Saudi Arabia
Opportunities and barriers to inbound construction

G20 rankings & data

G20 heatmap rankings
- Construction industry health
  - Construction industry value: 17
  - Construction industry, real growth: 11
  - Announced spend on construction in next 3 years: 10
- Country financial health
  - Budget balance: 1
  - Overall announced fiscal stimulus: -4
  - GDP/Head: 10
  - Credit ratings rank: 4
- Ease of doing business
  - Doing business overall rank: 6
  - Dealing with construction permits rank: 8
  - Business transparency rank: 15
- Tax regime
  - BDO overall tax rank: 1
  - World bank – paying taxes rank: 1

Financial metrics
- Total fiscal stimulus announced: £92.3bn
- Announced spend on construction in the next 3 years including fiscal stimulus to construction: £23.3bn
- Construction industry value – 2009: £16bn
- Main corporate tax rate: 20%

Construction sector metrics

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction industry value, £bn</td>
<td>13</td>
<td>14</td>
<td>16</td>
<td>17</td>
<td>18</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>Construction industry, real growth, per cent y-o-y</td>
<td>4.8</td>
<td>2.5</td>
<td>3.1</td>
<td>3.1</td>
<td>3.6</td>
<td>4.1</td>
<td>-</td>
</tr>
<tr>
<td>Construction industry, per cent of GDP</td>
<td>4.7</td>
<td>3.5</td>
<td>4.0</td>
<td>4.3</td>
<td>4.5</td>
<td>4.9</td>
<td>-</td>
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</tbody>
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BDO review of tax
- The lowest G20 headline corporate tax rates
- The availability of tax relief for finance costs is significantly restricted
- A reasonably generous tax depreciation regime applies
- Whilst few specific tax incentives apply, a system with a low rate applied to a wide tax base is, arguably preferable to a more complex system

Overall scoring
8/10
1 = out of the G20

BDO ease of doing business

1 Very easy
2 – 3 Quite easy – average
4 Quite difficult
5 Very difficult

Top construction firms

1 Extremely dominant
2 Dominant
3 Quite dominant
4 Not very dominant
5 Not at all dominant

This dominance does not create a significant barrier to entry for foreign firms.
The increase in infrastructure planned over the next few years in Saudi Arabia is a great opportunity for inbound construction companies, if they can get access to the government contracts.”

Richard Kelly
Partner, Head of Construction

Saudi Arabia has a low tax rate regime for businesses that extends to the inbound construction sector and, accordingly, it receives the top ranking amongst the G20 nations from a construction taxation perspective despite some restrictions on the deduction of financing costs.”

Stephen Herring
Tax Partner, Real Estate and Construction

Opportunities and barriers

Ranked 6th overall in our G20 heatmap, despite difficulties gaining access to lead Government projects, Saudi Arabia presents a great opportunity for inbound companies, with a huge increase in infrastructure planned.

In 2007, the Government issued tenders to attract private and public foreign capital of about $50bn (£36.4bn) for infrastructure and the oil and gas sectors. The aim was to attract investments of about $30.6bn (£22bn) from the private sector; $7.4bn (£5.4bn) for the oil and gas sector and about $12bn (£8.7bn) for the government projects.

The Saudi government was also investing nearly $3.9bn (£2.8bn) in education and health facilities including the construction of more than 1,000 new educational institutions and the maintenance of 2,000 existing ones. $1.2bn (£873m) had been set aside for the construction of 420 new healthcare centres and 23 hospitals.

Investments in physical infrastructure are the defining feature of Saudi Arabia’s current economic development drive as it seeks to reduce its reliance on the oil industry. Saudi Arabia announced a £92.3bn economic stimulus budget for 2009, allocating more money for education and an increase in public spending by 15.8 per cent (£12.6bn). The Saudi Government plans to spend £400bn (£291bn) on infrastructure projects in the next five years as the kingdom seeks to benefit from lower construction costs amid the global financial crunch.

The construction sector will be driven by the launch of six economic cities to be completed by 2020. These six new industrialised cities will diversify Saudi Arabia’s economy and are expected to contribute £150bn (£109bn) to GDP.

Projects currently underway in the Kingdom include two huge railway initiatives, which when realised will boost trade and tourism networks. Work continues on expanding Saudi Arabia’s port network as the country vies with other Gulf states to offer a gateway to Middle East markets.

As the population expands more pressure is being exerted on the country’s utilities. Power needs are being met by the continued expansion of gas and oil-fuelled power plants. The country’s desert climate makes water a commodity and with few reserves to turn to, Saudi Arabia has developed a desalination sector.

PPP is still in its infancy in Saudi Arabia. The Kingdom has signalled its intent to increase private participation in infrastructure. Industry experts expect that build-operate-transfer (BOT) contracts will become the preferred method of PPP. Under these the private sector finances the design, construction and operation of projects for a specified time, after which ownership is transferred back to the Government.

Reasons Saudi Arabia is attractive for inbound construction activity

• Major infrastructure projects in roads, airports and railways.
• Major new developments (approved by the government to address the demographical imbalances to some cities) will create new opportunities for construction contractors.
• It is easy to establish a construction company in Saudi Arabia. Although you must have a classification to enter in to Government bid projects, you can perform these contracts as a subcontractor. No classification is necessary to enter into private bids.

Barriers/challenges to construction activity

• Saudi Arabia’s government contracts are regulated by several royal decrees that strongly favour GCC (Gulf Cooperation Council) nationals (though most defence contracts are negotiated outside these regulations).
• Article 1(d) of the tender regulations requires that Saudi individuals and establishments be given preference over all other suppliers for Government contracts. Preference to other suppliers is given as long as Saudi nationals hold at least 51 per cent of the supplier’s capital. An exemption is granted in instances where no Saudi company can provide goods and services to fulfil the procurement requirement.

BDO viewpoint and advice

Pitfalls to avoid when doing business in Saudi Arabia

• Problems when forming strategic relationships and when entering a contract as a sub-contractor.
• Trying to bid for projects without having good knowledge of legal and tax systems, the culture of doing business and the strength of local competition.

Practical advice for inbound construction activity

• Ensure that you have strong knowledge about working in Saudi Arabia.
• Research carefully and take advice on potential partners.
• Cultural fit is important, so ensure that your people understand the Kingdom’s culture.

Useful tax and other incentives for inbound construction activity

Main depreciation rates:

• Buildings – 5 per cent straight line depreciation allowed.
• Machinery, factories and equipment – 25 per cent straight line depreciation allowed.
• Most other fixed assets – 10 per cent straight line depreciation allowed.

Other incentives:

• There are specific tax incentives for development projects in Saudi Arabia.
• Customs duties on imported machinery, spare parts and raw materials may also be waived for joint ventures and grants are on offer to train Saudi nationals.

Sources: