وزارة الاقتصاد والتخطيط
MINISTRY OF ECONOMY & PLANNING

Accelerating the Economic Transformation of Saudi Arabia through Investments

Ministry of Economy and Planning
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Table of Contents

Introduction

Saudi Arabia's transformation is being shaped by investments in its economic, social and human capital development influencing massive cultural change. It is a major driver in the country's drive for economic growth and diversification, guided by Vision 2030 ambitions amidst a changing geopolitical backdrop. Historically, the Kingdom has been an exporter of capital, deploying surplus earnings in international projects and financial assets. Saudi Vision 2030 created new impetus for local investments aimed at creating depth and breadth, not only for the Kingdom to deploy its resource dividends and expand its own economy, but to also attract capital from international investors in a new set of investment opportunities within the Kingdom. In this regard, domestic capital expenditure and foreign direct investment are both critical to funding the country's transformation and building a sustainable and productive economy.

The 2022 UNCTAD World Investment Report indicates that total foreign investments reached $1.6 Tn in 2021, growing 64% from 2020. The report however also warns of investor uncertainty, due to current geopolitical frictions, the global economic slowdown, reduced project activity and inflationary risks, leading to a potential squeeze on global FDI in 2022. In addition, recent supply chain disruptions have made countries wary of the risks of interruptions in the supply of trategic and essential goods and services. As a result, trade flows and associated investments are likely to change as countries vie for greater resilience and more solid relationships with their trade partners.

Despite cautionary global forecasts, the Kingdom of Saudi Arabia remains steadfast in investing in its national growth and transformation into a diversified and productive economy. The Kingdom's approach leverages public sector investment to attract private investors - both domestic and foreign - with a target to double domestic investments from current levels and grow FDI by almost 15 times from pre-pandemic levels. In 2021, gross fixed capital formation (GFCF), or domestic capital expenditure, was 23% of Saudi GDP, with 10% growth on 2020 to reach pre-pandemic levels. The National Investment Strategy aims to triple investment volume, as measured by GFCF, to SAR 2 trillion by 2030 (equivalent to 30% of GDP).

FDI into the Kingdom reached $2.1 Bn in the second quarter of 2022, up from $1.9 Bn in the previous quarter. FDI totaled $4.0 Bn in the first half of 2022. In 2021, total FDI reached $19.3 Bn, up by 257% from 2020, at 2.3% of GDP. Given the importance of attracting investments to achieve Vision 2030 goals, the National Investment Strategy was unveiled to empower investors, define attractive investment opportunities, and open doors for the private sector to thrive. The National Investment Strategy aims to significantly enhance the inflow of FDI into the Kingdom, to reach 5.7% of GDP and position the country among the top ten economies in the Global Competitiveness Index by 2030.

This report encapsulates the Kingdom's investment approach to expand options amidst global uncertainty, consistent with its ambitions of economic growth and diversification. Underpinning this investment approach is the idea of co-creating value, combining financial and non-financial incentives to trigger long-term investment activity in efficient projects. The long-term investment horizon is a strong enabler of private and public sector co-creation: early involvement by the private sector in anchoring investments results in their enhanced efficiency and productivity, through complementing a stream of private investors at later stages. In short, crowding in with sector expertise is instrumental to ensuring the bankability of these projects.

To achieve the desired economic targets, the Kingdom's investment proposition focuses on scaling investments and realizing long-term impact through productivity-enhancing and efficiency-seeking projects. The role of the Public Investment Fund, the Kingdom's sovereign fund, and the National Development Fund are central to this proposition. The National Development Fund, with its cohort of legacy and new funds, including the National Infrastructure Fund, is emerging as the country's development finance institution.

The first section of this report, "Expanding Investment Options amidst Global Uncertainty", addresses the expansive pipeline of projects to steer investments, create new areas of economic growth, strengthen the Kingdom's resilience, and build a productive economy. The second section of this report, "Sustaining Growth in the Long-Term", addresses the governance and enablers put in place to support the effective deployment of investments and realization of their outcomes.

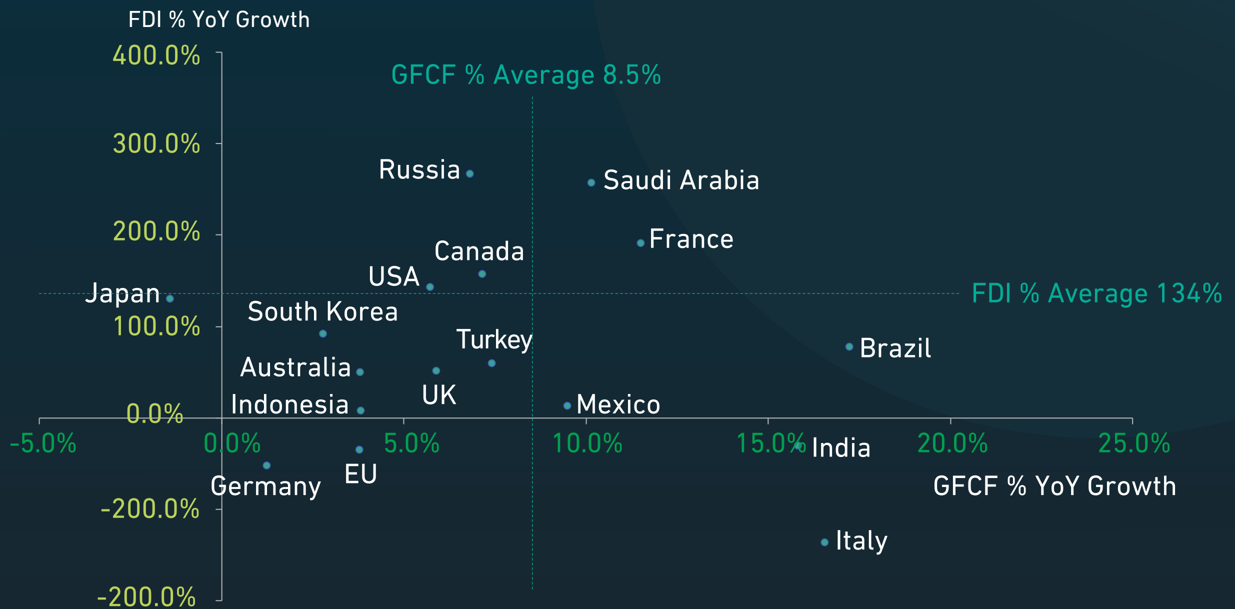
Outperforming G20 Average in Investments – A Global Perspective

Two types of investment are necessary for continued economic development: domestic capital, defined by gross fixed capital formation (GFCF), and foreign direct investment (FDI). Gross fixed capital formation is a measurement of net capital expenditure by public and private sectors. It includes spending on plants, machinery, housing, transport, and infrastructure such as roads. Foreign direct investment is a long-term financing of projects or direct investment, that includes stakes in firms in a foreign country. Both are necessary for economic development and growth.

