

Managing National Competitiveness & Institutionalizing Reform through Collaborative Networks: The Case of Saudi Arabia General Investment Authority (SAGIA)*

Khalid O. Al-Yahya, Ph.D.

*Arizona State University
Phoenix, AZ, U.S.A.*

ABSTRACT

In April 2000, Saudi Arabia's Council of Ministers enacted a new Foreign Investment Law (FIL), setting the foundation for significant changes in the Saudi Arabian investment and business climate. The task of improving economic competitiveness in, and attracting foreign investments to, the Kingdom was handed to the newly established Saudi Arabia General Investment Authority (SAGIA). This task by no means was guaranteed to proceed smoothly. Historically, Saudi Arabia had failed to attract significant foreign investments in its telecommunications, health and education, transportation, and power industries. For decades, foreign investors were deterred by incomplete and inaccurate economic data, bureaucratic red tape, strict labor policies, delayed contract payments, limited sectors for investment, restrictive visa policies for workers, confusing tax laws, and a very conservative cultural environment.

Using interviews and actor-based approach, this case-study looks at the difficulties and challenges SAGIA has faced attempting to build its institutional capacities and relations in order to reduce investment obstacles and improve business environment in Saudi Arabia. To achieve this goal, SAGIA tried to strategically change the way government does its business by enhancing collaboration and efficiency among public agencies on one hand and between public and private sectors on the other. The study traces SAGIA innovative, and sometimes controversial, approaches to the planning and implementation of its mission, as well as the spillover effects of its management and operations onto other areas of potential change and innovation in how government functions. It highlights the importance and difficulty of continuous management and improvement of collaboration networks when the newly developed processes and agree-on performance standards are not fully institutionalized in various governmental entities involved in implementing different parts of the same policy. Some connections are more structured through clear performance procedures and guidelines (e.g., the 17 agreements reached between SAGIA and government agencies involved in business regulation and promotion); others operate with focus on the purposes and interests players have (e.g., Public-Private Partnerships). Needs and capacities (expertise, money, information, access, service) influence different network configurations enabling partners achieve mutually beneficial results.

The case study is descriptive (and thus avoids evaluative analysis as customary in Harvard Case Methodology) and takes the form of a retrospective case. Readers, including scholars and practitioners will have a chance to analyze and critique the choices and approaches used by SAGIA. The case tells the story of SAGIA, the problems it faces. Thus, the case contains more of the perceptions of the public administrators to help readers understand and analyze their motives and rationales. The case of SAGIA contains elements that are both unique and general. It highlights some considerable amount of organizational and managerial problems, some of which are influenced by historical, political, cultural, and organizational contexts, but not entirely unique to the Saudi Arabia. The approaches and fresh tactics adopted to address some of these problems in public sector contexts can be quite useful pedagogically

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Socio-economic Challenges Facing Saudi Arabia and Rationales for Attracting Foreign Investments

Saudi Arabia ranks as the world's largest exporter of petroleum: it holds a 25% share of the total Arab GDP. It is the world's twentieth largest exporter and thirty-ninth-largest importer. For many decades, the Kingdom had displayed a remarkable ability to balance economic modernization with the preservation of its social values and the safeguarding of state power structures.

By the early 1980s, however, Saudi Arabia experienced serious challenges, notably rapid population growth (running at 3.8% annually, greater than both the Middle East average of 2.5% and world average of 1.5%), a decline in per capita income, and the consequent need for increased government spending. Since 1980 the growth rate of per capita GDP had been half the population's growth rate, leading to growing unemployment and deterioration of average per capita income. In 1980, the per capita GNP was almost U.S. \$14,000, one of the highest in the world. By 2001, with population growth from 9 million to 20 million (excluding about 6 million foreign nationals), the figure was only U.S. \$7,863.¹ Although accurate estimates of unemployment rates are unavailable, some published reports quote figures from 2001 ranging from 20 to 30 percent for men and much higher for women.

As the decline in long-term oil export prices and revenue instability started to affect the government's ability to provide public services, the welfare distributive economy of the last fifty years seemed to be breaking down. If not resolved, the increasing unemployment and declining standards of living the Kingdom faced could undermine the stability of Saudi society and its government. The government became increasingly convinced of the need to diversify its economy, reduce its dependence on oil revenue, build up its infrastructure, and promote sufficient economic growth to ensure employment opportunities for its youth population.

Against this backdrop, in 1993 the government turned to the private sector as a potential source for solutions. Among other initiatives, the government introduced the "Saudization" policy to create jobs for young Saudis by trying to reduce and replace the large number of foreign workers (who remit about U.S. \$6 billion to their home countries every year) with native Saudis. Because Saudization policy provided immediate and observable employment benefits, it was popular among Saudi citizens, but the private sector voiced grave concerns about the inflexibility of the Saudization policy and its potentially adverse effects, including a mass exodus of immigrant workers from the Saudi labor market.

The Saudi leadership became increasingly enticed by the potential economic benefits of greater integration with the global community. In November 1999, former King Fahd stated that "the world is heading for...globalization" and that "it is no longer possible for [Saudi Arabia] to make slow progress." This was evident in the Kingdom's 1993 application to join the GATT and, later, the WTO. Joining the global trading world, however, meant major changes to the Kingdom's economy, labor and trade practices, and government regulations to conform to the doctrines of economic globalization, namely liberalization of restrictions on foreign investment and the implementation of well-defined privatization programs.

This process by no means was guaranteed to proceed smoothly. Historically, Saudi Arabia had failed to attract significant foreign investments in its telecommunications, health and education, transportation, and power industries. For decades, foreign investors were deterred by incomplete and inaccurate economic data, the Saudization policy, delayed contract payments, limited sectors for investment, restrictive visa policies for workers, confusing tax laws, and a very conservative cultural environment. Nevertheless, with the largest economy in the Gulf, competitive advantage in the energy and transportation sectors, a viable infrastructure, a well-regulated banking system, and a large and young population with growing demands, Saudi Arabia remained a potentially attractive location for foreign investment.

New Investment Law and SAGIA

In April 2000, the Council of Ministers enacted Saudi Arabia new Foreign Investment Law following the recommendation of the Supreme Economic Council and Majlis Al-Shura (the Consultative Council)², thus significantly revising the way foreign investment has been conducted in the Kingdom for more than 20 years.

Unlike the previous investment law, the new Foreign Investment Law allows foreigners 100-percent ownership of the projects, as well as the property required for the project itself or for housing company personnel, while enabling them to retain the same incentives given to national companies. Investors are also able to hold investment licenses in more than one type of activity. The new law also brings significant changes to the previous sponsorship regulations. Foreign investors and their non-Saudi employees are sponsored under the new licensed firm. Under the new Act, foreign persons and entities are permitted to invest in all industries and services except those which are specifically excluded from foreign investment. The exempted industries include those related to the manufacture of military materials, equipment and explosives; oil exploration and production; and services related to security among others. Another very significant change is the reduction in the corporate tax rate for foreign companies with profits over SR100,000 (\$27,000) a year, from 45 percent to 20 percent. Projects that are 100 percent foreign owned are also eligible for loans from the Saudi Industrial Development Fund (SIDF).

Significantly, the new law created the Saudi Arabian General Investment Authority (SAGIA), which has responsibility for licensing all new foreign investment and streamlining the application process by creating a one-step-shop facility. It will be required to respond to investment applications within 30 days. If the Commission does not make a decision within this time frame, the license will be issued. If the Commission declines the application for some reason, the foreign investor is allowed to appeal the decision.

To create a pro-business environment, provide comprehensive services to investors, and foster investment opportunities in energy, transportation and knowledge-based industries, SAGIA would have to play a catalyzing role for facilitating major changes in state policies and administration, including labor regulations, the tax system, government subsidies, privatization, and commercial registration, that would make the Kingdom a hub for international business.

Before SAGIA, the role of boosting economic growth through promotion of foreign investment was largely played by various small and fragmented entities attached to big ministries. Their responsibilities, however, were limited to conducting small studies that mostly “ended up on the shelves” and to promoting small investments in few industrial sectors. Their activities also had to be coordinated with other government agencies through a committee that met only occasionally to decide who had permission to invest in the country. Between 1970 and 2000, these efforts produced modest tangible results; consequently, necessity drove the government to establish SAGIA as a new quasi-government agency –it sits outside of the ministerial and agency structure of government bureaucracy. It reports directly to the president of the Supreme Economic Council and the Council of Ministers.

Quasi-Government Agency as a Model for Government Operations

In choosing a quasi-government agency model for SAGIA, with some degree of administrative and financial autonomy, the government hoped it would steer clear of inefficiencies associated with conventional structures of government bureaucracy and ensure quick communication and execution. The Saudi bureaucracy has long suffered from a series of problems, including concentration of authority, poor coordination, lack of adequate communication, duplication, overlapping duties, functions and jurisdictions, and continued hesitation and incomplete implementation of recently proposed reforms aimed at strengthening the institutions of a market-led economy. The new agency model was seen to be more flexible in developing organizational capacities that could innovatively and efficiently address the problems arising from rapid social and economic change.

The attempt to avoid traditional structures and institute a new quasi-governmental organization, however, brought with it new challenges. How could the structures and activities of the new entity, whose success in improving economic growth depended largely on the resources of and relationships with other government bureaucracies, be conceptualized?

The vague statute outlining the creation of SAGIA offered little guidance. It provided SAGIA with such a broad mandate to promote investments, report obstacles to and improvements in investment, and make policy recommendations to the Council of Ministers. The statute gave few specifics regarding the objectives and activities that the new agency should pursue to promote economic growth and businesses in Saudi Arabia. At the start, SAGIA's position within the government structure was also precarious and unclear; and thus was not well funded by the Ministry of Finance.

When established in 2000, SAGIA inherited a large staff (numbering about 200) mainly from the two previous government entities. The Statute establishing SAGIA in 2000 stipulated that a committee, composed of representatives of the ministries of Labor, Civil Service, Finance, and SAGIA, convened to determine what to do with staff the new organization (SAGIA). Mired in politics and debates over rules and jurisdictions, the committee met periodically over the next four years, but failed to make any recommendations.

Turbulent Start

SAGIA asserted from the start that reform had to be comprehensive and had to be done quickly. Moving quickly and decisively with reform in the public sector, however, would prove very difficult. SAGIA was facing difficult external and internal obstacles that affected its effort to implement SAGIA's mission to improve the business environment in the Kingdom. SAGIA faced numerous bureaucratic and regulatory obstacles outside the jurisdiction of his organization. In the first three years of SAGIA's operations, the hesitation of government agencies in making SAGIA's proposed changes was both obvious and frustrating. The new agency had taken a confrontational approach to address these problems in the public sector. SAGIA showed frustration with government bureaucracies and often used the media to publicize the inter-office stalemates and difficulties that it faced in removing barriers to business.

The situation was further complicated by a widely publicized report by SAGIA on bureaucratic obstacles to investment that served to exacerbate SAGIA's relations with many major government agencies. The report challenged established offices of the government by pointing out the deficiencies and slow speed of change in the public sector. Relevant government agencies quickly discredited the SAGIA's report: it interfered with their authority and failed to provide any substantive solutions to the problems it raised. Meanwhile, private sector companies and leaders, both domestic and international, were also taking notice of these signs of conflict among government agencies. Many investors and observers grew dismayed, becoming increasingly skeptical of the administration's ability to move forward with reform and development plans.

Redefining the Mission and Strategy: New Phase at SAGIA

In 2004, a new management team was assigned to SAGIA to re-define the mission and strategy. The new team had a vision of achieving rapid economic growth in Saudi Arabia by capitalizing on the Kingdom's competitive strengths as the global capital of energy, and as a major hub between East and West. Nurturing the economy effectively would improve per capita income and increase the number of available employment opportunities, thereby addressing the country's unemployment problem and lowering the overall rate of poverty. It was believed that a prerequisite for attracting substantial and diversified investments in the national economy would be the introduction of international standards of competitiveness to Saudi enterprises. The globalization of the world economy required Saudi Arabia's business climate to be attractive to global investors.

As the new management began preparing its new strategy and building its team to execute it, it was found that SAGIA's strained relations with other government ministries and internal disorganization impeded the progress of any policy reforms—progress compromised since its inception by a vague mandate and insufficient human and budgetary resources. To tackle these problems, SAGIA realized that they needed to try new approaches and transform existing operations using a cooperative network of public and private partners to share the responsibilities and benefits of an improved business environment in the Kingdom. A multi-component network of partners (public, private, and international) would facilitate the flow of ideas, proposals, resources, and changes. SAGIA would focus on partners based on its own mission and the assets the partners would bring, including specialized expertise, recognized operational excellence, financial viability, and the ability to take and manage risks. SAGIA's executives also considered shared interests among partners in the development of certain sectors of the national economy.

Defining the Mission and Strategy

Before campaigning with other government agencies, however, SAGIA new management needed to transform SAGIA's internally. The first three months were spent brainstorming to prepare and define the SAGIA's mission and strategy, subsequently building the human capabilities and organization processes necessary to execute it. In devising a new workable strategy and anticipating the processes and solutions critical to its execution, SAGIA was disposed not to let historical processes, current organizational charts, existing capabilities, government skeptics, or even the private sector's current conditions dictate the direction and activities of his networked, forward-looking organization.

With the help of a group of consultants and academics, SAGIA embarked on a thorough evaluation process aimed to understand and address the toughest issues related to the Kingdom's business environment. They sought information through:

Personal Interviews. SAGIA participated in over 100 personal interviews with Ministers, senior government officials, local and international business leaders, and academic experts to learn their views on SAGIA's future roles and the country's economic development.

Workshops. SAGIA held more than 15 workshops across the country, attended by over 250 participants, all of whom were senior level representatives and experts from the government, corporate, and academic fields.

Research and Analysis. SAGIA began studying over 50 major domestic, regional and international studies and reports on investment, the Saudi economy, the global economy, and other related topics. The Governor was keen on not only conducting a new line of research, but also utilizing the existing knowledge. "Saudi Arabia is one of the countries that spend great deal of money on studies, but the challenge is always in the implementation. So we were certain that there was great deal of knowledge available, we might as well take into account in the process of developing our strategy".

Benchmarking. To gauge success, SAGIA benchmarked itself to the investment promotion agencies of Malaysia, Dubai, Singapore, and Ireland because of their core strengths in delivering results, advocating efficient government, effective use of resources, and employment-generating programs.

This exhaustive research concluded with the identification of over 100 potential roles for SAGIA to undertake and initiatives to fulfill. From this list, SAGIA used a five-prong test to focus on those policies that would attract investment to the country most efficiently and successfully. SAGIA gave priority to projects that would.

1. generate the greatest economic impact;

2. be most complementary to existing efforts and capitalize on SAGIA's core objective;
3. be implemented quickly;
4. be cost-effective; and
5. have the necessary capabilities, such as human resources, developed or acquired most swiftly.

Six strategic roles emerged after conducting the five-prong test. Undertaking those roles would help SAGIA focus its resources and deliver measurable results:

Investor Services. SAGIA will provide comprehensive licensing and support services to investors in establishing their businesses. SAGIA will become the investor's Information Clearinghouse, serving as a central repository of information regarding doing business in the country, the Saudi economy, key economic indicator reports, competitiveness studies, general statistics and economic research, and the country's laws & regulations. In addition, and in a later stage, SAGIA sought to compare and contrast the existing practices and regulations in Saudi Arabia against the economic competitiveness indicators published by IMF, WEF, IMD reports.

Marketing & Promotion. SAGIA would identify opportunities that are linked to the country's competitive advantages and match them to investors fitting a strategic, risk, and financial profile. Working with organizations sponsoring the opportunities, SAGIA would cooperate to market the opportunities, industries at issue, and organizations in a targeted manner to maximize impact.

Regional Development. SAGIA would cooperate with regional authorities to create region-specific investment promotion plans and strategies that leverage each region's key strengths for that region's development benefit.

Start-Up Stimulation. SAGIA would support national efforts dedicated to promoting and funding local businesses. SAGIA hoped that integrating newly minted Saudi entrepreneurs into the business community would result in future socio-economic benefits. The companies they build will generate job opportunities, foster economic creativity, and serve as a positive example to a new generation.

Sectoral Focus. While providing services to investors in all sectors of the Saudi economy, SAGIA planned to focus on the three sectors of Energy, Transportation, and Information & Communications Technology (ICT). Because these sectors still have not realized their full economic potential, embody an overwhelming competitive advantage, enable other industries to develop, and have a multiplier effect on economic expansion, SAGIA would target their development opportunities.

Creating a Pro-Business Environment. SAGIA planned to cooperate with other government agencies and private sector organizations to improve the country's business laws and policies according to international best practices so that a healthy investment environment develops and continues.³

As a start, in August 2004, SAGIA (1) updated its list of policies and procedures that required revision, (2) compared the country's practices to its benchmarked countries, and (3) began cooperating with relevant government authorities on procedural improvements. By selecting six roles, SAGIA defined a clear mission that it could pursue.

Building Internal Capacities through Public-Private Partnerships

Having defined the mission, vision and strategy, SAGIA next task was to develop the organizational structure and human resource profiles it needed to put his reforms into practice. The main challenge lied in defining the desired skills and comparing them to what SAGIA had in-house, and then making the necessary, sensitive, adjustments by reducing any staff surpluses, in-service skill development, and/or bringing new talent.

SAGIA realized that many of the staff members it carried over from these now-defunct agencies were not well equipped to execute the new and ambitious strategies. Although the Statue establishing SAGIA allowed for the transfer of excess staff to other government ministries, SAGIA would face difficulty of replacing old staff with highly qualified employees. To attract new talent, SAGIA had to examine the compensation and benefits strategy and re-align it with the new vision, mission, strategy and values. In order to hire the competent staff and build knowledge-based organization he needed, the SAGIA budget had to be doubled.

After a rigorous evaluation of the existing staff, only a small fraction was found to be prepared to carry out SAGIA's ambitious new vision; almost none were at the executive level. How should SAGIA proceed, and quickly? One option was voluntary early retirement programs to reduce surpluses. SAGIA also considered sending some employees to intensive training programs to improve their qualifications. However such a step would require time and money that SAGIA lacked, and would raise the difficult question of what to do with those unwilling to undergo rigorous training. The civil service code made firing public employees extremely difficult.

A potential option for funding in the hiring of highly skilled managers and for conducting comprehensive market and economic policy research studies was through Public-Private Partnership Initiatives (3PIs), programs that would leverage the resources of and ties with the private sector. An initial step in a 3PI would be to exchange human resources and expertise between SAGIA and the private companies. SAGIA would sign agreements with major companies that would provide financial support to execute SAGIA's programs, including the recruitment of distinguished leaders to train SAGIA's staff to take on future leadership roles.

In return, SAGIA would integrate the concerns and problems of private sector and address them in its communication with relevant authorities. SAGIA sometimes would dedicate personnel to provide government relations support to their private sector partners. SAGIA also would promote local companies by giving them information about foreign investment opportunities and matching them with foreign firms coming to invest in the Kingdom. Local firms would then utilize the knowledge and expertise embedded within international firms through business partnerships.

SAGIA believed that 3PIs success would arise from shared interests among the different parties in developing a healthy, functioning economy and a credible and stable governance system to support it. By focusing first on the mission and its outcome, and not on the process, SAGIA believed they would ultimately maximize the value of the program to the public. SAGIA thought 3PI was a way for private sector to help in solving public problems, which ultimately would lead to a better business environment for investors as well.

Beyond supplementing human resources, 3PIs were often used to help finance research studies and consultancies. In communicating with other government bodies, SAGIA realized that many agencies did not have necessary resources to solve many problems identified by SAGIA. Even if solutions were readily available, the heads of ministries and other government agencies, which were urged to address implementation barriers of the government overall economic reform policy, needed to conduct their own research to ensure that considered plans would lead to successful projects.

Although public-private partnership initiative appeared a reasonable arrangement to SAGIA, it would prove unexpectedly fraught with legal and administrative perils. The new kind of partnership, unique by any public sector standards, would challenge traditional notions of many public administrators about administrative control and accountability, evoking concerns about "fuzzy boundaries."

The ministry, responsible for the organization, maintenance and collection of all government finances, was quick to voice its opposition to SAGIA's plan to raise funds from private entities, and keep them without channeling them through Finance, as practiced by the government's ministries. SAGIA had

to negotiate with the ministry and explain that these resources were critical for SAGIA success. Instead of channeling the funds through the Ministry, SAGIA agreed that it would announce publicly each partnership it developed, and report all financial details to the Ministry of Finance for oversight.

Another problem that could raise some ethical and legal questions was the widespread perception of inequity in compensation between employees in other government agencies and SAGIA staff who would make two or three times the average civil servant salary. One way to communicate the intended long-term public value of SAGIA's partnerships was to make known that SAGIA did not intend to retain its competent managers for a long time, instead encouraging them to take leadership positions in both the public and private sectors –and some of SAGIA top managers have moved already to other organizations. With this strategy, SAGIA expected to prepare the next line of leaders. The human capital deficit needed to be seen as a society-wide problem, and SAGIA planned to serve the broader public interest by acting as an incubator for future managers and executives in the Saudi economy.

Networked Government to Streamline Bureaucratic Processes and Provide Integrated Services

At this juncture, SAGIA team felt more confident about the competencies they generated and the official capacity to negotiate with and integrate activities other government parties in effort to achieve rapid economic growth. What was need at that point was finding the best ways to help various governmental agencies reduce hierarchical and fragmented structures and better share information and coordinate their efforts to provide integrated services.

SAGIA should capitalize on its position to act as an intermediary between the global community, local businesses, and the Saudi Government and its ministries and agencies. Hence SAGIA ought to play an important role in facilitating exchange of best practice between the public and private sector, and mobilizing both sectors resources to achieve national goals.

SAGIA, of courses, could not improve the business environment of the Saudi Arabia alone. Almost half of the government's agencies (from the Ministry of Finance, Ministry of Labor, Ministry of Commerce, Ministry of Justice, Ministry of Municipal and Rural Affairs, to the agencies of transportation, education, health, and customs) had a role in the process of starting up and operating businesses. Government ministries and agencies had great control of the Saudi economy and needed more time and expertise to respond to SAGIA wishes. The challenge facing SAGIA was how to effectively and promptly communicate with other government ministries and agencies and mobilize their resources for SAGIA to succeed.

While SAGIA's main mission was to create a pro-business environment requiring either relaxation of, or exemption from, some government regulations (e.g., the Saudization policy, privatization, tax breaks and visas to bring expatriate labor), other domestic government entities subscribed to more traditional views of governance, focusing on balancing the interests of several stakeholders. This conservatism would make these agencies slow in supporting a strategic shift privileging the interests of one stakeholder group (business community) — which SAGIA was established to serve. By contrast, SAGIA's executive team believed that increasing investments and competitiveness in the Saudi economy would serve not only the interests of investors, but, ultimately, would be the long-term solution for the country's high unemployment and poor economic growth.

A first step of conceptualizing and realizing the new network approach among public sector partners in the service centers was to communicate SAGIA's vision by initiating personal visits to all relevant ministers and senior government officials to explain what SAGIA was trying to do in attempt to seek government agencies support to reduce bureaucratic obstacles and increase efficiency to improve economic expansion in the Kingdom.

An official, who was instrumental in day-to-day coordination with government agencies and business community, described the difficult steps involved in the process.

We know that we have partners from the public sector, but our relationship with them was not sort of institutionalized in a way. SAGIA's team worked out a complete plan of how can we really buy One-Stop-Shopping and bring together empowered and authorized representatives from different government agencies to start this integrated service center. So, how to do it with each government agency? Before we approach any agency, we prepare ourselves for what we need to do. We study all their internal processes and activities. Sometimes we seek the help of their own retirees to understand this. Once we meet them, we go through steps. First we go over the policies in general. Let's say we go in the Ministry of Labor, we talk about the labor law, is it good, is it bad, is it good enough. Second, we go over the procedures, the practice, and the by-laws. For example, we discuss the Saudization percentages here and there, is it practical in the private sector. Then we go over the processes and services related to investments. How are they serving the investors? How can we cut down the process? We draw their process cycle of how they do, for example, a commercial registration. The way it is typically done that you have to go to one guy in the ministry who asks you for this, then he sends you to another guy in another department then to another department and so on. So we counted every step, and every time in each step, and how much it costs, and ask how can we cut the cost and time.

In addition to identifying and discussing the problems with public partners, SAGIA wanted to provide alternatives for reducing bureaucratic obstacles and increasing efficiency to improve economic competitiveness in the Kingdom. To minimize resistance and skepticism among government parties toward some of SAGIA's proposed changes, a more objective and neutral approach was needed. SAGIA executive team decided to use and leverage the knowledge generated by international agencies, including World Economic Forum, World Bank and IMD.

SAGIA began using internationally accepted standards such as ratings and prescriptions of these international reports to evaluate policy changes and new processes for the Kingdom. To add a reality check and ensure that identified solutions were relevant and applicable to the Saudi context, SAGIA reviewed and benchmarked against best practices of countries with relatively comparable environments such as Malaysia, Dubai, Singapore, and Ireland.

In their negotiation and lobbying with some of government ministries and agencies, SAGIA officials were mindful of the risk that its assertive push for significant structural changes, some of which were successfully implemented in other environments, might be misinterpreted as an attempt to reinstate established policies and their objectives in the Kingdom. One official described how SAGIA negotiation team had to carefully design their presentation approach to elevate such perceptions.

We realized that we should make it clear that we were not saying to them, do not ask for commercial registration; we're not saying do not ask for this document or that. We're telling them just consider this alternative procedure, this way or that way, and see which one works better. So we go and set with each minister, we do a presentation, we ask for all the stakeholders of the particular ministry to come and discuss it. We, for example, ask for 5 to 14 [instead of 40-45] days for the approval of labor visas. They would say at the beginning, it is not enough. So, we discuss it with the deputies and the other managers... It's hard at the beginning for them to imagine changing the way they do business as usual. It was a very hard process, it's not easy for other people to give up power. We tried to let them think in innovative way to solve these problems. After at the end of the day we were surprised by the support that we got by all these institutions.

Part of the difficulty facing SAGIA quest for fostering integrated work relations and innovative practices was the hierarchal structures and strict rules imposed on public bureaucrats. For example, each commercial registration processed by the Ministry of Commerce has to be signed by the Deputy Minister.

Business permits often set on the Deputy desk for days and sometimes for weeks waiting only a signature. This often is out of desire to reduce discretion and ensure control authority. SAGIA negotiating team contended the commercial registration was a straightforward procedure. Instead of assigning the authority of granting the final permit solely to a deputy minister, “who has more important issues to deal with and strategies to make”, these decisions should be delegated to others at lower levels in the ministry and in the regional offices, and strict performance measures for verification and accountability should be put in place.

