

BUILDING AND CONSTRUCTION

13.1 INTRODUCTION

Improvement of economic indicators and the investment climate under the Eighth Development Plan had a positive impact on performance of the construction sector, enhancing both its physical and technical capabilities. The building materials industry experienced improvements that raised the rate of import substitution of such materials, and increased their exports to regional markets. Moreover, contracting activities expanded throughout different regions of the Kingdom.

Economic efficiency of the construction sector in its widest sense (investment, production and organization) is envisaged to rise under the Ninth Development Plan, with expansion of use of advanced technologies and merger of medium-size companies to form large entities better able to face fierce competition in local and regional markets.

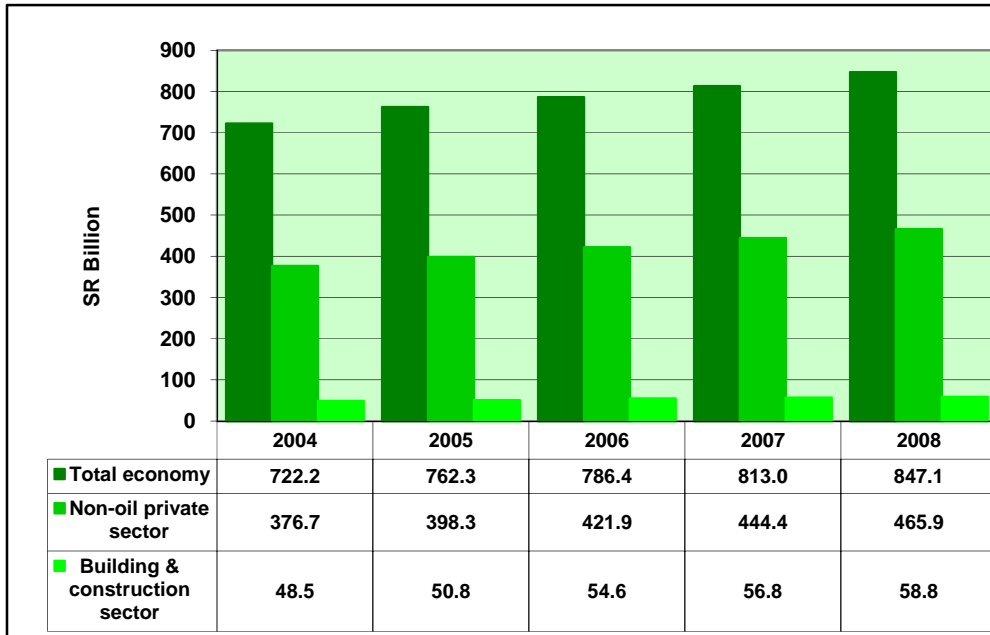
This chapter examines current conditions of the building and construction sector, highlighting developments under the Eighth Development Plan. It also reviews the key issues and challenges that must be addressed under the Ninth Development Plan, as well as the future vision, objectives, policies and targets envisaged.

13.2 CURRENT CONDITIONS

13.2.1 Developments

Over the first four years of the Eighth Development Plan, the construction sector achieved an average annual growth rate of 4.9%. Its contribution to GDP in 2008 was about 6.9%, compared with 6.7% in 2004; a rise that is attributable to the increase of its value added from about SR48.5 billion to about SR58.8 billion during the same period (Figure 13.1).

Figure 13.1
Value Added in Building and Construction Sector
Eighth Development Plan*



* Up to the end of the fourth year of the Eighth Development Plan.

Source: Ministry of Economy and Planning.

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13.2.2 Capital Assets

In 2008, the value of capital assets of the building and construction sector was SR154.5 billion, up from about SR74.7 billion in 2004, reflecting an average annual growth rate of 19.9% (Table 13.1).

Over the first four years of the Eighth Development Plan, assets of ‘non-residential and other construction’ grew at an average annual rate of 26.1%, and its share of the total assets of the sector increased from 60.5% in 2004 to 74.1% in 2008. In contrast, ‘residential construction’ assets grew at an average annual rate of 8%, with its share of total assets of the sector declining from 39.5% to 25.9%.

Table 13.1
Capital Assets in Building and Construction Sector
Eighth Development Plan*

(SR billion)

	2004	2005	2006	2007	2008	Average Annual Growth Rate (%)
Capital assets of building and construction sector	74.7	93.6	104.5	138.6	154.5	19.9
Capital assets of non-residential and other construction	45.2	61.6	70.1	100.8	114.5	26.1
Capital assets of housing construction	29.4	32.0	34.4	37.8	40.0	8.0
Ratio of non-residential construction assets to total building and construction assets (%)	60.5	65.8	67.1	72.7	74.1	–
Ratio of residential construction assets to total building and construction assets (%)	39.5	34.2	32.9	27.3	25.9	–

* Up to the end of the fourth year of the Eighth Development Plan; in current prices.

Source: Central Department of Statistics and Information.

13.2.3 Building Permits

Over the first four years of the Eighth Development Plan, the total number of building permits for all facilities increased at an average annual rate of 10.8%, compared with 4.3% under the Seventh Development Plan. Notably, at 47.7%, the largest average annual growth rate was in permits for social and government services facilities, followed by non-residential facilities (large industrial and commercial facilities (13.2%), educational and health facilities and mosques (12.1%), taking advantage of the improved state budget (Table 13.2).

Permits for 'residential and small commercial' facilities, which account for 89.1% of total permits, rose by an average annual rate of 10.3% over the first four years of the Eighth Development Plan, compared with an annual average growth rate of 3.9% under the Seventh Development Plan. Distribution of permits over regions in 2008 is shown in Table 13.3, which shows that shares ranged between 29.6% and 0.9%.

Table 13.2
Evolution of Number of Building Permits
by Category of Facility
Eighth Development Plan^(*)

Activity	2004	2005	2006	2007	2008	Average Annual Growth Rate (%)
Small residential or commercial	34136	39803	49266	47941	50489	10.3
Large industrial or commercial	2133	3043	3494	3088	3499	13.2
Educational, health facilities and mosques	1137	1456	1883	1915	1798	12.1
Social and government services Facilities	179	419	726	827	851	47.7
Total number of building permits	37585	44721	55369	53771	56637	10.8
Share of 'residential or small commercial' in total permits (%)	90.8	89.0	89.0	89.2	89.1	—

(*) Up to the end of the fourth year of the Eighth Development Plan.
Source: Central Department of Statistics and Information.

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Table 13.3
Building Permits by Region
2008

Region	Number of Permits	Share (%)
Riyadh	16741	29.6
Makkah	8554	15.1
Madinah	5001	8.8
Qasim	5092	9.0
Eastern Region	8577	15.1
Asir	3073	5.4
Tabuk	1555	2.7
Hail	2238	4.0
Northern Borders	935	1.7
Jazan	1015	1.8
Najran	1328	2.3
Baha	490	0.9
Jawf	2038	3.6
Total	56637	100.0

Source: Central Department of Statistics and Information.

13.2.4 National Employment in the Sector

Over the first four years of the Eighth Development Plan, the sector continued to grow at an average annual rate of 0.3% to a total employment of about 745.8 thousand in 2008, with the share of Saudi manpower increasing from 8.4% in 2004 to 10.0% in 2008 (Table 13.4).

The large supply of foreign labour has made companies reluctant to adopt capital-intensive production methods. Moreover, predominance of small, unclassified construction companies, which rely almost entirely on manual labour, lowers aggregate productivity indicators and consequently competitiveness of the sector.

Table13.4
Employment and Value Added
in the Construction Sector
Eighth Development Plan

	2004	2005	2006	2007	2008	Average Annual Growth Rate (%)
Employment (thousand workers)*	737.5	798.2	836.9	793.6	745.8	0.3
Ratio of Saudis (%)	8.4	9.3	9.3	9.8	10.0	–
Value added (SR billion at constant prices of 1999)	48.52	50.83	54.56	56.8	58.7	4.9

* Results of manpower survey (first cycle), up to the end of the fourth year of the Eighth Development Plan.

Source: Central Department of Statistics and Information.

13.2.5 Regulatory Environment

To assess their financial and technical capacity, contracting companies are reclassified every three years by the Agency for Classification of Contractors of the Ministry of Municipal and Rural Affairs. Classification is a prerequisite for participation in public bidding and tendering, and it plays an important role in determining the general scope of a tender. Table 13.5 shows the number of contractors

classified by grade, field and administrative region. The total number of contractors is 2,572 classified in 10,467 fields of activities, most of them classified in more than one field, which indicates significant development compared with the Seventh Development Plan. Moreover, the Eighth Development Plan saw a rise in the number of contractors in the first and second grades, which are granted only to companies with high financial and technical capabilities increased, indicating an improvement in presence of contractors in a number of administrative regions. In 2004, contractors in these two grades were present only in Riyadh, Makkah and Eastern regions. At approximately 76.5%, these three regions have the largest share of classified contractors: 47.7% in Riyadh region, 14.7% in Makkah region, and 14.1% in Eastern region.

Table 13.5
Distribution of Classified Contractors
by Grade and Region
Eighth Development Plan

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Region	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Number of Contractors	Share %	Number of Areas of Activity
Riyadh	190	178	218	370	271	1227	47.7	4959
Makkah	52	51	87	108	80	378	14.7	1405
Madinah	5	13	12	33	30	93	3.6	392
Qasim	4	11	16	51	37	119	4.6	395
Eastern Region	41	55	85	115	66	362	14.1	1594
Asir	2	5	29	60	54	150	5.8	670
Tabuk	0	3	0	4	6	13	0.5	29
Hail	0	4	5	18	13	40	1.6	115
Northern Borders	1	2	1	13	4	21	0.8	100
Jazan	0	2	3	8	7	20	0.8	102
Najran	0	4	11	42	40	97	3.8	530
Baha	0	0	4	8	16	28	1.1	68
Jawf	0	2	2	9	11	24	0.9	108
Total	295	330	473	839	635	2572	100.0	10467

Source: Ministry of Municipal and Rural Affairs.

To improve sector performance, several committees were formed under the Eighth Development Plan to examine constraints and propose solutions. Several topics were examined; the most important of which are: constraints on implementation of government projects by the national contractors; methods and procedures for ensuring achievement of the objectives of the system of classification of contractors; administrative and financial procedures to ensure speed in awarding government projects and disbursement of contractor dues; and mechanisms for compensating contractors for price increases.

13.2.6 Indicators of Activity in Building Materials

Over the first four years of the Eighth development Plan, imports of building materials increased at an average annual rate of 14.7%, while exports grew at a higher average annual rate of 16.9%, to constitute 24.2% of total trade in these materials in 2008, up from 22.9% in 2004 (Table 13.6). The neighbouring countries as well as Middle Eastern and North African states are the main destinations for Saudi exports of basic building materials, especially cement.

Table 13.6
Exports and Imports of Basic Building Materials
Eighth Development Plan*

(SR Million)

	2004	2005	2006	2007	2008	Average Annual Growth Rate (%)
Imports	3153.0	3566.0	3794.0	4147.0	5461	14.7
Exports	934.0	1080.0	1236.0	1474.0	1742	16.9
Total trade	4087.0	4646.0	5030.0	5621.0	7203	15.2
Share of exports in total trade (%)	22.9	23.2	24.6	26.2	24.2	1.4

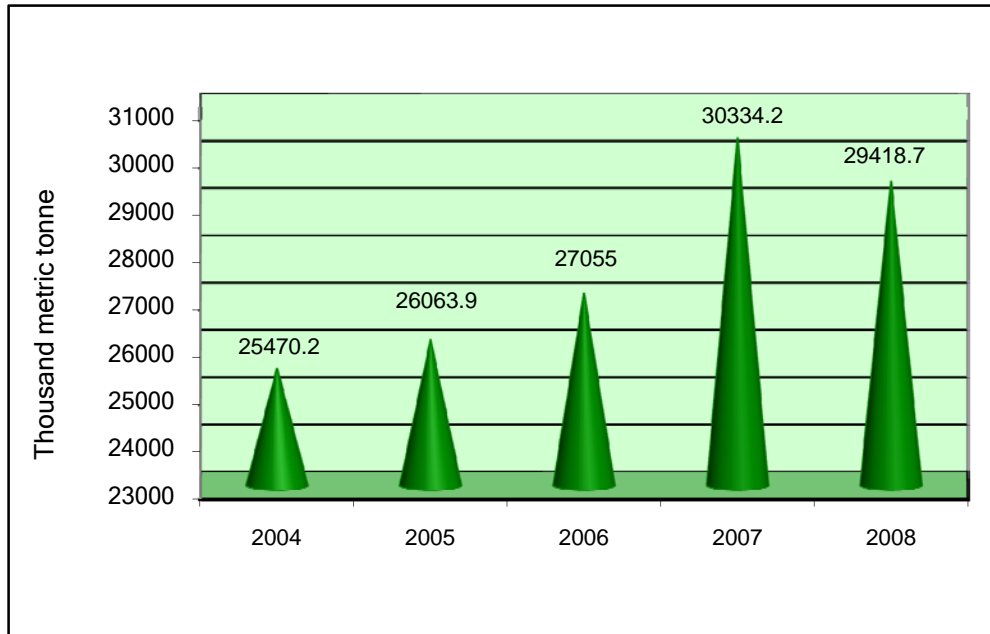
* Up to the end of the fourth year of the Eighth Development Plan; in current prices.

Source: Central Department of Statistics and Information.

The basic building materials industry expanded with the growth of the sector. For example, over the period 2004–2008, domestic cement production increased at an average annual rate of 3.7%, reaching in 2008 a total of 29.4 million metric tons, produced by eight cement

factories (Figure 13.2). To keep pace with growth in demand for cement, 37 new cement-manufacturing facilities licensed in 2007 covering all regions of the Kingdom. Hence, total cement production capacity is expected to increase to about 40 million metric tons in 2009.

Figure 13.2
Cement Production
Eighth Development Plan (*)



(*) Up to the end of the fourth year of the Eighth Development Plan.

Source: Central Department of Statistics and Information.

13.3 ISSUES AND CHALLENGES

13.3.1 Economic Efficiency of Contracting Activities

Economic growth under the Eighth Development Plan resulted in increases in demand for products of the building and construction sector at rates exceeding its capacity, which led to increases in the prices of various inputs, especially over the second half of the Plan. In turn, price increases resulted in a decline of the number of large projects offered for bidding, as well as in a shortage of supply of skilled and unskilled labour, which necessitated bringing in more expatriate labour. Envisaging continued economic and population

growth in the foreseeable future, the Ninth Development Plan will focus on strengthening the capacity of the sector, which requires improving the economic efficiency of construction companies, in terms of investment, productivity and organizational capacity.

13.3.2 Productivity and Saudization of Jobs

Raising the currently low labour productivity in the sector to internationally accepted levels, through expansion of investment in modern high-tech equipment and tools, is an important challenge to the efforts aimed at enhancing competitiveness of the national economy. In view of the impact of wages on productivity, technological development of the sector is a prerequisite for providing Saudis with rewarding-wage job opportunities.

Despite the numerous employment opportunities that could be provided by this sector in the engineering, technical and semi-skilled fields, participation of Saudi manpower in the sector is relatively low. It is estimated under the Eighth Development Plan at less than 10%. Hence the importance of enhancing efficiency of education and training, particularly technical and industrial.

13.3.3 Institutional and Organizational Development

The Eighth Development Plan espoused development of an institutional and organizational framework for the building and construction sector as an objective and adopted implementation policies including: setting-up and applying the Saudi Building Code, applying environmental and safety standards, and adopting professional licensing. However, implementation has not proceeded at the hoped-for level. Hence, it is essential to reinforce development processes, and enhance stability in contracting, especially under conditions of rapid fluctuations in prices of major inputs such as cement, iron and others, by linking the cost of these inputs in various construction contracts to appropriate benchmark indicators. For these reasons, development of the institutional and regulatory framework for

the building and construction sector is an important requirement of the Ninth Development Plan.

13.3.4 Information and Databases

Development of the sector requires adapting to changes and developments, particularly in technology. Moreover, a better understanding of the strengths and weaknesses of the sector, through further scientific research and economic studies, is essential.

13.4 DEVELOPMENT STRATEGY

13.4.1 Future Vision

A developed, efficient building and construction sector led by highly competent contracting companies with high-level technical capabilities, spread in all regions of the Kingdom, backed by a modern building materials industry, and by an integrated and flexible regulatory and contractual environment, to meet the requirements of the national economy and contribute effectively to economic development.

13.4.2 Objectives

- Expanding the capacity of the sector at all levels and in all regions of the Kingdom.
- Raising standards of productivity and efficiency of the sector.
- Increasing rates of participation of national manpower in the activities of the sector.

13.4.3 Policies

- Incentivizing dissemination of capacity of the sector to all regions of the Kingdom.
- Encouraging expansion of domestic production of all building materials to contribute to rationalization of imports.
- Increasing participation of qualified local contractors.

- Developing an institutional and regulatory framework for the sector.
- Continuing to improve oversight over building and construction activities and application of regulations.
- Improving quality of products of the sector, and adopting technologies to rationalise energy and water usage in building and construction operations.
- Supporting quantitative and qualitative research in the sector.
- Improving performance of small and medium-size contracting companies.
- Raising rates of participation of national manpower in the activities of the sector.
- Intensifying training of national manpower and qualifying them in the various professions involved in the sector.
- Reviewing and developing work policies related to the sector.
- Encouraging foreign direct investment and foreign participation in building and construction activities.
- Reviewing and updating terms of reference of contracts, in collaboration with the Chambers of Commerce and Industry and other relevant actors.
- Establishing a comprehensive database for the sector.
- Studying the establishment of a programme to provide soft loans to support technical development of building and construction companies.
- Expanding technical and engineering education in building and construction.
- Applying the Saudi Building Code to improve quality standards in building.
- Developing of cost indicator for building and construction by the Central Department of Statistics and Information covering the various administrative regions, as well as for the Kingdom as a whole.

- Improving safety conditions of workers in building and construction sites, and adopting a professional licensing system for workers in the sector.

13.4.4 Targets

- Achieving an average annual growth rate of approximately 7.2% in the sector over the Ninth Development Plan.
- Increasing domestic production of building materials at an average annual rate between 8% and 9%, using international production techniques to save water and energy, and conserve the environment.
- Increasing the percentage of Saudis in the various building and construction activities, from about 10% of total employment in the sector at present to about 15%.