However, sustained and long-term economic growth is contingent on these investments being steered into productive sectors and in creating new economic areas of growth. Exhibit 1 shows the 2020 to 2021 growth rate of FDI and GFCF for G20 nations. Saudi Arabia with 10.1% GFCF growth, and 257.2% FDI growth, performed better than G20 averages of 8.5% for GFCF growth and 134% FDI growth in 2021.

Saudi Arabia performed better than G20 averages on

Exhibit 1: FDI YoY Growth Versus GFCF YoY Growth (2021) for G20 Nations



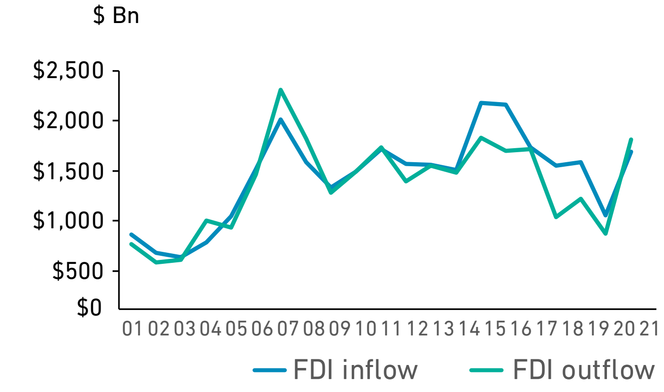
Note: China is not shown in this exhibit

Source: World Bank

GFCF is a component of GDP: its growth positively affects GDP growth. Among G20 nations, GFCF's contribution to GDP has fallen over the past two decades, and in recent years for countries including Japan, the UK, South Africa, and Australia. On the other hand, China, Turkey and Saudi Arabia have raised the contribution of GFCF on GDP. Very few countries perform well on GFCF as a proportion of GDP over long-term and short-term horizons, aside from Saudi Arabia, Turkey and Canada.

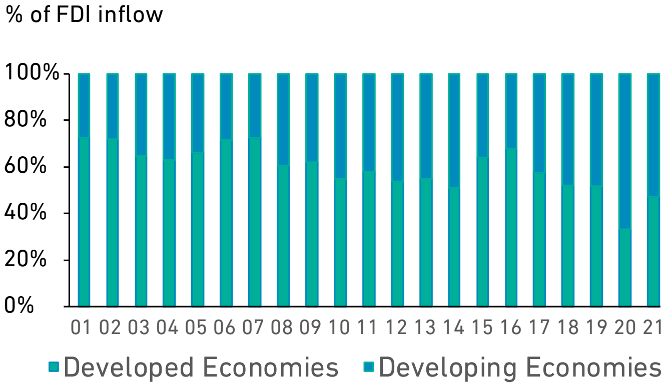
Global FDI inflows reached $1.6 Tn in 2021, recording a 64% increase over 2020 and 7% over 2019. Total FDI outflows hit $1.7 Tn in 2021, growing at 119% over 2020. Developing economies saw 30% growth compared to 134% for developed economies. Inflows into developing economies have steadily increased as multinational and transnational investors sought attractive opportunities in emerging markets. In addition, developing countries that see foreign capital as a source for local economic development have been reforming and implementing investor-friendly policies to compete for capital. In 2021, developed economies attracted 47% of FDI inflow, against 53% for developing economies. Asia attracted 39%, followed by North America at 27%, and Europe at 14% of total FDI inflow.

Exhibit 2: Global FDI inflow reached $1.6 Tn in 2021



Source: UNCTAD Investment Report 2021

Exhibit 3: Inflows into developing economies continue to increase



Source: UNCTAD Investment Report 2021

Greenfield investment projects that enable international cross-border project finance, merger and acquisition activities, and multinational direct investments have been the primary sources for foreign investments globally. In 2021, the total number of greenfield projects announced by destination reached 14,710 in 2021, up 11% compared to 2020. Developed economies led, with a 67% share of these projects, growing at 9% versus developing economies with a 33% share growing at 16% over 2020. The value of manufacturing-related greenfield projects declined from 53% to 45% during the same period. In manufacturing, the most attractive sectors were electronics, electrical equipment and automotive. On the other hand, services-related greenfield projects have continued to rise, with their share of the total project value increasing from 39% to 53% between 2010 and 2021. Within services, sectors that attracted the most FDI included energy and gas supply, construction, communication and transportation. Saudi Arabia has also increased its investments in the service sectors, including construction, transportation, and digital infrastructure.

The pandemic and subsequent supply chain disruptions led countries to tighten investment policies during the pandemic, which began to ease in 2021. However, a contrast appears to emerge between developed and developing countries in terms of their investment policies, according to the World Investment Report 2022 published by the UNCTAD. Developed countries continue to expand the protection of strategic companies from foreign takeovers using FDI screening mechanisms. On the other hand, developing economies are adopting measures to liberalize and promote investments, given the prominence FDI plays in their economic development. As countries continue to compete for foreign capital, strategic trade relationships, return on invested capital and project risk profiles will steer investment flows.

1. Expanding Investment Options Amidst Global Uncertainty

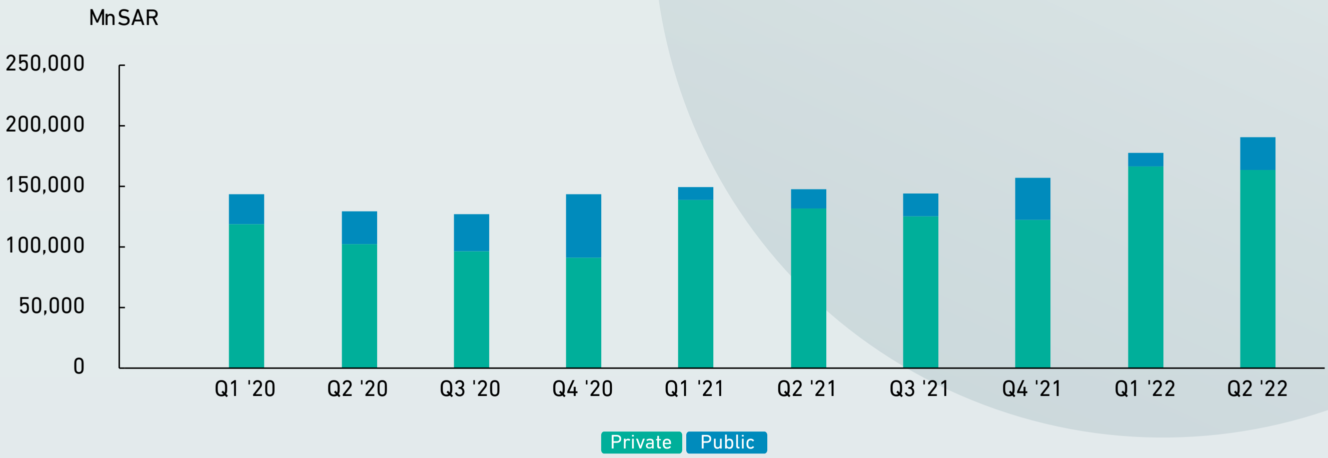
Saudi Arabia recognizes the importance of investments in its transformation and continues to inject domestic capital as a demonstration of its commitment. Despite global uncertainty and investor nervousness, it has set in motion a tremendous effort to attract, organize, deploy investments and implement projects to improve productivity. Given the scale of the ambition, narrow time horizon, and the significance of the size and scope of investment requirements, the effort is analogous to that of an entrepreneurial state.

Vision 2030 articulates the determination of Saudi Arabia to become a global investment powerhouse. Five years on, the mission is well on its course. Despite the disruption caused by the pandemic, the looming cost of living crisis, and geopolitical tensions, Saudi Arabia's resilient and high-growth economy has become a headliner in the global investment space and has emerged as an oasis of stability for international investors. Saudi Arabia is expanding its investment horizons in times of radical uncertainty.

A: Domestic Investments in Infrastructure

The transition of the Saudi economy from a resource-dependent to a diversified one is investment-led, where new capital assets are more efficient and capable of generating a high marginal product. Saudi Arabia continues to invest capital in economic development, which is evident in the growth of its gross fixed capital formation. From an expenditure perspective, net investments through gross fixed capital formation in the Kingdom have risen from SAR143,622 Mn in Q1 2020 to SAR190,637 Mn in Q2 2022 with private expenditures contributing on an average 83% of the total and registering six quarters of continuous positive and double-digit growth. Growth in gross fixed capital formation is an essential driver of domestic expenditure and a vital contributor to overall GDP. Gross fixed capital formation in Saudi Arabia has averaged about 23% as a percentage of GDP and moved up to 28% in Q2 2022. Private sector expenditure is a major component of the total GFCF in Saudi Arabia.

Exhibit 4: Private expenditure has been a significant part of gross fixed capital formation

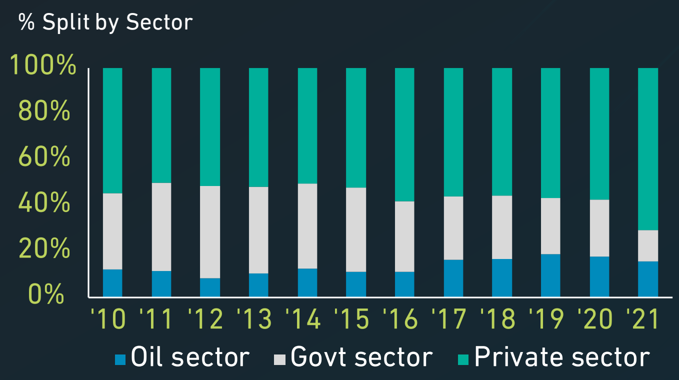


	Q1 '20	Q2 '20	Q3 '20	Q4 '20	Q1 '21	Q2 '21	Q3 '21	Q4 '21	Q1 '22	Q2 '22
GFCF QoQ Growth	-2%	-23%	-12%	-8%	4%	14%	13%	9%	19%	29%
Private Q0Q Growth	0%	-12%	-16%	-20%	17%	29%	30%	34%	20%	24%
GFCF % of GDP	22%	22%	20%	22%	24%	24%	22%	22%	25%	28%

Source: GATSAT

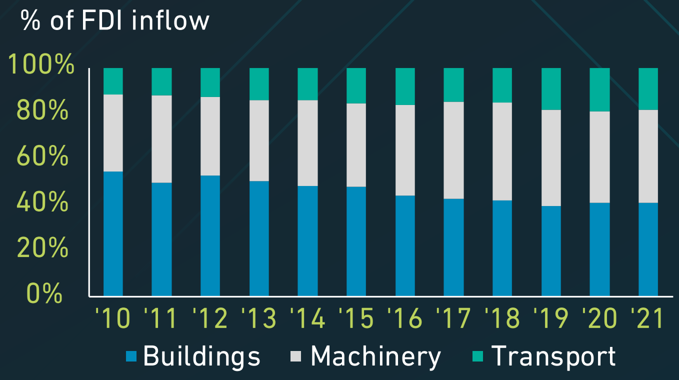
Domestic capital expenditure by the private sector grew to 71% of total GFCF in 2021 from 53% in 2010 while the government sector expenditure declined from 33% to 14% indicating a greater involvement of the private sector in the economic development of the economy. In terms of the type of expenditure, residential and non-residential building absorbed 41% of the spending in 2021 declining from 55% in 2010, a necessary investment to create affordable housing for the growing population but also to create commercial infrastructure for growing businesses. However, the highlight is the growth of both machinery and transportation equipment segment from 45% to 59% in the same time-period. The investments in machinery and transportation equipment indicate a growing industrial economy with the aspiration of modernizing manufacturing and boosting productivity.

Exhibit 5: GFCF Expenditure by Sector



Source: GASTAT

Exhibit 6: GFCF Expenditure by Type



Source: GASTAT

Saudi Arabia is continuing to invest in modernizing its infrastructure to support industrial and social development. Despite volatile global markets, infrastructure development is one of the Kingdom's main priorities for the Saudi economic diversification. Significant investments are earmarked for healthcare along with high-speed digital upgrades for the energy sector. Construction is underway on several schools, hospitals and industrial hubs across the Kingdom. Opportunities in infrastructure enhancement include developing new green infrastructure, creating and restoring rail networks and roadways and expanding the housing sector. A notable area of investment in Saudi Arabia is the transportation and logistics sector.

