the Capital Market Authority and the Ministry of Commerce and Industry during 2008 have substantially improved rules governing director liability for malfeasance, and disclosure and approval of related-party transactions. As a result, Saudi Arabia's position in the rankings improved significantly, from 50th in 2007 to 24th in 2008.



The Kingdom can further improve shareholder rights by better enabling investors to actively challenge corporate malfeasance. Currently, plaintiffs in shareholder suits have limited access to documents and testimony from defendants and witnesses, and small shareholders are unable to request an outside investigation of a transaction.

Recent reforms have improved laws related to corporate governance, but shareholder suits are critical to actually enforcing these laws. As such, the law should allow shareholders extensive access to information related to company transactions.

7. Paying taxes

	SAUDI ARABIA 2007	SAUDI ARABIA 2008	TOP 10 AVERAGE ¹ 2008
Overall rank	7th	7th	
Payments (number per year)	14	14	8.3
Time (hours per year)	79	79	66.7
Total tax rate (% of profit)	14.5%	14.5%	19.8%

¹ Top 10 Average refers to the average of the 10 best countries in this indicator

NCC recommendations:

- Consolidate tax remittance into as few payments as possible: for example, require social security contributions to be paid every two months or every year.
- Provide a simple, time-saving online interface for tax filings.

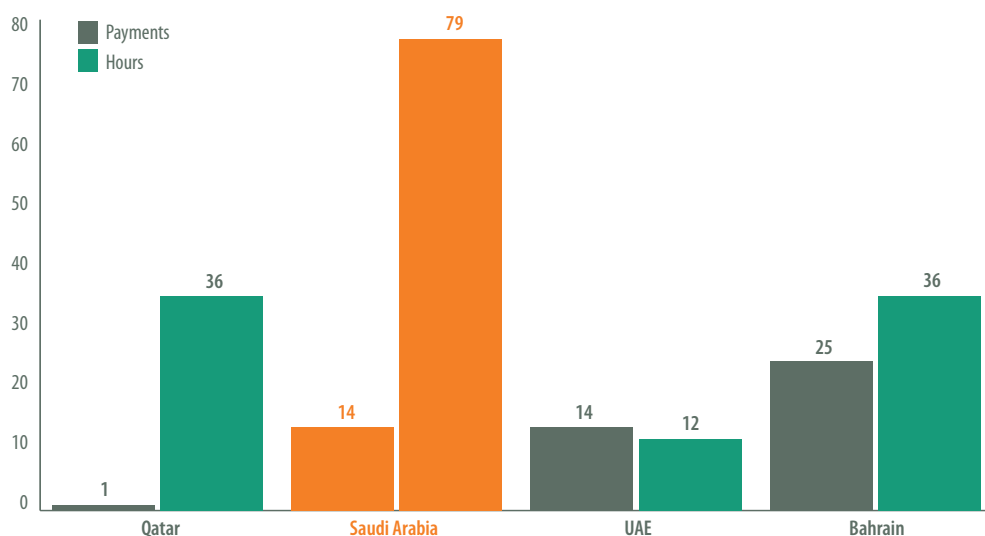
An optimal taxation system should maximize government revenue by encouraging universal compliance while minimizing burdens on the payer. Countries with excessive tax rates and/or overly complex procedures for paying taxes tend to fall short in both respects: companies evade tax laws, or avoid activities, such as hiring, that incur tax liability. To assess the burden of the tax regime, the *Doing Business* report measures the total tax rate, the number of payments required, and the time consumed by all of the filings throughout the year.

Tax rates in Saudi Arabia are low and filing procedures are simpler than in many countries across the Arab world. The World Bank/IFC reckons that taxes consume no more than 14.5 percent of a typical medium-sized business's profits and 79 hours of its time. However, a study of Persian Gulf benchmarks reveals opportunities for Saudi Arabia to further scale back the administrative burden of paying taxes.

Many of the world's most competitive economies require fewer annual payments than Saudi Arabia. Qatar, for example, requires companies to file just one payment, compared to 14 in Saudi Arabia. The United Arab Emirates also requires 14 payments, yet filing taxes takes only 12 hours per year, versus 79 in Saudi Arabia. The 25 payments required by Bahrain take just 36 hours to complete (Figure 19).



Figure 19: Payments and Hours per Year to File Taxes, Saudi Arabia versus Selected MENA Countries



Source: *Doing Business 2009*, World Bank/IFC

Saudi Arabia could reduce both the number of payments required and the administrative effort they represent by consolidating social security contributions and Zakat payments into a single filing. All taxes should be payable through a simplified, Internet-based interface similar to other e-government initiatives being pursued in the Kingdom. Such efforts would encourage compliance with tax laws while reducing the administrative cost to businesses, and solidify the competitive leadership of Saudi Arabia's tax regime.

8. Trading across borders

	SAUDI ARABIA 2007	SAUDI ARABIA 2008	TOP 10 AVERAGE ¹ 2008
Overall rank	33rd	16th	
Documents to report	5	5	3.9
Time to export (days)	19	17	7.9
Cost to export (USD per container)	\$1,008	\$681	\$648
Documents to import	5	5	3.8
Time to import (days)	20	18	7.3
Cost to import (USD per container)	\$758	\$678	\$679

¹Top 10 Average refers to the average of the 10 best countries in this indicator



NCC recommendations:

- Improve sharing of data among government agencies and ministries involved in the import/export process.
- Improve electronic submission and approval of documents, to accelerate the approvals process.
- Ensure ports have sufficient human resources, with regular, scheduled training, including language training.
- Establish One-Stop Shops for traders to access all necessary agencies and government departments in a single location, with one filing.
- Reduce fees associated with customs clearance and technical control by 50 percent or more.
- Reduce total processing times by at least 10 days, to match Top 10 benchmarks. Ideally, no single procedure should take more than one day to complete.

Saudi Arabia owes much of its current prosperity to international trade, and stands to reap further gains as it diversifies its economy. Openness to imported goods is allowing Saudi Arabian businesses to obtain goods and services most readily obtainable on foreign markets, such as foodstuffs and advanced technology. Meanwhile, low barriers to exports will allow Saudi Arabia's emerging industries to profit from the Kingdom's location at the geographic crossroads of international trade and achieve world-class scale.

While imports are often seen as competing with domestic industries, such competition is mostly healthy, and delivers better quality and lower prices to Saudi Arabian consumers. Often, a liberal import regime is a crucial source of competitive advantage for domestic firms, because it gives them unrestricted, cost-efficient access to inputs. For example, one-third of the value of electronic products exported from China comes from imported materials.⁵

Saudi Arabia's trade policies have improved significantly since its accession to the World Trade Organization; it is now ranked 16th in the World Bank/IFC's trading across borders indicator, which measures the burden of procedures required to import and export a standardized unit of cargo. However, the Kingdom should not miss opportunities to move closer to world leadership; it is estimated that each additional day an export product is delayed reduces exports by more than 1 percent.⁶

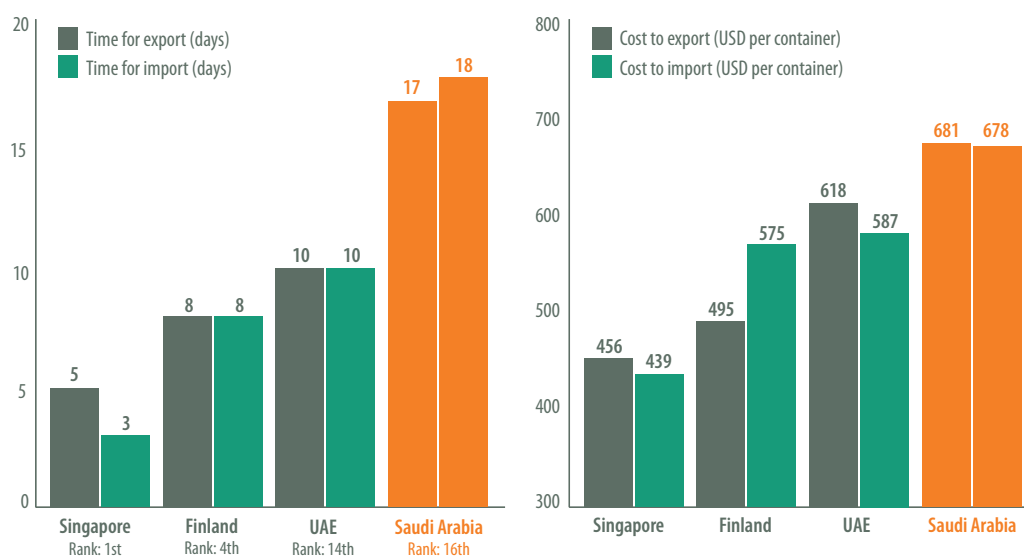
Saudi Arabia's major challenges are to reduce the time and cost required to complete official import/export procedures. While less burdensome than in much of the world, Saudi Arabia's processes will have to be streamlined considerably for it to join the ranks of the Top 10 (Figure 20).

⁵ *Doing Business 2009*, World Bank/IFC

⁶ "Trading on Time," World Bank, 2007



Figure 20: Saudi Arabia's Performance in Trading across Borders versus Selected Benchmark Countries



Source: *Doing Business 2009*, World Bank/IFC

Top-ranked Singapore is geographically favored in the trading across borders indicator. Yet inland transportation and handling expenses are minimal in this peninsular city-state, and its other procedures are considerably less intensive than in Saudi Arabia. Document preparation takes six times as long in the Kingdom as in Singapore; customs clearance is six times as expensive (Figure 21).

Figure 21: Saudi Arabia's Performance versus Singapore's in Trading across Borders

	SAUDI ARABIA				SINGAPORE			
	IMPORT		EXPORT		IMPORT		EXPORT	
	Time (days)	Cost (USD)	Time (days)	Cost (USD)	Time (days)	Cost (USD)	Time (days)	Cost (USD)
Document preparation	6	97	6	97	1	88	1	105
Customs clearance and technical control	6	182	3	189	1	31	1	31
Ports and terminal handling	4	149	4	75	1	180	1	180
Inland transportation and handling	2	250	4	320	0	140	2	140
Total	18	678	17	681	3	678	5	456

Source: *Doing Business 2009*, World Bank/IFC

In February 2008, the Supreme Economic Council cut port handling costs by half, as part of a 17-point plan to curb inflation; even greater reductions should be applied to customs clearance and technical control fees. More important, procedures should be simplified and resources invested to dramatically decrease processing times. Currently, no single procedure takes less than two days to complete. Following Singapore's model, Saudi Arabia should ensure that no step takes longer than one day to complete. Such reforms will greatly reduce the transaction costs of international trade and position Saudi Arabian firms to compete more fully in the global markets opened up by the Kingdom's WTO membership.



9. Enforcing contracts

	SAUDI ARABIA 2007	SAUDI ARABIA 2008	TOP 10 AVERAGE ¹ 2008
Overall rank	136th	137th	
Procedures	44	44	29.5
Time (days)	635	635	300
Cost (% of claim)	27.5%	27.5%	11.7%

¹Top 10 Average refers to the average of the 10 best countries in this indicator

NCC recommendations:

- Complete implementation of the new Judiciary Law, including the creation of commercial tribunals that meet Top 10 performance levels, where trial, judgment, and enforcement occur within 300 days.
- Provide training to commercial judges in technical topics of commercial law.
- Ensure new courts are easy to use, implementing online services where helpful.
- Introduce public judgments and ensure judges respect precedents, to ensure predictable, transparent outcomes.
- Improve and expand available mechanisms to ensure swift enforcement of court decisions.

Commercial dealings are premised on the assurance that contracts will be honored by all parties, and quickly and reliably enforced by the courts. Confident participation in the marketplace is the prerequisite of a well-functioning economy; with a lack of trust comes a chilling effect across a range of efficient economic activities, including trade, investment, partnership, and employment. Foreign investors, accustomed to a more litigious business environment, are particularly hesitant to take risks in economies with weak judicial systems. Without strong contract enforcement, reforms in other areas such as creditors' rights provide only attenuated practical benefits, since the law itself has limited relevance to commercial practice.

Weak judicial enforcement mechanisms not only undermine the fairness and efficiency of dispute resolution, but also weaken parties' incentives to fulfill their obligations. The World Bank/IFC rates the efficiency of the judicial system in resolving a standardized contract dispute as reflected in the number of procedures, time, and cost involved at each stage. Ranked 137th out of 181 countries studied, Saudi Arabia needs to improve its judicial performance across all three metrics (Figure 22).



Figure 22: Procedures, Days, and Cost to Enforce a Contract, Saudi Arabia versus Selected Countries

Country	Procedures	Country	Days	Country	Cost ¹
Ireland	20	Singapore	150	Iceland	6.2
Lebanon	37	Iran	520	Kuwait	13.3
Yemen	37	Iraq	520	Oman	13.5
Iran	39	Yemen	520	Bahrain	14.7
Jordan	39	Tunisia	565	Yemen	16.5
Tunisia	39	Kuwait	566	Iran	17.0
Djibouti	40	Qatar	570	Palestine	21.2
Morocco	40	Oman	596	Qatar	21.6
Egypt	42	UAE	607	Tunisia	21.8
Qatar	43	Morocco	615	Algeria	21.9
Saudi Arabia	44	Algeria	630	Morocco	25.2
Palestine	44	Bahrain	635	Egypt	25.3
Algeria	47	Saudi Arabia	635	UAE	26.2
Bahrain	48	Jordan	689	Saudi Arabia	26.2
Kuwait	50	Palestine	700	Syria	29.3
UAE	50	Lebanon	721	Lebanon	30.8
Iraq	51	Syria	872	Jordan	31.2
Oman	51	Egypt	1,010	Iraq	32.5
Syria	55	Djibouti	1,225	Djibouti	34.0

Worldwide benchmarks

Source: *Doing Business 2009*, World Bank/IFC
¹Cost is recorded as a percentage of the claim.

Late in 2007, His Majesty King Abdullah, Custodian of the Two Holy Mosques, ordered a far-reaching overhaul of Saudi Arabia's legal system that was widely expected to improve its performance. In addition to major structural reforms, the Royal Decree allocated SAR 7 billion to upgrade the capacity and quality of the judicial system through the training of new judges and establishment of new courts. Of relevance to commercial contract enforcement is the promised creation of specialized commercial and labor tribunals. Over a year later, fully implementing these reforms remains an unfinished project and a critical priority.

As the new commercial courts commence operations, Saudi Arabia should invest in the development of a capable group of judges dedicated to commercial disputes, with the requisite training and experience. Long term, this requires supplementing their education in the Shari'a with clerkships and/or formal legal education in technical commercial topics. In addition to ensuring that the judges are competent professionals, the new court should provide greater predictability and confidence to stakeholders by publicizing judgments and respecting the precedents these set. This will both improve the transparency and predictability of the judicial process and assist companies in making decisions based on better legal advice.

Finally, the commercial court should rationalize its procedures to reduce the complexity, time and cost involved in completing the legal process. In Hong Kong, for example, filing and service of a case takes just five days, compared with a month in Saudi Arabia; enforcing judgments takes one month instead of



eight. In the summer of 2008, a Saudi Arabian judicial delegation visited Singapore to study that country's legal practice, ranked 14th in the enforcing contracts indicator. Such missions provide important data and experience as the Kingdom determines new methods for improving its processes.

10. Closing a business

	SAUDI ARABIA 2007	SAUDI ARABIA 2008	TOP 10 AVERAGE ¹ 2008
Overall rank	79th	57th	
Time (years)	2.8	1.5	0.85
Cost (% of estate)	22%	22%	4.1%
Recovery rate (cents on the dollar)	29.3	37.5	87.5

¹Top 10 Average refers to the average of the 10 best countries in this indicator

NCC recommendations:

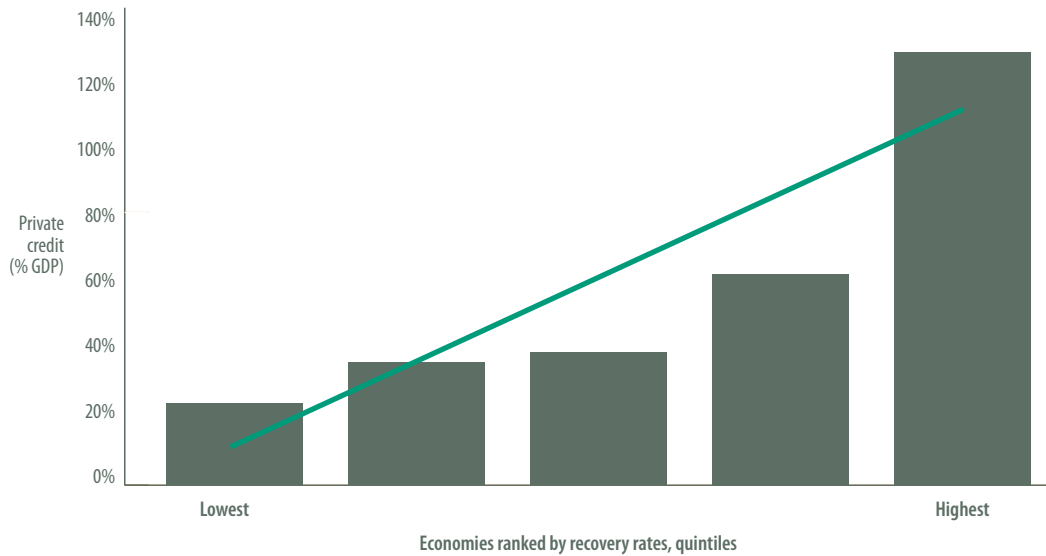
- Enact an updated, unified insolvency law to strengthen creditors' rights and approve acceptance of formal proceedings, informed by international best practices.
- Encourage the survival of viable firms as going concerns. For example, provide incentives for creditors to provide ongoing lending to distressed debtors.
- Create dedicated bankruptcy courts staffed by specially trained professionals, with procedures designed to minimize costs and complexity and maximize recovery rates.