Our care and concern for the rules often turn into deficiencies. I told the Deputy Minister, “If we in SAGIA say the general director is the only competent and trusted person to issue business permits, SAGIA will never be able to process any permit on time”. I used to get over a hundred cases a day on my desk, and all what was needed was my signature. I rarely look at the content. I realized this was unhealthy and I am basically stifling the process. What I did in SAGIA is to delegate these decisions to empowered staff at the service centers and give them clear information about the prerequisites and requirements of issuing a business permit and make the process transparent by sharing this information with the customers. After delegating, we put appropriate measures for verification and holding staff accountable. We developed mechanisms internally to monitor performance and electronically track each project with static light systems, red-orange-green. When one staff member did not do his job [asking favors from a customer], I moved him from his position immediately. But I would not let one or two incidences change my approach and turn my concerns and worries into old inefficiencies... Few mistakes will be made. But you can not solve a typical old problem with a typical old solution. You need to invent new solutions.

SAGIA thought that changing attitudes was difficult at times and required its management to engage in close communication and persuasion to highlight the rewards for change to public officials. SAGIA was confident that people are less likely to resist change and sharing the responsibility with others when they recognize the value of doing so.

In your communication, you need to show them why they should change, and show them the value of change in terms of increase in efficiency and effectiveness. Our approach [with them] is that we all share the same interest in maximizing public value, and if you do it you will get the credit for it. We do it without imposing our solutions. We let them feel they are in the driver seat; we are in the back seat. We are only proposing and suggesting. It is your decision. So if you go with such attitude, people will welcome change as long as it improves their organizations and as long as they get the credit at the end of the day. The most important agreement is the end gain. You, Mr. Government agency, are you in agreement with me as a government agency to achieve x, y, and z at the end of the day? If yes, resistance and cultural differences become secondary and marginal. I could always adjust them, and massage the differences in a way that will help us to achieve the end gain. The same applies to private sector.

Tackling Saudization Policy and Unemployment

One major regulatory hurdle that SAGIA had to overcome to promote increased foreign investments was the Saudization policy, an issue laden with political and cultural sensitivity. The objective of Saudization was to create jobs for young Saudis (approximately 73 percent of the Saudi population are under the age of 30) by reducing the country’s dependence on foreign workers (numbering six million). Initially, the policy pushed for 100 percent Saudization in certain service sectors, including the vegetable trade, real estate, and taxi business. The private sector response was generally positive to some aspects of the policy while expressing grave reservations regarding the initiative as a whole. Moreover, the policy conflicted with other liberalization measures required for further integration of the Saudi economy into the global market.

The Ministry of Labor, tasked with regulating and enforcing the Saudization policy, therefore, was reluctant to give any significant concessions in forms of exempting new foreign investors from the Saudization policy. SAGIA had to press hard to eliminate or at least relax the Saudization requirements on new investments claiming that the policy undermined the investment expansion. SAGIA believed that investments were “the oxygen of the economy” and they were needed for that accelerated economic growth which would create more new jobs for Saudi graduates. The view here is if the country injects sufficient amount of investments into the economy or the system, in a way that it produces growth of GDP that is twice as much as the growth of population, it can solve that problem in the long run. And only then the country can deal with socioeconomic challenges, with unemployment and deterioration of income per capita through job creation and enhancement of the income per capita, “not through Saudization, not through any other methods that are introduced.”

SAGIA at first was focused on eliminating investment obstacles and pressing hard for major reduction in Saudization requirements on new investments. However discarding Saudization policy is not an easy step for the Ministry of Labor to take. It is an issue laden with political and cultural sensitivity, and a policy favored by many ordinary Saudis who can see immediate benefits from it. Social contract and long standing traditions of state welfare system have also perpetuated the belief that government is the ultimate guarantor of at least a decent job and subsistence living for its citizens.

The question facing SAGIA became whether relaxing Saudization requirements to enhance growth would solve the problems that needed to be addressed. Would Saudi graduates actually fill the new jobs created by the expected growth? No one was sure that projected growth rates, if achieved, alone would be able to meet the growing demand for competitive jobs. Decades of ineffective economic development and reliance on expatriate labor produced distortions in local labor market. On one hand, a majority of Saudis did not have specific skills and training compatible with market demand nor did Saudis find low-skilled occupations attractive. On the other hand, foreign workers were willing to accept much lower salaries, making some employers unwilling to hire Saudi nationals.

SAGIA recognized that its quest for easing Saudization requirements and opening the labor market was unpopular option by itself. A coordinated approach that combines job creation with new rigorous skill development programs in which both government and private sector are partners was needed. SAGIA thought that support for building Saudi human resources (mostly undertaken by other government agencies) and aligning education and training programs with the requirements of the market needed be an integral part of its strategy to improve investment environment and enable the Ministry of Labor to support it. The assets of both government and the private sector should be leveraged to achieve such goal.

In this area, SAGIA focused its effort on networking various government agencies and private sector firms through the newly established Human Resources Development Fund (HRDF). The HRDF was created by government with direct collaboration and contributions from the private sector. The money would come from the Fund to provide training for Saudi job seekers and the private sector would provide government with training projects that would lead to employment of trainees in the private sector.

Another concern among local businesses was the challenging competition they would face from international companies entering the Saudi market. To ease these concerns, SAGIA focused in strengthening the Centennial Fund which, through a combination of financial support and professional guidance, helps young Saudi entrepreneurs establish and run their own businesses. SAGIA’s support focused on facilitation and screening of applications and provision of full transactional support for selected applicants, while the Centennial Fund, which receives donations from private partners, finances and mentors them. SAGIA believed that integrating newly minted entrepreneurs into the business community would result in future socio-economic benefits. The companies they build would generate job opportunities, foster economic creativity, and serve as a positive example to a new generation of competitive national firms.

The Ministry of Labor eventually agreed to increase work visas for expatriate workers and exempt new foreign investments from Saudization requirement for five years. In an effort to show more flexibility across the board, the Ministry of Labor decided (April 2006) to reduce Saudization rates for certain job categories from 30 to 10 percent. The categories affected will be “bakeries, tailoring shops, blacksmithing, carpentry, aluminum works, mechanical works, auto workshops, laundries, farms, agricultural and animal projects, land transport, driving trailer trucks and other heavy vehicles, gas stations, pharmacies, and optical centers.”

Institutionalizing and Tying Up Collaborative Networks

At the end of each negotiation session with public sector partners, SAGIA prepares an agreement in order to institutionalize new arrangements that it made with the agency in question. The process of working with public ministries culminated in securing 17 agreements between SAGIA and different government agencies, which led to the streamlining of many bureaucratic processes and the joining up of different government agencies to provide integrated and efficient service.

With each agreement, SAGIA was keen to capitalize on success stories to encourage change among reluctant partners as a part of their desired “domino effect”. SAGIA’s public relations team was effective in this regard. Publicizing early successes at the start of an innovation provided a clear picture to other potential partners of the expected benefits. Success inspired support, minimized resistance to change, and encouraged replication.

To institutionalize the process and ensure continued cooperation and accountability, SAGIA quickly brought all finalized agreements to the top leadership (the Council of Ministers) for a final official endorsement. As a result of securing these agreements, SAGIA enhanced the performance of its One-Stop-Shop Investor Service Center (ISC). The center draws together under one roof a variety of economic development and investment services from more than a dozen different central government departments. It is developed to reduce bureaucratic procedures and multiple field offices to a one integrated system to serve investors. They also help SAGIA address any collaboration and delivery failures by pinpointing the problem’s location and fixing it quickly. Currently the center provides licenses to foreign companies, offers support services to investment projects, gives detailed information on the investment process, and coordinates with government ministries in order to facilitate investment.

The idea of one-stop-shopping was not unique from an international perspective. It came from Singapore’s experience of zero bureaucracy. However, SAGIA took the idea and changed its branding and configuration to a One-Step-Shop. An official commenting on SAGIA’s innovative “one-stop-shop” concept.

One step eliminates many steps and stops. You don’t have to pass through each government agency getting your paper stamped at dozen offices around the building as in the One-Stop-Shop design in other countries. We converted the real estate value proposition to a service value proposition by creating the concept of a prompt one front desk and back office. Like in a bank, we have 4-5 customer relations managers, smiling and taking all your requirements, going back to the processing back office, where all government agencies are represented and get the job completed and then get back to you, without you making numerous rounds and stops in the building.

SAGIA initially thought about contracting out the investor services to ensure efficiency and continued improved service. But it decided to let public employees joined up from different organizations operate in the centers. It was believed government employees were able to perform well as their private counterparts when effective systems of incentives and competition are in place. To prove his point, SAGIA developed incentive schemes for government representatives working in its centers. They would receive additional financial incentives for improved performance.

The improved service centers enabled SAGIA to function as the integrator of the service network it nurtured with public partners, and through which it would ensure continuous improvement and performance. At the end of 2006, SAGIA started using technology to tie up this network of government agencies and link it with national and global investment community by deploying the Customer Relationship Management (CRM) System, called Asaleeb – or “methods” in Arabic. Asaleeb, an e-investment service, enables SAGIA staff around the Kingdom and abroad to exchange information in real time via the internet with “multinational executives, lawyers, analysts, and government officials”. SAGIA will deliver business licenses to foreign investors in their home countries, without the need to come to Saudi Arabia (physically) to complete the application process. An official commenting on the results:

We were able to cut down the processes. Commercial registration, for example, used to take 64 days to get it done. Working with the Ministry of Commerce, now it is 39 days, and our target is 7 days, and by 2010 as part of our national competitiveness initiative, we to reduce it to 3 days. Capital requirements for limited liability, which was one of the highest in the world, now we’re reducing it to almost zero... We did our first work so hard, we just wanted to make the Kingdom more competitive. In less than two years, Saudi Arabia jumped from 67th to 38th in the World Bank’s International Finance Corporation’s (IFC’s) 2007 Ease of Doing Business Ranking.

SAGIA’s Next Two Targets

Notwithstanding SAGIA’s success in streamlining many bureaucratic procedures and attracting new investments (including the licensing of 1,389 joint and foreign projects in 2006 with a total value of \$68 billion, a growth of 25 percent compared to 2005), SAGIA wanted to lead efforts to lay the foundations for two ambitious national initiatives:

National Competitiveness Center

A new major goal for SAGIA is to propel the Kingdom into the top 10 countries in the world in terms of competitiveness and attractiveness of investments by the year 2010 (an initiative known as 10x10). To get there, in 2006 SAGIA created the National Competitiveness Center (NCC), which is expected to further systematically address the issues related not only to regulatory processes, but also to the fundamental competitiveness of the economy. Through NCC, SAGIA hopes to implement and monitor 300 indicators measuring the Kingdom’s competitiveness. Realizing that competition will substantially increase every year from both previously ranked countries and 20 new rivals in the Global Competitiveness Index, SAGIA needs to work even harder and more closely with its public and private partners to accelerate reforms for Saudi Arabia to improve its ranking.

To develop the competitiveness program (10x10) and ensure its effectiveness, SAGIA would need again a functioning network of partners (public, private, and global) that allows a flow of ideas, proposals, resources, and changes. In 2006, SAGIA partnered with an international consulting advisory group with specialized expertise and reputation in global competitiveness. The program will focus on increasing competitiveness of certain strategic sectors in the economy such as energy, transportation, and ICT. The public sector, lacking financial and human capital, would only facilitate the process and let the various private sector segments fund and inform the program in their respective areas of business. SAGIA focused on leveraging the resources of leading companies to fund the program with an estimated cost of \$35 million

To communicate competitiveness as a national commitment to not only government agencies but the general public, SAGIA organized a global competitiveness forum in November 2006. SAGIA was

keen in having the President inaugurate the forum in the presence of national and international business leaders who are encouraged to invest on the projects.

Economic “Intelligent” Cities

Although the creation and management of the National Competitiveness Program is a significant undertaking, SAGIA is pursuing a more ambitious and quite controversial venture by facilitating the development of the Economic Cities by private sector partners. These cities are part of SAGIA’s vision of promoting pockets of competitiveness with potential domino effects (multiplier effect) on the rest of the country. An official explains SAGIA’s vision,

We are also introducing and managing competitiveness in the form of economic zones or cities. We will then use them as an indicator, and benchmark against them for the rest of the nation. So we are trying to spread competitive environment that we succeed in building in one area, in a country that is larger than Western Europe, to other areas.

The economic cities are unlike “free zones” or “industrial cities” built and run by governments around the world. They are “literally living intelligent cities, with great business environments and strategic focus. Hundreds of thousands of people will be working, raising families, running small businesses, and choosing services from public and private providers who compete for high service standards”. The large-scale implementation of policies related to the sectors identified in SAGIA strategy will take place in these zones. Each city will to be built around one strategic sector including energy, transportation, and knowledge-based industries.

The public-private partnerships cultivated around the economic cities are based on the principle of private ownership and public coordination within broader public policy objectives. The private sector, through a consortium of national and international investors finances, builds and operates the economic cities in regions that are in dire need of development and in industrial sectors where Saudi Arabia has a relative competitive advantage. The public sector’s role will be to facilitate each city’s development and operations. In particular, SAGIA was successful in coordinating with relevant public ministries, particularly the Ministry of Finance and Ministry of Labor, to grant tax incentives and facilities for recruiting laborers to promote investments in these developed regions.

For SAGIA, this was a shift in the role of public sector. In the past, government planned, built development project, and then said, “well we think it may happen. Now we’re saying, ‘we think it will happen when we attract the best national and international companies to do that.’ It is validated by the private sector investors, who are so committed to making a good deal.” SAGIA believed that the private sector has greater incentives and ways of delivering better results in terms of cost savings, efficiency improvement, expertise-knowledge integration, strategic planning, and increased competitiveness, than many public sector alternatives.

Construction of some cities in different regions in the Kingdom began in early 2007. According to SAGIA estimates, the cities are expected to draw investment worth nearly \$100 billion, and create more than 2 million jobs when completed in the period 2020-2025.

SAGIA top management came to recognize that changes their agency was able to make were a product of a highly motivated and committed team at SAGIA and a network of public and private partners willing to work together and share their resources. To make this possible in short time, SAGIA relied on different innovative tools and introduced some ambitious initiatives that attracted both admirers and skeptics. SAGIA thinks that achieving the expected improvement in economic growth and employment will depend on successful implementation of major structural changes and continued innovation; things that will require strong commitment and leadership from the public sector and activating and harnessing

resources and ideas from the private sector to add value. “If we leverage all these things, we are confident that they will deliver the goods at the end of the day!”

¹ Saudi Arabia’s per capita oil export revenues remain far below high levels reached during the 1970s and early 1980s. The decline in real per capita oil export revenues since 1980 is in large part due to the fact that Saudi Arabia’s young population has nearly tripled since 1980, while oil export revenues in real terms have fallen by over 40 percent (despite recent increases). Meanwhile, Saudi Arabia has faced nearly two decades of heavy budget and trade deficits, the expensive 1990/1991 war with Iraq, and total public debt of around \$175 billion. See Rodney Wilson and Monica Malik. 2004. *Economic Development in Saudi Arabia*. Routledge UK; and the U.S. Energy Information Administration (<http://www.eia.doe.gov/>).

² The *Council of Ministers*, an executive body appointed by the king, passes legislation that becomes law once ratified by royal decree. In August 1999, the *Supreme Economic Council* (SEC) was created by a royal decree, to formulate and better coordinate economic development policies in order to accelerate institutional and industrial reform. In view of the large number of government agencies and institutions concerned with economic affairs and the wide range of their responsibilities, it was essential to develop an organizational structure and management system that encompasses all these entities, based on sound research and analysis, to ensure coordination among the various agencies and integration of their activities, and to facilitate effective decision –making with respect to economic issues. The SEC is thereby responsible for assisting the Council of Ministers in carrying out its duties and making decisions with respect to economic issues.

Consultative Council or *Majlis al-Shura* is composed of 150, all appointed by the King for four-year terms. It has no legislative powers, but it may examine government policies and propose laws or amendments to existing laws. Decisions or suggestions from the Majlis are first sent to the Council of Ministers for review, and then to the King for his approval. The Council of Ministers announced in October 2003 its intent to introduce elections for half of the members of local and provincial assemblies and a third of the members of the national Consultative Council or Majlis al-Shura incrementally over a period of four to five years. To date no such elections have been held or announced. In November 2004, the Ministry of Municipal and Rural Affairs initiated voter registration for partial municipal council elections held nationwide from February through April 2005.

³ See SAGIA website at <http://www.sagia.gov.sa/> for more detailed information.