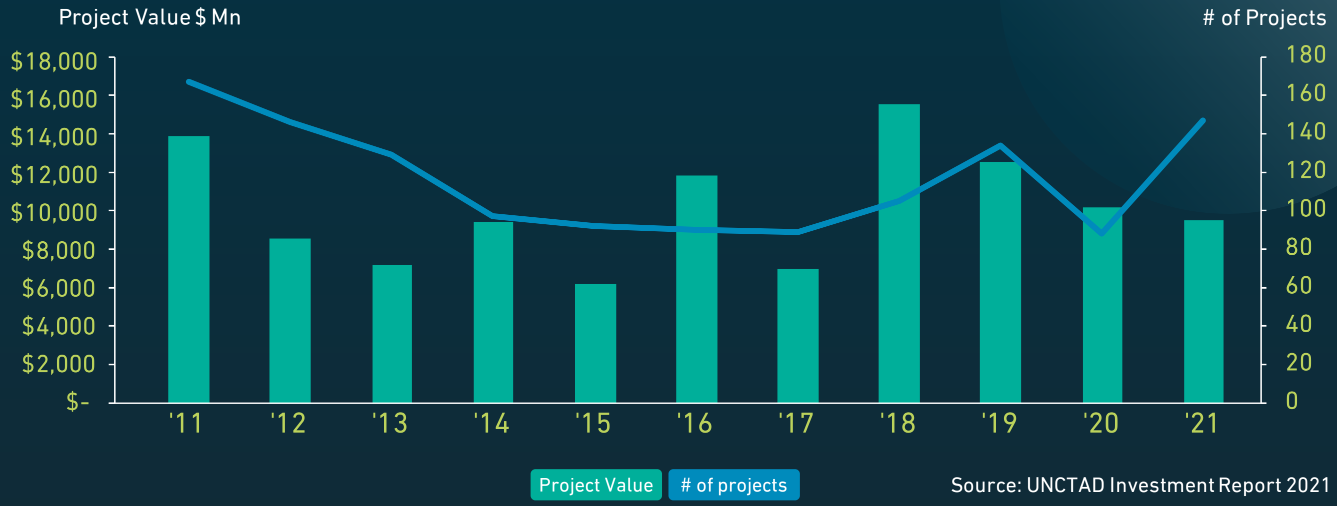
Saudi Arabia's aspiration to become a global transportation and logistics hub by 2030 is the driving force behind the recent announcement to transform Riyadh airport into a massive aviation hub. This new airport, expected to stretch over 57 sq.km, includes six parallel runways to handle over 180 Mn travelers and process 3.5 Mn tons of cargo by 2030. The design and scale of this new airport, King Salman International Airport, aligns with Riyadh's growth in population to 15-20 Mn by 2030, and its aspirations as a tourism, transportation and logistics hub. The airport projects the creation of over 103,000 direct and indirect jobs and the contribution of SAR27 Bn to the non-oil GDP of the Kingdom. While this massive development will have sustainability at its core, global partnerships and alliances are critical to the success of this gigaproject.

The growth in infrastructure development will stimulate the other supplier sectors including steel, construction equipment and materials. As a result, several supply sectors are receiving domestic investment allocations including mining and metals, information technology, industrial manufacturing and clean energy. In addition, infrastructure plans in KSA have increased global attention to the country bringing a welcome boost to the leisure, tourism and entertainment sectors.

B: Innovating the Future with Greenfield Projects

Saudi Arabia has announced several innovative greenfield projects that offer international financing opportunities for investor participation in nation-building while realizing attractive returns. In 2021, 147 greenfield projects were announced, growing 67% from the previous year, attesting to the strength of a strong pipeline of opportunities. In addition, the number of M&A deals in Saudi Arabia increased by 33% in 2021, recording a total value of $24 Bn in net M&A, attesting to global investor interest in the country.

Exhibit 7: Land Value of Greenfield FDI Projects In Saudi Arabia



Source: UNCTAD Investment Report 2021

The innovative greenfield projects announced in the Kingdom show sustainability at the heart of the transformation that the country seeks in order to create a thriving, business and environmentally-friendly ecosystem for the future. Saudi Arabia continues to demonstrate a steady flow in new greenfield project conception and development to transform the nation, and grow and diversify the economy. These projects span a number of sectors including consumer goods, construction, financial services and manufacturing. However, the gigaprojects recently announced represent a degree of innovation and vision not seen before. These greenfield gigaprojects aim to transform future communities and how we live with sustainability at its core, and achieve a sophisticated intersection of technology and future living.

Some of the innovative gigaprojects launched and under construction include the LINE – a concept in future living with people's health and wellbeing at its core, unlike traditional cities. The recently completed Shurayrah bridge – the longest water bridge in Saudi Arabia at 3.2km long - is an example of environmentally-compliant and sustainability-driven design. This bridge completed by the Red Sea Development Company will connect the mainland and Shurayrah Island to enable the Red Sea Project, a luxury tourism and hospitality destination. Several other projects are underway in the country including the Qiddiya, a media, entertainment, tourism and arts hub, and the Amala luxury wellness tourism project.

The Saudi Green Initiative is another major effort driving the development of new projects in green energy. Saudi Arabia's commitment to decarbonization and transition to clean energy is the impetus for building a Hydrogen production hub in the Kingdom. As the world's leading energy supplier today, Saudi Arabia also intends to build its capability in clean energy for the future resulting in its aspiration to become the world's biggest Hydrogen exporter. According to KAPSARC, lower input resources costs and the ability to achieve higher capacity utilization in electrolyzers make Saudi Arabia well positioned to produce blue and green hydrogen at greater volumes and lower costs than global ranges. Hydrogen production is not new to the Kingdom. Saudi Aramco has been leading the country's effort to produce blue hydrogen using natural gas and carbon capture. To produce green hydrogen, Saudi Arabia is building a $5 Bn project in NEOM with 120 electrolyzers to produce 650 tons of hydrogen daily by 2026 and 1.2 Mn tons per year of green ammonia for the export markets. A joint venture between NEOM, Air Products and ACWA Power, this project is one of the world's largest utility scale, commercially based hydrogen facility powered by renewable energy from onshore solar and wind. Saudi Arabia is implementing policies and regulations to accelerate technology development in several areas including carbon capture critical for the commercial success of hydrogen production.

The National Investment Strategy articulates the Kingdom's holistic strategy and its underlying suite of detailed initiatives to attract domestic and foreign investments in a wide array of projects and sectors. The strategy aims to raise net foreign direct investment flows to over SAR350 Bn annually and increase domestic investment to about SAR1.7 Tn annually by 2030. The National Investment Strategy includes a comprehensive governance framework to improve the business environment and triple investment volume by 2030 to 30% of GDP.

The NIS includes several critical initiatives to attract domestic and FDI into the Kingdom.

1

Establish Special Economic Zones with competitive regulations and incentives that attract investments in priority sectors

2

Transfer strategic supply chains to KSA and acquire a market share in supply chain components

3

Diversify funding options to include new financing solutions for the private sector to promote capital formation

4

Enhance the "Invest Saudi" as the national platform and one-stop shop to connect investors with opportunities in the Kingdom.

5

Support the Public-Private Partnership and Privatization agenda through projects in sectors including water, health, education and transportation

C: Accelerating Regional and Sectoral Diversification

Industrial, services and trade clusters with specific sectoral advantages and investment opportunities continue to emerge through smart cities, future cities or special economic zones in cities. In this regard, the development of the regions and their sectoral strengths is a critical component of Saudi Vision 2030. The 13 regions in the Kingdom have key differentiators with a unique value proposition in specific sectors. These regions include Makkah, Riyadh, Eastern Region, Aseer, Madinah, Jazan, Qassim, Tabuk, Hail, Najran, Al Baha and Northern Borders. Detailed competitive assessments of each region were completed considering location and natural advantages, domestic market, export potential, transport and logistics assets, factors of production, business support infrastructure, legal and regulatory assets, etc. This assessment led to sectoral priorities spanning agriculture, advanced manufacturing, defense, energy generation including solar and wind, pharmaceutical, mining, media and entertainment, steel production, technology, tourism and commerce inclusive of trading and logistics. Many regional comparative advantages including access to domestic and adjacent export markets have not fully commercially exploited creating real investment opportunities for national and foreign direct investment. Using these advantages will promote diversification of the economy, create jobs, and contribute to regional and national GDP.

The Ministry of Economy and Planning has been leading policy formulation that emphasize and accelerate the implementation of regional development strategies through investments. Significant effort is underway to coordinate investment promotion and align it with regional development priorities. Encouraging and incentivizing the private sector to invest in regional development is a major policy driver with the intention to magnify the role of this sector. Investments are being channeled in a coherent manner for example: Blue Economy in coastal regions, Green Economy in rural regions, Digital Economy in remote regions and Circular Economy in all regions. As a result, the National Investment Strategy, Regional Strategies and the Competitive Advantages reports have been harmonized to channel investments into regional development. Moreover, the Ministry of Investments of Saudi Arabia with the support of the local Regional Development Authorities (RDAs) has been actively promoting investment opportunities across all regions.

To improve the attractiveness of regions and sectors, the Kingdom has continued to modernize regional infrastructure with investment and ease inflow of foreign investments through business-friendly policies in target sectors. Regional infrastructure development is a priority to ensure that regions and sectors continue to remain attractive to investors. For example, the Ministry of Municipal and Rural Affairs and Housing recently announced an investment of SAR40 Bn to develop local infrastructure in 11 cities in the Kingdom.

Saudi Arabia continues to improve on the OECD FDI Restrictiveness Index improving 35% overall between 2015 and the most recent, available, measurement in 2020. While the FDI Index is not a full measure of a country's investment climate, it is a critical determinant of a country's attractiveness to foreign investors. According to the OECD report, Saudi Arabia has shown improvements in reducing FDI restrictions across sectors between 2015 and 2020 at a time when many countries are constraining the flow of FDI to protect local sectors. There is a concerted and unified effort in defining advantageous sectors in each region and relaxing the restrictions for those sectors to accelerate the flow of funds both from domestic and international investors.

Some of the most prominent Saudi Arabia's sectors with significant reduction in restrictions include media, engineering, transport (maritime, air and surface), manufacturing including food, machinery, equipment, chemicals and financial services. A case in point is the rapid growth of the media sector in the Kingdom after Saudi Arabia relaxed restrictions in the sector significantly. As a result, the advances in the sector combined with regional strategies in the Kingdom have led to an average growth in investments of 26% CAGR since 2015, according to an analysis by Kearney. Development of business-friendly policies and the relaxation of investment barriers in other sectors are an analog to the rapid changes in the media sector.

D: Stimulating Special Economic Zones

Saudi Arabia is developing an SEZ (Special Economic Zone) program to catalyze investment flows into non-oil sectors. The special economic zones intend to provide tax benefits, customs duty benefits, incentives, and ease licensing requirements for international investors. The Special Economic Cities and Zones Authority has been actively working with several ministries, the Public Investment Fund, the National Industrial, the Public Investment Fund, the National Industrial Development and Logistics Program and local Regional Development Authorities to define and develop several special economic zones across the country.

SEZs can remove bottlenecks and accelerate reforms in a controlled manner, stimulate economic diversification and attract high-profile investors. These SEZs are being defined to offer significant competitive advantages to investors who wish to launch their business or enter into joint ventures with local participants. These zones are expected to cater to under-served sectors in the domestic KSA market or adjacent regional, international and global markets. In addition, the Special Economic Cities and Zones Authority in coordination with the relevant authorities is developing the required enablers to complement the requirements of the national investment strategy. These include performance management of the special economic zones, macroeconomic performance indicators, compliance requirements, regulations pertaining to safety, health, environment and operations, technical operating manuals and engineering standards.

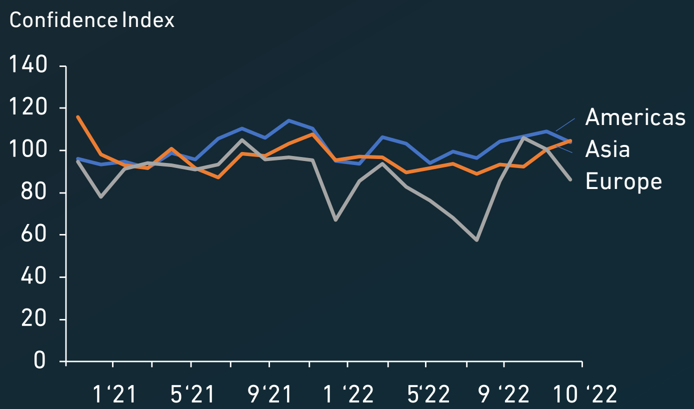
While new SEZs are conceptualized, Saudi Arabia's transformation through the SEZ at King Abdullah Economic City (KAEC) is already taking shape. Recently, over 200 trucks assembled locally at the Volvo Truck Factory in the Industrial Valley in the King Abdullah City were exported to Australia through the King Abdullah Port. Saudi Arabia's ascendency in the global container port performance index (World Bank and S&P Market Intelligence) to the Number One spot in 2021 is a reminder of the world's best logistics asset in the country, especially in a year that saw unprecedented port congestions and global supply chain disruptions. World-class ports in the Kingdom can facilitate trade for investors looking to access regional and global markets.

KAEC is also home to Lucid's first overseas EV factory in Saudi Arabia. This factory is scheduled to ultimately produce 155,000 vehicles a year and energy storage systems to serve the local and global markets. The Lucid agreement was a result of several entities coming together, including the Ministry of Investments, the Ministry of Industry and Mineral resources, the Saudi Industrial Development Fund, Emaar, the King Abdullah Economic City, and Gulf International Bank, along with PIF and Lucid. The establishment of the Lucid factory demonstrates the Kingdom's resolve to diversify its industrial base and demonstrate the attractiveness of the SEZ to establish a complex manufacturing value chain in the Kingdom. The Kingdom is opening all doors to create an investor and manufacturer-friendly environment for international SEZ participants to stimulate economic growth.

E: Modernizing the Capital Markets

A vibrant and healthy financial market is an essential part of the economic infrastructure in a growth-oriented economy to facilitate links between savings and investments and to mobilize and allocate capital. Financial markets provide diversity of capital raising options to firms and also bring in a diverse set of investors including institutional, retail, domestic and foreign. However, prolonged inflation, geo-politics and slowing economic growth have made investors nervous, reducing their risk appetite for investments. The Global Investor Confidence Index published by State Street decreased to 104.3 in Oct 2022, down 4.6 points from September's reading of 108.9. While European confidence level has remained volatile over the past several months, Asian institutional investors have risen in the past three months reaching 104.5 in October 2022.

Exhibit 8: European Investor Confidence volatile, Asia trending upwards



Source: State Street Global Investor Confidence Oct 2022

"Saudi Arabia is one of the hottest listings markets this year and is unlikely to slow down" – Mohammed Al-Rumaih,

In this period of global uncertainty, Saudi Arabia's capital markets have maintained their attractiveness to foreign investors. Reforms and innovative products have made foreign ownership in Saudi markets more mainstream. Within the public investment equities market, geographic representation of equities included the GCC, broader Arab region, Asia, Americas and Europe accounting for 41% of the number of funds and 30% of the asset value. Ownership in the main market by qualified foreign investors (QFI) reached SAR284 Bn at the end of June 2022, an increase of 31% from June 2021. In addition, the traded value by qualified foreign investors in June 2022 reached SAR45 Bn versus SAR27 Bn in June 2021, an increase of 67%. The traded value in Q2 2022 increased by 32% over Q1 2022.

Saudi Arabia is a growing market for new listings. In 2022, 26 firms were listed, with 8 pending and many more in the pipeline under review for approvals. The rising interest to list firms in the Kingdom is indicative of strong demand for share sales and growing domestic and international investor inflows. In 2022, Tadawul hosted a majority of the listings in the Middle East region and shows no signs of abating. In addition, NOMU – the Parallel Market continued to grow in terms of total listings, adding six new listed companies in Q2 2022 to bring its total to 31. International investor's interest and holding in the Tadawul is a trend likely to continue given the continuous enhancements and innovations introduced by Saudi Exchange.

F: Building the Cohort of Future Champions through Startups

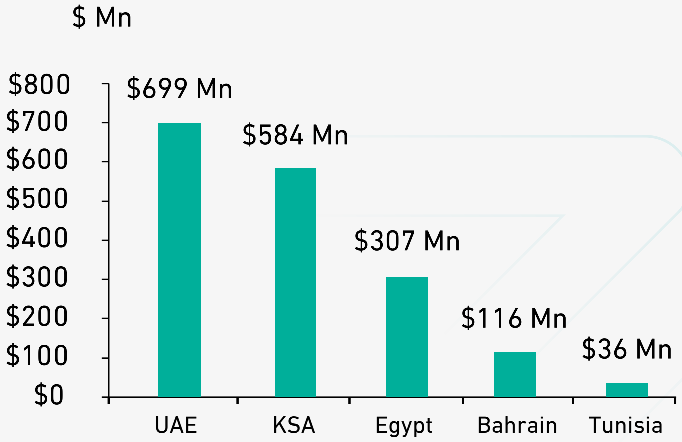
Saudi Arabia is among the leading markets for venture capital in the region. It has consistently maintained its position among the top three VC markets in the region, alongside UAE and Egypt. The engagement of the public sector funds in this space has helped in providing the initial capacity and risk tolerance – facilitating entry of the private sector participants. The pandemic era boost to efficient business models in ecommerce, digital education and digital health has enabled an integrated innovation ecosystem in the country.

The advent of private sector VC funds has enriched the institutional investor space in this domain. Saudi Arabia is now among leading VC markets in the region, with home to a number of successful startups. A new SEZ is also being planned to domicile the startup industry – particularly the ones focused on high end technology – businesses related to Big Data, Artificial Intelligence and Digital Health. The country has a large indigenous market and hence any successful model able to scale in Saudi Arabia has significant potential to become a regional player.

Saudi Arabia's aspiration is to become a startup hub in the region. The depth of the country's domestic market, strong entrepreneurship culture, robust macroeconomic fundamentals, the diversity of its financial sector and active policy and regulatory support will continue to improve the potential for Saudi Arabia to retain its leadership position in the regional VC market. Ranging from providing a dedicated one-stop startup hub to private accelerators across the country, there is extensive support for the entrepreneur to start. In addition, Saudi Arabia's transition in funding and supporting innovation and entrepreneurship is gaining traction through public-private collaboration with domestic and international funds to establish a vibrant and sustainable startup ecosystem.

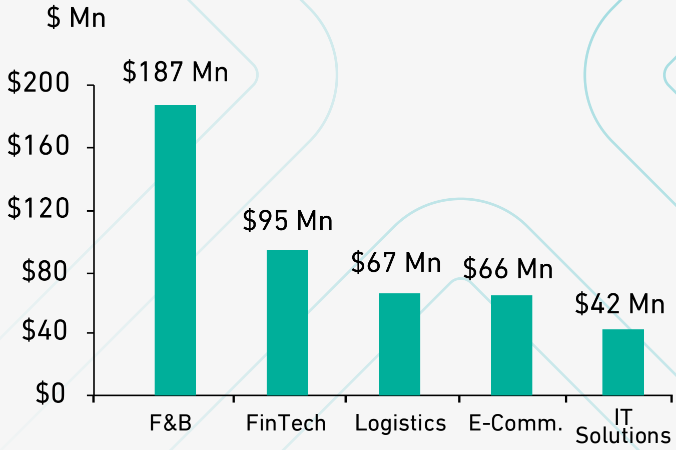
Venture capital funding has shown substantial growth in the last five years, reaching an all-time high in the first half of 2022 at $584 Mn, a 244% increase over H1 2021. While Saudi Arabia's venture capital market is robust at the early stage of financing, the progression to Series C funding is emerging with $75 Mn for SARY and $170 Mn for Foodics. Food and beverage-focused startups continue to attract sizable funding but new contenders in FinTech and logistics are emerging. Fintech grew in prominence in the number of deals (17) and the number of funds raised. Other notable emerging sectors include healthcare, transport and IT solutions.

Exhibit 9: MENA Funding by Country in H1 2022 & Growth Rates



Source: MAGNiTT, Saudi Arabia VC Report 2022

Exhibit 10: KSA Funding by Sector in H1 2022 & Growth Rates



Source: MAGNiTT, Saudi Arabia VC Report 2022

The representation of international venture capital funds (e.g. SEQUOIA, Endeavour, Faith Capital, and Mubadala) is growing considerably in Saudi Arabia, especially in their participation in late-stage investment opportunities. The inclusion of venture debt in the financing mix is a critical addition to the financing mix for startup companies. Saudi Arabia's start-up ecosystem is well-positioned to grow in the coming years. The public sector is leading the development and expansion of the support ecosystem by building the infrastructure hubs, AI Accelerators, enabling regulations and acting, in some cases, as the initial investor. The Capital Market Authority and NOMU are easing public markets access to new businesses and providing an attractive exit options for investors. Private sector funds are also making inroads with few investments reaching the Series C funding rounds. The Kingdom is committed to becoming a vibrant and thriving startup hub to attract domestic and international venture capital funds and is transitioning to a robust startup ecosystem due to significant support from an evolving financial system, labor market, industry organization, and changing attitude toward innovation and entrepreneurship.

2. Sustaining Growth in the Long-Term

Investments are necessary to stimulate growth either through domestic capital or foreign direct investments. Large-scale projects of national importance need a reputable and sovereign counterpart to demonstrate national commitment, assuage some risks to attract leading industry names for additional financing, make follow-on investments and establish the long-term momentum critical for sustaining this growth. In addition to this momentum, investments towards productive sectors and services must result in the growth of value chains, the diversification of new growth areas, and the development of new attractive sectors for follow-on investments that continue to offer a higher return on capital. Investments in stagnant projects that do not expand the economy into new productive areas will not enable sustained growth in the long-term.

Saudi Arabia's investment approach entails leveraging the private sector investment through co-creation of value, by providing the state's lead capacity and capital on transformative investment opportunities. The state's capacity to make capital commitments is targetted to create efficiency-seeking opportunities that is linked with the country's increasing economic complexity. It is in this context that the Public Investment Fund has been mandated to not only conceive the projects, but also work with the private sector to ensure bankability and economic viability of the projects. Besides mega and gigaprojects, the sector development opportunities are co-developed with leading international operators and domestic industry leaders. The standalone projects like Lucid or the establishment liquids-to-chemicals with Saudi Aramco and Sabic are illustrative of the country's investment approach. The duration of economic transformation also marks the investment horizon of these projects. The process of co-value creation necessitates a long term and sustained commitment on all fronts including investment capacity, regulatory support and incentives. Crowding in with sector expertise is instrumental in ensuring bankability of these greenfield projects.

A: Public Investment Fund - The Catalyst

The relationship between SWFs and their national economies has strengthened even more after the global financial crisis and the COVID pandemic. Under current global uncertainties, SWFs can play a role in stabilizing volatile economic dynamics and promote new growth cycles. The investment discipline and asset management expertise makes the Public Investment Fund of Saudi Arabia central to the Kingdom's growth and transformation. Vision 2030 places PIF as a lead investor of the country's economic growth and diversification agenda. PIF's role as a catalyst is critical to the long-term and sustained growth of Saudi Arabia for the following reasons.

Extensive Investment Capacity: Saudi Arabia's marquee industrial projects and gigaprojects require substantial initial commitments for the long-term that necessitate an expansive balance sheet of an SWF such as the PIF. Its latent investment capacity is an excellent enabler in attracting FDI, world-class operators and crowd in private sector.

> **"What PIF allows Saudi Arabia to do is make bold investments to lift the efficiencies of new sectors"**
> **HE Faisal Alibrahim, Minister of Economy and Planning, KSA**

Investment Horizon: SWFs have long investment horizons, and given PIF's developmental portfolio, it demonstrates a multi-decade commitment to the country's strategic investments. The transformation of the Kingdom requires this multi-stage patient capital as an enabler for attracting and matching, at each stage, commitments from international investors and industry operators.

Capital Budgeting Discipline: PIF's investment approach provides discipline and a process that allows a coherent assessment of the investment case and deployment decisions. The capital budgeting discipline is essential for analyzing investments and trade-offs across economic sectors to ensure returns on macro-level and socio-economic outcomes.

As a catalyst, PIF aligns with Saudi Arabia's aspirations and policies on two fronts. On the domestic front, PIF's investment strategy supports national development, de-risks investments in new growth sectors by absorbing inefficiencies, and deploys funds in projects that integrate multiple national priorities. For example, PIF's investment in the Shareek Program is a cornerstone initiative, where co-investments are made in collaboration with large corporations to substantially enhance the country's productive capacity. PIF's pioneering efforts have enabled the Kingdom's pursuit of sustainability and economic diversification. For example, PIF's investment in Lucid has catalyzed the demand for the new EV market in the Kingdom with the recent announcement of Ceer. The first Saudi brand to manufacture electric cars, Ceer is a joint venture of PIF and Foxconn, with a licensing agreement with BMW. These vehicles with advanced technologies include self-driving, and intend to accelerate the adoption of electric cars in the region and drastically reduce emissions. Ceer expects to contribute $8 Bn to Saudi GDP and create over 30,000 direct and indirect jobs by 2034. While PIF is financing this venture, the intention is to bring in FDI to fund this investment. On the international front, PIF allocates capital towards strategic investments to gain technology, attract experienced investors and operators, and open markets to further the country's diversification and sustainability goals.

B: National Development Fund – The Enabler

The National Development Fund (NDF) was established to supervise and oversee Saudi Arabia's existing social and economic development funds and to develop new funds under its supervision. NDF's key mandate is to advance the performance and empower various development funds in the Kingdom. These funds include the Agriculture Development Fund, Real Estate Development Fund, Saudi Industrial Development Fund, Saudi Fund for Development, Human Resource Development Fund, and Social Development Bank. These social and economic development funds traditionally worked as a delivery channel for providing social protection and concessional financing, primarily funded through public finance budgetary allocations. These funds ensure inclusive financing and public sector support for housing, agricultural and industrial projects, and income support to households.
NDF, as the supervisory entity, is actively involved in strategic direction, portfolio performance, liquidity management, and overall performance of these funds. While the PIF primarily focuses on the Kingdom's commercial investments within and outside the country, NDF's funds as enablers have established the nexus between development finance and economic diversification inside the Kingdom.

The new development funds launched by NDF are providing funding to a wide array of economic activities plugging strategic gaps in the Kingdom funding institutions' architecture. The first category of funds include the EXIM Bank, SME Bank and the National Infrastructure Fund. EXIM Bank fills the much-required gap as an export financing agency, whereas the SME Bank is a dedicated capacity to fill a shortfall in bank financing for small and medium enterprises. National Infrastructure Fund is a specialized entity dedicated to channeling public finance for developing physical and social infrastructure in collaboration with private institutional investors and operators.

Saudi Arabia recently launched a national infrastructure fund with Blackrock to support up to SAR200 Bn in projects over the next decade

The second category of funds includes dedicated entities to support specific economic and developmental activities. These include Tourism Development Fund, Cultural Development Fund, and Events Investment Fund. As the names of these funds imply, these institutions provide funding to support projects and activities directly related to their direct investment scope. While PIF remains a leading SWF and plays the role of the catalyst to attract capital, expertise and open new markets, NDF's role is equally essential as an enabler to provide a blend of development and commercial finance in supporting the economic diversification process.

C: Boosting Capital Productivity

Historically, capital productivity in the Gulf region has been lower than in developed economies. Structural and sector-specific inefficiencies have contributed to low capital productivity. Yet, productivity in the oil sector has remained high due to significant implicit returns on natural resources. The shifting macroeconomic landscape is resetting market return expectations while raising capital costs. This dual pressure on the viability of investments requires a substantial focus on capital efficiency and capital productivity. Saudi Arabia is bolstering the business case for investments through significant efforts to enhance the productive use of capital.

The capital productivity imperative is driving enhancements where the criteria for investment decisions incorporate impact on policy objectives including GDP contribution, employment generation, connectivity with other sectors, alignment with the Vision targets, and regional development. It is pertinent to note that the financial returns of these projects adjusted for risk are benchmarked against comparable projects.

A suite of policy and strategic initiatives are in play to efficiently deploy the incremental capital stock and to generate the desired high marginal product critical to achieving targets in 2030. Examples of efforts underway to achieve capital and labor productivity include:

1

A long-term fiscal sustainability program with stable fiscal revenues and efficient capital allocation framework to protect productive sectors and signal the country's resilience to long-term investors

2

Using windfall from oil revenues to build new capital stock through infrastructure spending in PIF and NDF-linked long-term projects that enable industrial productivity

3

Structural changes to labor markets by improving labor mobility, upskilling, increasing female workforce participation, and establishing minimum wages to make labor markets more competitive

4

Aligning capital allocation with high-margin products and enabling sectors with higher digitization along with the import of foreign capital and expertise to make sectors more competitive

5

Providing access to finance to businesses and entrepreneur to modernize through structured programs such as the SME Bank, SIDF, Saudi EXIM Bank , and the National Development Fund

6

Launch of modern and sustainable industrial projects with Industrial Revolution 4.0 at the core (e.g. renewable energy, EV), distinct from traditional legacy projects with diminishing returns

7

Deepening the capital and financial markets to provide access to alternate sources of financial capital beyond equity (e.g. debt capital markets, bank financing)

8

Privatizing less productive assets under public sector ownership through the privatization program will allow experienced investors to improve the productivity levels of the legacy capital stock

Improving productivity and diversification into new areas of productive growth are key area of focus in the investment agenda to ensure that growth does not stall once the investment rate begins to slow. The Kingdom is committed to driving growth in both capital and labor productivity as a critical signal to investors on the business case for Saudi Arabia.

Looking Ahead

Saudi Arabia's investment momentum is driven by two major factors: the enormity of the country's economic transformation agenda and the imperative to find solutions to global problems. These two factors will remain the driving force for Saudi Arabia's growth and the generation of new developmental projects. The country's investment paradigm founded on co-creation of value and long term horizon of the public sector commitment will provide a sustainable and growth oriented basis for efficiency seeking investments.

The domestic private sector has responded positively to the government's investment agenda. In addition, the collaboration between the public and private sectors, through the Shareek program, is beginning to lay the foundation for sustained long-term investment support. The Public Investment Fund of Saudi Arabia has been one of the most active investment vehicles in the country, regionally and globally. PIF's position in the global investment and financing markets will remain a key strategic asset for Saudi Arabia to secure world-class partners and investors in innovative and transformative projects. Saudi Arabia's geostrategic position and its balanced relationships with leading economic partners open new co-investment opportunities. Recent joint ventures in the EV and hydrogen fuel sectors are a testament to such collaborations' attractiveness and future potential.

While the state and the state-linked funds are leading investors, the value propositions of the country's gigaprojects projects are configured to attract local and global private-sector investors. Besides the world-scale hydrocarbon and related projects, Saudi Arabia is undertaking innovative greenfield projects. These projects draw new frontiers in energy security and transition, global trade resilience, advanced manufacturing, and future mobility solutions. Saudi Arabia is also becoming a major center for innovation in the future of urban living, which given the challenges faced today with natural resources and climate change, will make a significant contribution to the world's knowledge capital with new projects.

The capital markets have been the main vehicle for raising the required capital for further investments so far. The primary market has been extremely active with the number of IPOs reaching multi-year highs, despite the lackluster performance of the capital markets in other parts of the world. The Saudi Arabia's startup ecosystem is developing well, facilitated by support from the public sector funds, enabling policies for entrepreneurship and massive interest from the international and domestic venture capital firms. Given the momentum of such ventures and the potential size of the domestic and regional markets, several viable ventures are likely to succeed in the region.

The momentum in new projects and investments is complemented with the Kingdom's initiatives to build resilience to global challenges from supply chain disruptions, increasing nationalization, to the fragmentation of trade. Recently, Saudi Arabia launched the Supply Chain Attraction Program as a flagship initiative to move global manufacturing and services supply chains to the Kingdom. This initiative is integrated with sector and regional development strategies and leverages Saudi Arabia's centrality in the Middle East, advantages in low resource costs and access to regional and global markets through world class logistics infrastructure.

Saudi Arabia's economic transformation is dependent on strategic initiatives and long-term investments. The country has demonstrated its massive commitment to its investment agenda by leading the investment rounds for its strategic projects. This momentum is expected to remain strong and unhindered despite the recent economic challenges that the world faces today.

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MINISTRY OF ECONOMY & PLANNING

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