Credit extended to businesses is the engine that drives forward investment and economic growth. Yet lending to commercial ventures is no less risky than commerce itself. Companies' ability to generate revenue and service their debt can be disrupted by an array of uncertainties: economic downturn, new competition, operational challenges, adverse movements in input costs, and other unforeseen challenges. Without an effective insolvency regime, lenders to a struggling firm will rush to recover their claims on the firm's assets, accelerating the company's deterioration and draining the capital available to other creditors. Firms, meanwhile, seek to indefinitely forestall confrontation with their creditors and continue to consume capital and labor that would be more efficiently deployed elsewhere.

By contrast, a strong insolvency regime should provide an expedient, cost-effective way for creditors to withdraw what remains of their nonperforming investments in an orderly, collective process that equitably satisfies competing claims on the firm's assets. The World Bank/IFC tracks the time and cost of bankruptcy proceedings, and the recovery rate for creditors. Leaner proceedings and higher recoveries provide the highest possible returns to creditors; when these mechanisms are easily available and widely used, they reduce default risk, build confidence in the credit markets, and expand the availability of capital to businesses (Figure 23).



Figure 23: Recovery Rates and Availability of Credit



Source: *Doing Business 2009*, World Bank/IFC

Saudi Arabia's bankruptcy procedures are currently used infrequently and widely perceived as cumbersome and unreliable. While recent reforms have reduced the time involved, the procedures are still costly and creditors tend to recover a relatively small portion of their original investment. By contrast, creditors of insolvent firms in Japan typically recover 93 cents on the dollar, in proceedings that take under one year to complete and cost just 4 percent of the value of the creditors' claims.

In 2008, reforms in the Kingdom focused on capping the duration of procedures. A government decision established that the duration of insolvency proceedings would range from 12 to 18 months, with monies paid to creditors within one month of judgment. Since that decision, the Ministry of Commerce and Industry has acted to rationalize insolvency proceedings; most are now completed within one year.

Still, Saudi Arabia's bankruptcy regime should be fundamentally reconstructed. A new insolvency law is currently being developed through the joint efforts of SAGIA, the Ministries of Commerce and Justice, and the Board of Grievances. Along with the new Judiciary Law, this legislation should institute dedicated bankruptcy courts skilled in the highly technical nature of such proceedings. The courts should maximize the value of insolvent companies through reorganization or efficient collection and liquidation of the firms' assets. The rights of secured creditors should take absolute priority, and debtors and creditors should see incentives to initiate collective proceedings, rather than pursue individual recovery actions.

As suggested in last year's *Competitiveness Review*, Saudi Arabia should continue to use other countries as benchmarks in upgrading its bankruptcy system, with an emphasis on professionalization and specialization, strengthening creditors' rights, and minimizing the complexity and intensity of proceedings. Laws pertaining to bankruptcy should be updated, unified, and brought into line with international best practices, in order to reduce the burden of default risk and facilitate robust access to credit.



New topics for the *Doing Business* report

Future *Doing Business* reports will likely include two new indicators: quality of business infrastructure, and government transparency. The following section provides an overview of these new indicators.

Quality of business infrastructure

Infrastructure services are vital for private businesses. Private businesses in lower- and middle-income countries worldwide estimate that they lose on average 7.5 percent of sales due to electrical and telephone outages and inadequate water supply.⁷ Measuring quality of infrastructure services is a vital input into a country's overall business environment.

The NCC expects this area to be examined in two parts: how the country would react to a sudden rise in demand for electricity; and the process for obtaining utility connections for new buildings. It is expected that the second part will entail more detailed examination of the utility-related procedures currently examined in the dealing with construction permits section. It remains unclear how any overlap with the dealing with construction permits section will be managed, and what methodology will be used for determining ease of expansion of the electricity supply.

Saudi Arabia's potential rank in this indicator is unknown. However, its rank of 41st in the infrastructure pillar of the World Economic Forum's 2008–2009 Global Competitiveness Index provides a baseline. The World Bank recommends that countries seeking to improve the quality of their infrastructure adopt policies that facilitate both supply of and ease of access to infrastructure services.

Government transparency

While the 10 existing areas of the *Doing Business* report directly influence companies' day-to-day business, government transparency likely has less direct impact on individual firms. However, the government's behavior sets a standard for others in the country to follow, and shapes people's attitudes toward disclosure. As discussed throughout this report, norms around levels of disclosure can affect everything from access to credit, to investors' ability to obtain necessary proof to sue for wrongdoing in court.

The NCC expects the *Doing Business* report to measure transparency by investigating the level of disclosure required by a country's legislators, and the rules in place to prevent them from abusing their power for their own benefit. The report is expected to cover seven areas related to restrictions and disclosure requirements:

- **Declaration of interests and financial holdings:** are legislators required to disclose financial assets and liabilities?
- **Restrictions on holding multiple government offices:** are legislators prohibited from holding multiple public offices (e.g., serving as both legislator and mayor)?
- **Restrictions on private sector involvement:** are legislators prohibited from conducting business in the private sector?



- **Restrictions on acceptance of gifts:** are legislators prohibited from accepting gifts, including travel?
- **Declaration collection and inspection:** does a government agency process and investigate legislators' disclosure declarations?
- **Penalties for non-compliance:** do penalties apply for non-compliance?
- **Public access to declarations:** is the public permitted to access legislators' disclosure declarations?

The Kingdom's ranking on this indicator remains unknown; however, Saudi Arabia, like all countries, should continually seek to discharge its duties to its citizenry in a highly transparent manner across all bodies and levels of government.

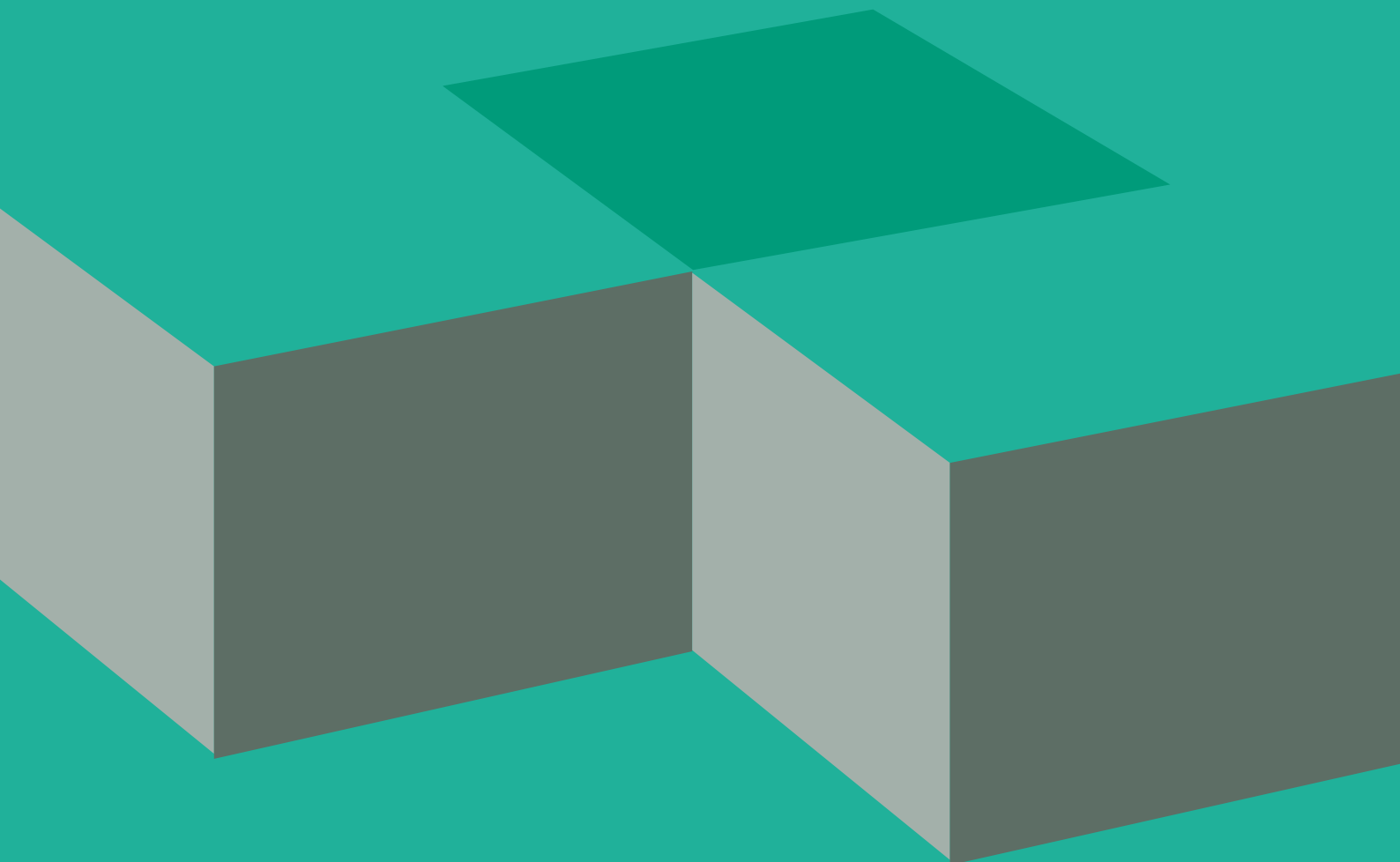
Conclusion

The *Doing Business* rankings serve as a fertile source of data and ideas for guiding Saudi Arabia's reform effort. However, they must serve as a point of departure – not a destination – for the 10x10 program. While the indicators tracked by the World Bank/IFC are important in their own right, they are most valuable as indicators of the underlying health of the Kingdom's institutions. For example, a judiciary whose procedures are expedient and inexpensive is of limited value if its judgments are arbitrary or harmfully biased. While the World Bank/IFC rankings suggest where reformers should focus their efforts, the only true measure of the success of Saudi Arabia's institutions is the extent to which they enhance the opportunities available to the Kingdom's citizens.

The Economic Leadership of the Kingdom has set a clear mandate to improve Saudi Arabia's competitiveness. The country aspires to increase its people's prosperity, and views competitiveness as the primary vehicle for reaching this goal. The NCC's *Competitiveness Reviews* provide a snapshot of the Kingdom's current state of competitiveness, and cover the Kingdom's public and private sector leadership with a foundation from which competitiveness priorities for development can be identified, executed, and achieved.

This issue of the review provides an in-depth analysis of the business environment. Other issues of the *Competitiveness Review* delve into the heart of the Kingdom's competitiveness challenges at the sector and cluster levels. They focus on the enabling sectors (such as those examined in the World Economic Forum's *Global Competitiveness Report*) and sectors of strategic importance to Saudi Arabia, since these two areas provide the greatest opportunities for boosting competitiveness. In each case, the NCC will provide a comprehensive assessment of the respective cluster. This analysis involves examining the options for developing distinctive capabilities within clusters, highlighting barriers currently inhibiting progress, and ultimately showing the way to successful competition in international markets. With this series of publications, the NCC is committed to enabling the Kingdom to make a successful transition to a more innovation-driven economy, thereby propelling the country and its people toward greater prosperity.

Analysis of the World Economic Forum's *Global Competitiveness Report*





Analysis of the World Economic Forum's Global Competitiveness Report

First Pillar: Institutions

Context

The first pillar measures the overall civil, legal, and political environment within which firms operate, and includes the basic building blocks of a stable and supportive framework for doing business. The most basic component of a private economy is property rights, including protection of intellectual property. Arbitrary or inefficient legal systems undermine the integrity of contracts and property rights, and hence the basis for a market economy.

Inadequate institutions hamper business through a variety of channels. Crime, violence, and corruption significantly worsen the business environment, by diminishing the overall health of the economy and by imposing such costs as theft losses, higher insurance premiums, and security measures. Wasteful spending and self-dealing among government officials deprive the economy of vital public services, such as security, sanitation, and education. Excessive government red tape can add friction to the gears of the economy in areas such as hiring workers and approving building permits.

Yet commercial and civil institutions can be at least as important as government in supporting competitiveness. Where firms behave responsibly, reinforced by cultural norms and conscientious corporate boards, market failure is less common and government can reduce costly red tape. Protection of minority shareholders is a significant area where responsible practices deliver economic benefits, in this case by increasing the availability of passive equity capital.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	34th	4.8	6.0
Property rights	44th	5.3	6.4
Intellectual property protection	38th	4.5	6.0
Diversion of public funds	37th	4.6	6.3
Public trust of politicians	19th	4.6	5.7
Judicial independence	40th	5.0	6.3
Favoritism in decisions of government officials	23rd	4.4	5.5
Wastefulness of government spending	13th	4.7	4.9
Burden of government regulation	14th	4.2	4.3
Efficiency of legal framework	41st	4.5	5.9
Transparency of government policymaking	45th	4.5	5.7
Business costs of terrorism	115th	4.6	6.3
Business costs of crime and violence	67th	4.8	6.2
Organized crime	49th	5.6	6.5
Reliability of police services	45th	4.8	6.4
Ethical behavior of firms	39th	4.7	6.4
Strength of auditing and reporting standards	61st	4.9	6.1
Efficacy of corporate boards	75th	4.6	5.6
Protection of minority shareholders' interests	55th	4.8	5.7

¹Top 10 Average refers to the average of the 10 best countries in this pillar



Current status and next steps

Praised as “visionary” by the World Economic Forum, Saudi Arabia’s strides toward providing a modern institutional framework for doing business have received worldwide attention.⁸ The most notable progress has come in cutting burdensome red tape under the auspices of the 10x10 program. In addition to reducing administrative burdens, Saudi Arabia is building sound institutions that will strengthen the market system’s integrity.

For example, the establishment of the Capital Market Authority has substantially improved protection of minority shareholders. The CMA and the Ministry of Commerce and Industry have adopted rigorous standards related to disclosure of conflicts of interest by company officers and directors, and strengthened liability for related-party transactions.

Meanwhile, Saudi Arabia is working on an ambitious overhaul of the legal system, announced in October 2007 by King Abdullah, Custodian of the Two Holy Mosques. When fully implemented, His Majesty’s Royal Decree will result in the creation of a new Supreme Court, appellate courts, and specialized labor and commercial tribunals, along with a SAR 7-billion plan to upgrade the resources of the judicial system. Although these reforms remain incomplete, they promise to greatly improve the courts’ efficiency and professionalism, to the benefit of Saudi Arabian businesses. A strong legal system is necessary to guarantee property rights, deter malfeasance and fraud, and strengthen confidence in commercial transactions.

Saudi Arabia should continue to rationalize government regulations to minimize the burden of red tape, but ensuring a sound institutional framework for doing business will also require considerable investment. The overhaul of the judiciary promises to provide a more efficient legal basis for commercial transactions, but achieving this goal will require investment in and reform of the way judges are trained, cases are decided, judgments are publicized, and evidence is used and shared. Fully establishing the reformed judiciary will augment reforms in other areas – such as property rights and shareholder protection – by providing legal recourse to enforce newly reformed laws.

Second Pillar: Infrastructure

Context

The second pillar measures the readiness of countries’ infrastructure to support the movements of people, goods, and services. The quality of roads, rail, port, and air transport are considered, as well as electricity and telecommunications systems. Infrastructure is a vital public good that directly fosters competitiveness by reducing transaction costs and speeding time to market. Port delays, for example, raise transportation costs and disrupt commercial transactions. Unreliable electricity forces businesses to rely on inefficient private generators. By contrast, well-developed infrastructure is an important variable in determining the location of economic activities. Where a country’s infrastructure can provide an open runway for commercial activities, investment is cleared for takeoff.



	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	41st	4.4	6.2
Quality of overall infrastructure	38th	4.7	6.5
Quality of roads	37th	4.9	6.4
Quality of railroad infrastructure	57th	2.8	5.9
Quality of port infrastructure	45th	4.5	6.1
Quality of air transport infrastructure	47th	5.3	6.5
Available seat kilometers ²	27th	721.8	5,044.9
Quality of electricity supply	35th	5.8	6.7
Telephone lines ³	73rd	15.7	54.2

¹Top 10 Average refers to the average of the ten best countries in this pillar

²Scheduled available seat kilometers per week originating in country (in millions)

³Main telephone lines per 100 population

Current status and next steps

Saudi Arabia provides businesses with modern infrastructure, but quality varies across regions. Contrasts in the operations of the Kingdom's airports are stark. Congestion is a frequent problem at Saudi Arabia's major ports in Jeddah, Dammam, and Jubail, causing delays and added costs for transportation, handling, and insurance.⁹ In response to significant congestion, Saudi Arabia's Ports Authority has announced an initiative to upgrade the Kingdom's port capacity.¹⁰ A short-term initiative costing SAR 540 million will speed up loading and unloading of consignments and other related services, while adding three wharfs to Jeddah's northern container terminal. Longer-term plans under consideration will enhance terminal capacity.

Booming automobile traffic has also made road congestion a visible problem in Saudi Arabian cities. According to the Traffic Department, car accidents cost SAR 13 billion annually, including SAR 734 million spent on medical care for accident victims. In April, the Ministry of Interior announced the world's largest Automated Traffic Violations Administering and Monitoring system, to improve compliance with traffic regulations and ease congestion resulting from accidents.¹¹

Infrastructure is an area where Saudi Arabia faces considerable opportunities. The Kingdom's geographic situation at the crossroads of international commerce makes it an ideal candidate to serve as a regional and international sea and air hub. Meanwhile, its comparative advantage in natural resources and downstream sectors create a need for an extensive, sophisticated export infrastructure. The scale of religious tourism and the Kingdom's rapid economic growth create a significant need for an internal transport system capable of accommodating large future expansion. Saudi Arabia's booming population and industrial ambitions also generate large-scale demands for electricity generation and distribution.

Saudi Arabia also faces a unique set of challenges not faced by most Top 10 Countries. Notably, Hajj and Umrah generate brief bursts of demand for transport services that may experience slack usage during the rest of the year. Saudi Arabia's cities and industrial centers are spread out over a considerable expanse

⁹ "Ports Still Choked Causing Market Scarcity," *Saudi Gazette*, October 2008

¹⁰ "SR540 Million for Port Improvement," *Arab News*, September 2008

¹¹ "New Traffic Plan to Improve Safety, Ease Congestion," *Arab News*, April 2008



of territory; connecting these through terrestrial links requires a high level of up-front investment. Cultural factors, such as concern for the privacy of women, restrict the range of modes of transport. A basic challenge is the simple scale of the investments required: taken together, road and traffic congestion, planned railroads, outdated air transport facilities, and additional power generation needs represent daunting costs.

Third Pillar: Macroeconomic stability

Context

The third pillar measures the stability and supportiveness of the macroeconomy. High inflation distorts investment decisions, complicates everyday transactions, and invites contractive policy responses; foreign exchange volatility arising from excessive debt is associated with destabilizing capital flows and marked swings in the price competitiveness of local producers. By contrast, consistently stable macroeconomic environments supply abundant investment capital, give firms the flexibility to borrow in foreign capital markets, and provide predictability for pricing and expansion strategies.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	9th	6.0	6.1
Government surplus/deficit ²	7th	12.6	14.3
National savings rate ³	10th	44.3	40.9
Inflation ⁴	58th	4.1	2.9
Interest rate spread ⁵	44th	4.0	3.2
Government debt ⁶	35th	23.3	19.0

¹Top 10 Average refers to the average of the 10 best countries in this pillar

²Central government gross surplus/deficit as a percentage of GDP

³National savings rate as a percentage of GDP

⁴Annual percentage change in consumer price index

⁵Average interest rate spread (difference between typical lending and deposit rates)

⁶Government gross debt as a percentage of GDP

Current status and next steps

Saudi Arabia has slipped somewhat from its commanding rank of third last year, but maintains a favorable macroeconomic position. Consistent budget surpluses over the past six years have enabled the Kingdom to raise its national savings rate and pay down public debt. This has produced stability amid the current financial crisis: Saudi Arabia retains a strong liquidity position as other countries find themselves overleveraged without access to credit. Inflation crept further upward in 2008, due to rising prices of foodstuffs and commodities, surging domestic demand, and a booming global economy. Saudi Arabia is taking steps to meet these challenges, for example by streamlining port procedures to supplement domestic supplies of goods and services with imports. However, global demand slackened considerably in the second half of the year, suggesting that price pressures may subside. Changes in the price of oil will affect the Kingdom's fiscal position, but are not expected to cause dramatic adverse swings.

Saudi Arabia's monetary policy is constrained by the dollar peg, which necessitates ongoing, significant measures to help it withstand the global slowdown. Continued economic reform and restructuring are driving a major wave of investment that has put the Kingdom on a long-term growth trajectory, and it is crucial that the government take appropriate measures to prevent short-term cyclical issues from



disrupting its path to prosperity. Lower oil prices will increase the government budget deficit, but this is natural during a recession and indicates the government's commitment to maintaining the strength of domestic demand.

While inflation may retreat in the coming months or years, the recent period of robust growth has revealed significant bottlenecks in the domestic economy, including port congestion and shortages of foreign workers. Rather than abandoning inflation-fighting measures, Saudi Arabia should prepare itself for further rapid growth by alleviating these constraints. A Saudi Arabian visa remains one of the world's most difficult to secure, and access to foreign goods remains limited due to tight conditions at the Kingdom's air and seaports. Meanwhile, barriers to doing business prevent the private sector from flexibly responding to growing demand. These include impediments to business start-up, construction licensing, access to credit, and hiring and firing.

Fourth Pillar: Health and primary education

Context

In addition to serving social objectives, ensuring reliable access to health care and a strong educational system is vital to supporting businesses. While the private sector drives investment decisions and other productivity-enhancing activities, governments can propel progressive economic outcomes by cultivating a productive workforce free from medical and other limitations. A large population can be a source of great potential or an unproductive burden, depending on how well citizens are equipped to participate in a thriving economy.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	51st	5.7	6.4
Business impact of malaria	91st	5.5	6.8
Malaria incidence ²	78th	7.7	0.0
Business impact of tuberculosis	81st	5.4	6.7
Tuberculosis incidence ³	61st	44.0	8.0
Business impact of HIV/AIDS	91st	4.7	6.0
HIV prevalence ⁴	1st	<0.1	0.3
Infant mortality ⁵	76th	21.0	4.5
Life expectancy ⁶	83rd	70.0	79.6
Quality of primary education	75th	3.6	5.7
Primary enrollment ⁷	68th	92.8	97.5
Education expenditure ⁸	8th	7.2	6.5

¹Top 10 Average refers to the average of the 10 best countries in this pillar

²Malaria cases per 100,000 population

³Tuberculosis cases per 100,000 population

⁴HIV prevalence as a percentage of adults aged 15–49 years

⁵Infant (children aged 0–12 months) mortality per 1,000 live births

⁶Life expectancy at birth (years)

⁷Net primary education enrollment rate

⁸Adjusted savings: education expenditure as percentage of GNI



Current status and next steps

Education has rightfully been made a top priority on the Kingdom's economic agenda, as the system lags behind international standards and limits the country's economic prospects. Saudi Arabia's education expenditures are extremely high by world standards, yet it ranks in the middle on such metrics as primary enrollment and quality of education. At 20 percent, adult illiteracy remains high by the standards of developed economies, and performance against international math and science benchmarks is poor.

Saudi Arabia is taking bold steps to address the large gap between the skills of its workforce and the needs of its economy. Central to these efforts is the King Abdullah Project for the Development of Public Education. At SAR 12 billion, the project addresses challenges facing the education system in four key areas:

- Development of curriculum and learning materials
 - Focused on developing K–12 curricula to raise outcomes to international standards.
- Enhancement of the learning environment
 - Focused on implementing technology-driven e-learning tools throughout the Kingdom to foster an effective learning and teaching environment.
- Teacher training and professional development
 - Focused on continuous training and capacity building for Ministry of Education staff.
- Promotion of extracurricular activities
 - Focused on promoting interests that allow students to develop additional competencies, discover hobbies, utilize talents, and improve artistic and linguistic abilities.

These efforts are laudable, but they must be supplemented by a sustained commitment to specific activities that foster a healthy education system. In particular, schools should improve the suitability of curricula by introducing vocational options, increasing the use of computers and the Internet in the classroom, and piloting new teaching techniques. Standardized testing should be used as a means of benchmarking students' abilities, developing a performance road map, and motivating individual achievement. Of particular importance, teaching quality must be improved. Accreditation programs should hold educators to the highest international standards, and training opportunities and incentives should be put in place to build a system that encourages success. Simultaneously, the regulatory environment should be made more accommodating to private institutions, so that private education can bring competition and strong alternatives to public school systems.

The Kingdom also needs to improve its undistinguished public health outcomes. Rates of infectious diseases, preventable conditions such as diabetes, trauma, and infant mortality weigh heavily on workforce productivity. As Saudi Arabia has developed its economy and public services, it has made significant advancements in these areas, but the needs of its fast-growing population set a high benchmark for future progress.



A competitive economy requires a health care system that enables individuals to live healthy, productive lives. Saudi Arabia's median life expectancy has risen substantially over the past two decades, yet the burden of preventable disease remains high, and population expansion is expected to subject the health care system to unprecedented challenges in coming years. On metrics ranging from prevalence of malaria and tuberculosis to the rate of birth defects and infant mortality, Saudi Arabia performs poorly compared to advanced economies and its Gulf Cooperation Council neighbors. The health care sector's efficiency and quality could be improved considerably by the introduction of competition and greater private sector participation, as well as a national health information system.

Building on the Kingdom's health policy successes and addressing ongoing issues will require multi-pronged efforts by government and the private sector to strengthen the health care system. Existing prevention and eradication programs targeting infectious diseases should be maintained, and supplemented by methods employed successfully in other countries.

Policy should also seek to promote healthier lifestyles and reduce avoidable health risks. The continued prevalence of smoking among Saudi Arabian citizens substantially reduces the longevity and quality of smokers' lives and generates significant economic costs for households and the health care system. It should be met by aggressive measures, including public information campaigns, restrictions on tobacco-related advertising, and a ban on smoking in public places. Preventable metabolic diseases such as diabetes and dyslipidemia will also require multifaceted efforts to improve quality of life from a young age. Unacceptably high rates of accidental injury and death require both health and law enforcement responses, including a significant strengthening of enforcement measures and penalties to guarantee road safety. The prevalence of birth defects caused by intermarriage should be addressed through mandatory blood testing, education about the risks of consanguineous relationships, and counseling for high-risk couples.

Accommodating current and future demands on the health care system will require major improvement in the sector's capacity and service quality. To increase the number and quality of health care personnel working in the Kingdom, it should expand graduate-level and continuing medical education programs tailored to the highest international standards, as well as premedical education programs, and promotion of health care careers beginning during early education. Attractive relocation packages should be made available to health professionals currently working overseas. Government policy should introduce competition into the health care system by expanding private sector participation, to drive a shift from cost containment and basic health care to higher-value services.



Fifth Pillar: Higher education and training

Context

A society that delivers world-class economic opportunities to its citizens must provide the education and training required to prepare them for high performance. Technology has elevated, not diminished, the demand for skilled professionals. While primary education lays the foundation for future learning and productivity, mechanisms must be in place to teach advanced skills to meet the needs of an increasingly complex economy. These include tangible resources such as vocational abilities, as well as intangibles such as innovation and leadership capacity. Well-educated workers enrich themselves through higher productivity, and enrich their employers and communities through their greater ability to contribute. Standards of educational excellence are a prerequisite for a high-wage economy. Evaluating the Kingdom's higher education and training system requires measuring the extent and quality of education delivered.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	53rd	4.3	5.7
Secondary enrollment ²	39th	96.3	107.2
Tertiary enrollment ³	70th	29.2	71.1
Quality of the educational system	70th	3.6	5.7
Quality of math and science education	85th	3.7	5.4
Quality of management schools	75th	3.9	5.7
Internet access in schools	71st	3.3	6.0
Local availability of research and training services	42nd	4.4	5.6
Extent of staff training	52nd	4.1	5.5

¹Top 10 Average refers to the average of the 10 best countries in this pillar

²Gross secondary enrollment rate

³Gross tertiary enrollment rate

Current status and next steps

Saudi Arabia's system of higher education is enjoying a new phase of focus and funding as it strives to reach global standards. Notable achievements have been made in the quantity of education, including improvements in enrollment rates and the provision of training services. Yet delivering high-quality education remains challenging. The low level of Internet access in schools is just one indication of an overall gap between the Kingdom's needs and the configuration of its educational efforts. Current curricula cannot match top-performing countries' high levels of accomplishment in such areas as management, mathematics, and science.

However, the creation of world-class educational institutions has received high priority, as evidenced by a recent burst of funding and activity in the sector. Many of the most impressive initiatives are being taken by independent institutions. In October 2008, the private, non-profit Alfaisal University commenced operations, with a vision of delivering the level of quality Saudi Arabian students have traditionally sought overseas. King Abdullah University of Science and Technology, envisioned as a premier graduate-level research university, is set to open in 2009 with an endowment of US\$10 billion.



These institutions are bringing much-needed competition to Saudi Arabia's higher-education sector, and are raising the standard to which all its universities should be held. One of the crucial functions of these universities will be to facilitate knowledge transfer from international experts to domestic students and researchers. As a result, administrators and policymakers will have to balance the twin goals of attracting foreign talent and providing opportunities to domestic students, since mutual enrichment will require the participation of both Saudi Arabians and foreigners.

Sixth Pillar: Goods market efficiency

Context

This pillar measures the effectiveness of competition in the markets for goods and services, including the laws and institutions supporting efficient market outcomes. Much of government's role in promoting efficient markets centers on reducing barriers to private sector participation – both domestic and foreign – including taxes, subsidies, and public and private monopolies. Competition is most effective when market participants have the sophistication and incentives to make sound decisions.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	34th	4.7	5.4
Intensity of local competition	50th	5.2	5.8
Extent of market dominance	40th	4.4	5.5
Effectiveness of anti-monopoly policy	42nd	4.3	5.5
Extent and effect of taxation	9th	5.4	4.1
Total tax rate ²	3rd	14.5	38.8
Number of procedures to start a business ³	34th	7.0	4.9
Time required to start a business ⁴	30th	15.0	11.6
Agricultural policy costs	33rd	4.4	4.5
Prevalence of trade barriers	60th	4.7	5.7
Trade-weighted tariff rate ⁵	71st	5.9	2.0
Prevalence of foreign ownership	114th	4.2	6.1
Business impact of rules on FDI	92nd	4.8	6.0
Burden of customs procedures	41st	4.5	5.4
Degree of customer orientation	51st	4.9	5.7
Buyer sophistication	58th	3.8	5.1

¹Top 10 Average refers to the average of the 10 best countries in this pillar

²Percentage of profits, taken from *Doing Business 2008*

³Taken from *Doing Business 2008*

⁴Time in days, taken from *Doing Business 2008*

⁵The average rate of duty per imported value unit

Current status and next steps

With one of the world's most liberal tax environments, Saudi Arabia has embraced far-reaching market liberalization under the rubric of 10x10. Barriers to trade have been lifted since the Kingdom acceded to the World Trade Organization in 2005. It has privatized government enterprises, relaxed restrictions on foreign ownership, and reduced the burden of red tape on entrepreneurs. The result has been a substantial



increase in domestic start-ups and inflows of foreign direct investment. Despite this progress, the market presence of foreign companies remains limited, with Saudi Arabia ranked 114th in the world for prevalence of foreign ownership. Trade barriers remain relatively high, particularly with respect to agricultural products. Responsible government agencies should continue to work toward greater competition in the Kingdom's local markets, for which Saudi Arabia ranked 50th.

Government policy in support of competition in Saudi Arabia's goods markets is proceeding on three tracks: reduced barriers to business, greater openness to foreign participation, and direct support for entrepreneurship.

To strengthen competition from new start-ups, the government should continue to streamline procedures related to starting a business, dealing with licenses, and obtaining capital and labor. In 2008, the Ministry of Commerce and Industry significantly reduced commercial registration fees and launched a unified office for processing new start-ups. However, entrepreneurs face continuing barriers to starting a business. Obtaining utility connections for a new warehouse costs nearly SAR 43,000, compared with just SAR 269 in neighboring Qatar. To open the way to greater entrepreneurship, Saudi Arabian government agencies must continue to identify and streamline these costs.

Continuing to liberalize trade will have important ramifications for Saudi Arabia's goods markets. Greater availability of foreign products will alleviate inflationary bottlenecks, and enhance the competitiveness of firms reliant on inputs from overseas markets. Tariff reform should also be a priority, but other barriers to trade, such as port congestion, must be addressed to provide greater access to foreign goods and services. Customs clearance at ports, for example, has been subject to increasing congestion as a result of growing foreign trade. Meanwhile, Saudi Arabia stands to gain from the knowledge transfer and increased competition and job creation foreign companies can bring into the Kingdom. Robust foreign participation in the Saudi Arabian market will require dismantling restrictions on foreign ownership, including indirect impediments such as the difficulty of obtaining a visa.

Saudi Arabia should continue to move forward with efforts to provide direct support to entrepreneurship. The Centennial Fund was established in 2005 by King Abdullah, Custodian of the Two Holy Mosques, to finance new commercial ventures. Beginning as a small pilot program, the fund has quintupled in size, having approved over 1,100 loans by the third quarter of 2008. Another government-supported organization, CADRE, is working to meet a different need of Saudi Arabian businesses: talent. By training Saudi Arabians and serving as a recruiting pipeline for ventures in Saudi Arabia's Economic Cities, CADRE seeks to alleviate talent shortages and better equip firms to compete.

Seventh Pillar: Labor market efficiency

Context

Labor constitutes one of the most significant costs faced by businesses, and one of their most critical success factors. Governments' social obligations to their citizens impose limits on the free operation of labor markets, but they must be careful to ensure that labor regulations enhance, rather than diminish,



economic opportunities. To survive and succeed in a competitive economy, firms require flexibility in hiring, firing, and redirecting human resources. By contrast, government interference in the labor market can add significant costs to routine hiring and firing decisions. This exerts a drag on firm growth and profitability, and causes unemployment by setting a higher economic bar to justify hiring. Yet for firms to support an efficient labor market involves more than just flexibility. In addition to efficiently allocating labor, they need to develop top talent, augmenting and targeting their efforts via appropriate incentives and rewards.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	63rd	4.4	5.4
Cooperation in labor-employer relations	39th	4.8	5.4
Flexibility of wage determination	32nd	5.5	5.5
Non-wage labor costs ²	35th	11.0	9.9
Rigidity of employment ³	16th	13.0	7.6
Hiring and firing practices	44th	4.2	4.9
Firing costs ⁴	97th	80.0	14.6
Pay and productivity	40th	4.5	5.1
Reliance on professional management	87th	4.2	5.9
Brain drain	16th	4.9	4.8
Female participation in labor force ⁵	134th	0.2	0.9

¹Top 10 Average refers to the average of the 10 best countries in this pillar

²As a percentage of the worker's salary, taken from *Doing Business 2008*

³On a scale of 0 (best) to 100 (worst), taken from *Doing Business 2008*

⁴In weeks of wages, taken from *Doing Business 2008*

⁵Female participation in the labor force as a percentage of male participation

Current status and next steps

Regulatory forbearance has benefited the freedom and flexibility of Saudi Arabia's labor markets, but inefficiencies continue to thwart the full potential of the Kingdom's citizens. The Kingdom takes a lax approach to restrictions on hiring terms and firing decisions, as reflected in its 16th rank in the employment rigidity indicator. However, it takes on private sector functions traditionally performed by the welfare state, including mandatory severance pay that substantially raises the cost of firing workers. Two crucial elements of a modern labor market – professional management skills and, even more important, robust female participation – are substantially absent. These challenges will require a greater commitment to higher education, and a cultural shift in Saudi Arabia's private sector.

Other factors not directly tracked by the World Economic Forum exert an important influence on the Kingdom's labor markets. The difficulties of obtaining visas and residency significantly limit utilization of foreign labor. Saudization laws constrain firms' actions, and tie up labor in areas where it may not be best utilized. These policies serve important social and economic goals, but both workers and employers ultimately win when flexibility and growth are the main priorities.



Eighth Pillar: Financial market sophistication

Context

A functioning financial sector's centrality to a healthy economy has never been more apparent. Access to credit is as crucial to sustaining day-to-day operations as it is to supporting investment and growth. Therefore, financial system instability can become highly damaging to the real economy by disrupting the operation of healthy companies and undermining macroeconomic stability. A successful financial system must not only be sound, but also provide confidence to risk-averse investors. By deterring misuse of investment capital, strong corporate governance and laws that benefit creditors reinforce the safety and attractiveness of investment opportunities, and lower the cost of capital to businesses. Several indicators in this pillar measure the availability of financing from various sources, but the financial system's effectiveness is augmented when institutions can make sophisticated capital allocation decisions. A healthy financial sector not only supports robust levels of investment, but efficiently directs capital to its most productive uses, while allowing individuals and firms to insure against important risks.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	73rd	4.2	5.8
Financial market sophistication	63rd	4.3	6.3
Financing through local equity market	43rd	4.8	5.3
Ease of access to loans	39th	4.0	4.8
Venture capital availability	38th	3.7	4.6
Restriction on capital flows	90th	4.2	5.9
Strength of investor protection ²	39th	5.7	7.9
Soundness of banks	63rd	5.7	6.5
Regulation of securities exchanges	88th	4.1	5.9
Legal rights index	93rd	3.0	8.3

¹Top 10 Average refers to the average of the 10 best countries in this pillar

²On a scale of 0 (worst) to 10 (best), taken from *Doing Business 2008*

Current status and next steps

The World Economic Forum notes, "Saudi Arabia's financial sector has been undergoing a major overhaul since 2002."¹² The rollback of restrictions on capital flows and participation by foreign banks has been a boon to the sector's development. Regulatory reforms have enhanced the financial system's integrity. Banks are subject to heightened transparency and supervision, although more could be done to assure investors of the soundness of banks. By enhancing corporate disclosure requirements and sanctions on director malfeasance, the new Capital Market Authority considerably strengthened safeguards for minority stockholders.

Significant legal gaps remain. Saudi Arabia's Law on Commercial Liens restricts firms' flexibility in collateral agreements and insufficiently protects secured creditors. Despite better shareholder protections, Saudi Arabia's Tadawul stock index is still developing and has been subject to considerable volatility. Even as regulations are reformed, delays in the reform of Saudi Arabia's legal system cast doubt on the enforceability of new rules. For example, shareholders' access to legal recourse has not kept up with the



rights granted to them under the law. Uncertainty about the treatment of typical Western financial instruments has hindered the development of sophisticated financial products and risk capital.

Saudi Arabia's strong liquidity position amid the ongoing credit crisis underlines its significant potential as a source of domestic financing and as a global financial hub. However, building a developed financial sector will require more than just liquidity: it entails carefully crafted regulation and sophisticated knowledge transfer. The ongoing opening of Saudi Arabia's financial markets to foreign institutions will go a long way toward introducing world-class financial products and practices. But financial instruments are simply contracts, and their scope and effectiveness depends crucially on the legal regime in which they are embedded. This highlights the importance of overall judicial reform, as well as the serious need for specific financial sector changes, including rules enhancing the effectiveness of secured financing and shareholder protections.

Ninth Pillar: Technological readiness

Context

Technology has revolutionized the way business is done across many industries; the competitiveness of firms and nations depends in part on their success in integrating productivity-enhancing technology into their operations. In particular, access to information and communication technologies has enhanced the way in which firms transact business, exchange knowledge, and manage operations, among other activities. Though not a panacea, successful adoption of technology can deliver sustained efficiencies and competitive advantage. Because many of these technologies rely on shared networks, both the quality of public ICT infrastructure and network externalities arising from widespread adoption contribute to a nation's technological readiness to compete.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	51st	3.7	5.8
Availability of latest technologies	41st	5.2	6.3
Firm-level technology absorption	44th	5.2	6.0
Laws relating to ICT	43rd	4.3	5.7
FDI and technology transfer	40th	5.2	5.4
Mobile telephone subscribers ²	54th	78.0	105.1
Internet users ³	65th	18.7	67.8
Personal computers ⁴	54th	13.9	76.9
Broadband Internet subscribers ⁵	74th	0.9	26.0

¹Top 10 Average refers to the average of the 10 best countries in this pillar

²Mobile telephone subscribers per 100 population

³Internet users per 100 population

⁴Personal computers per 100 population

⁵Broadband Internet subscribers per 100 population



Current status and next steps

Progress in technology adoption has been dominated by telecommunications services, and in particular mobile telecommunications. Mobile telephony penetration now exceeds 100 percent, although many Saudi Arabians do not own or have access to mobile phones. Meanwhile, as in many saturated markets, fixed-line telephony penetration is dropping and remains a monopoly. New fixed-line licenses have been granted, raising the possibility of future competition in the sector.

By contrast, broadband penetration is improving from a low base. While Saudi Arabia has become one of the first countries to launch commercial WiMax wireless broadband services, many areas lack competitive broadband offerings. Development of Internet services is also held back by limited use of personal computers, which has remained low despite efforts by the Communications and Information Technology Commission to encourage adoption. While infrastructure is steadily being upgraded, there is an apparent lack of consumer enthusiasm for the Internet, due to a widespread perception of a lack of Arabic content on the Internet. Many businesses – including those making full use of PCs – currently see no benefit from being online. In response, the Kingdom plans to widen its commitment to ICT training, aimed at both service providers and general users, to ensure its workers have the ICT skills they need for a connected workplace.

In addition to facilitating technology adoption, the Kingdom has a keen interest in building an indigenous ICT sector as part of its drive to develop a world-class, knowledge-based industry cluster. King Abdulaziz City for Science and Technology has launched a sophisticated, well-funded ICT incubation initiative that provides a range of benefits to promising start-ups in the sector.

Saudi Arabia has embarked on a number of ambitious efforts to advance technology's presence in the marketplace. The Smart Cities initiative will provide widespread, even ubiquitous Internet access to homes and businesses in the Economic Cities and elsewhere. YESSER, a major e-government initiative, is implementing many government procedures over the Internet, in an effort to boost their efficiency and responsiveness.

Ensuring the success of these initiatives not only requires building the needed infrastructure and applications, but also a thoughtful effort to integrate them into users' daily lives. For example, putting computers in schools is only the first step to facilitating technology and Internet usage among students. Promoting a culture of productive technology use requires reorienting curricula and educational activities around ICT in a meaningful way.

Tenth Pillar: Market size

Context

This pillar measures the size of the local and accessible overseas markets. Large addressable markets foster efficiency and competitiveness by delivering economies of scale to domestic producers. World-class industry clusters, such as finance in London, entertainment in Los Angeles, and consumer electronics



in China, are enabled by the large size of their domestic markets and, more important, by openness to international trade. Trade liberalization translates into greater potential demand, stronger business cases for investment and innovation, and greater opportunities for efficiency and expansion.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	22nd	4.8	6.0
Domestic market size	26th	4.5	5.9
Foreign market size	21st	5.6	6.2

¹Top 10 Average refers to the average of the 10 best countries in this pillar

Current status and next steps

Saudi Arabia is the largest market in the region, having registered exceptional growth in domestic demand during the past decade. In addition to its large size, the Kingdom benefits from exposure to the fast-growing economies of the GCC, and is situated at a major crossroads of international trade. Since its accession to the WTO in 2005, it has steadily moved toward integration into the global economy, giving domestic firms unprecedented opportunities to compete at home and abroad. However, the global profile of most large Saudi Arabian enterprises remains low, and additional moves toward openness will be required to enable them to compete on a worldwide scale. Easing entry of foreign players into the Saudi Arabian market poses a challenge to domestic producers, yet it provides invaluable competitive stimuli and knowledge transfer, which will improve Saudi Arabian businesses' competitiveness at home and prepare them to expand overseas.

Eleventh Pillar: Business sophistication

Context

Governments perform a crucial function in establishing the necessary conditions for global competitiveness. By opening up competition and supporting the availability of knowledge, technology, and capital, they can raise the efficiency of the business environment and greatly strengthen the health of the domestic economy. However, the world's most advanced economies are not just characterized by domestic growth and prosperity. Rather, they play host to the world's most sophisticated companies, which employ high-quality operations and strategies and can tap into the deep resources of their industry clusters. These companies' competitiveness abroad illustrates their success in serving their domestic markets. This pillar encompasses the proficiency of local business networks in exploiting their competitive advantage.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	41st	4.5	5.7
Local supplier quantity	36th	5.1	5.8
Local supplier quality	49th	4.9	6.1
State of cluster development	36th	4.0	5.0
Nature of competitive advantage	51st	3.7	6.0
Value chain breadth	33rd	4.2	5.8

¹Top 10 Average refers to the average of the 10 best countries in this pillar



	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Control of international distribution	15th	4.9	5.2
Production processing sophistication	32nd	4.5	6.0
Extent of marketing	50th	4.7	5.9
Willingness to delegate authority	68th	4.1	5.5

¹Top 10 Average refers to the average of the 10 best countries in this pillar

Current status and next steps

Saudi Arabia has targeted the development of local industry clusters as a top policy priority, as reflected in a variety of government initiatives. These include broad, multifaceted efforts such as the National Industrial Cluster Development Program and the Ministry of Commerce and Industry's National Industrial Strategy, as well as more targeted initiatives, such as human resources programs (GOTEVOT, CADRE), and corporate finance initiatives, such as the Centennial Fund.

Saudi Arabia has a relative abundance of domestic suppliers and is working toward cluster development, but domestic companies' quality and sophistication have yet to achieve the standards of advanced economies. While Saudi Arabian companies are relatively well integrated across the value chain, the primary basis for competitive advantage remains such basic attributes as low cost or resource availability, as opposed to differentiated products and processes. Unlike companies in many emerging markets, Saudi Arabian firms are heavily involved in international distribution activities, rather than relying on foreign partners. They also show a reluctance to delegate authority and employ modern marketing strategies, reflecting opportunities for greater sophistication.

Looking forward, building world-class competitive advantage among Saudi Arabian firms can take years or even decades. It requires an abundance of highly trained personnel in fields from management and finance to product development. Basic infrastructure, liquid capital markets, and modern technology must stand ready to enable advanced operations. To meet the needs of discerning customers, markets must be open, and firms must have the appropriate incentives to compete via differentiated strategies. To develop these competitiveness factors, Saudi Arabia must continue to build the foundations of a prosperous economy, while investing in systems to support advanced capabilities.

Twelfth Pillar: Innovation

Context

The World Economic Forum notes that countries face diminishing marginal returns due to increased factor intensity and market efficiency.¹³ Once a country's productive resources are fully employed and efficiently used, dramatic gains in the standard of living will come from innovative applications of these resources. As well as bringing enhanced productivity and financial returns to suppliers of cutting-edge services, innovation benefits the end users. However, a country's innovative capacity must be carefully cultivated. Strong intellectual property rights are necessary to establish a business case for investment in research and

¹³ The Global Competitiveness Report 2008–2009, World Economic Forum



development. High-quality research talent must be sourced and abundant funds made available to develop new, cutting-edge products. Meanwhile, appropriate market conditions must be put in place to enable ideas to be commercialized on a mass scale.

	SAUDI ARABIA RANK	SAUDI ARABIA SCORE	TOP 10 AVERAGE ¹ SCORE
Overall	34th	3.7	5.4
Capacity for innovation	37th	3.7	5.5
Quality of scientific research institutions	47th	4.3	5.7
Company spending on R&D	43rd	3.6	5.6
University-industry research collaboration	37th	3.8	5.3
Government procurement of advanced technical products	15th	4.3	4.5
Availability of scientists and engineers	43rd	4.6	5.4
Utility patents ²	51st	0.8	168.0

¹Top 10 Average refers to the average of the 10 best countries in this pillar

²Number of utility patents (i.e., patents for invention) granted in 2006, per million population

Current status and next steps

Innovation in Saudi Arabia is in a nascent stage, but is receiving substantial support from the government and independent organizations. Needed investments are being made across the innovation lifecycle, from incubating domestic expertise and intellectual property, to supporting entrepreneurship and bringing promising ideas to market. Building a thriving, knowledge-based economy in Saudi Arabia is an ambitious task. Domestic technology start-ups face similar competitiveness challenges to those encountered by Saudi Arabian small and medium enterprises, as well as the special obstacles confronting pioneers in a relatively new innovation culture.

Educational and research institutions are taking the lead in building knowledge-based industry clusters. For example, King Fahd University of Petroleum and Minerals has created the Roadmap for Innovation to support the establishment of Dhahran Techno-Valley as a future innovation hub. The roadmap involves supporting technology migration from germination in research institutions to commercialization in the global marketplace. Similar incubation activities are being conducted by King Abdullah University of Science and Technology, King Abdulaziz City for Science and Technology, the Ministry of Commerce and Industry, and other major organizations. Their efforts focus on bringing together complementary research and business activities, and supporting entrepreneurship through training and access to capital.

The sophistication and scale of these efforts demonstrate the seriousness of Saudi Arabia's commitment to building its innovation capacity. However, in addition to the requirements of innovation, a successful drive to foster knowledge-based industry clusters must address the more basic challenges hindering small businesses operating in the Kingdom: building facilities, employing workers, and getting credit. Technology incubation efforts can help to overcome many of these obstacles by providing targeted support, but discretionary assistance by the government agencies and other organizations cannot, in isolation, sustain long-term competitiveness. Many of the world's most innovative companies have benefited from deliberate science and technology incubation, but the most important component of their success is an institutional environment that supports entrepreneurship and growth.



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