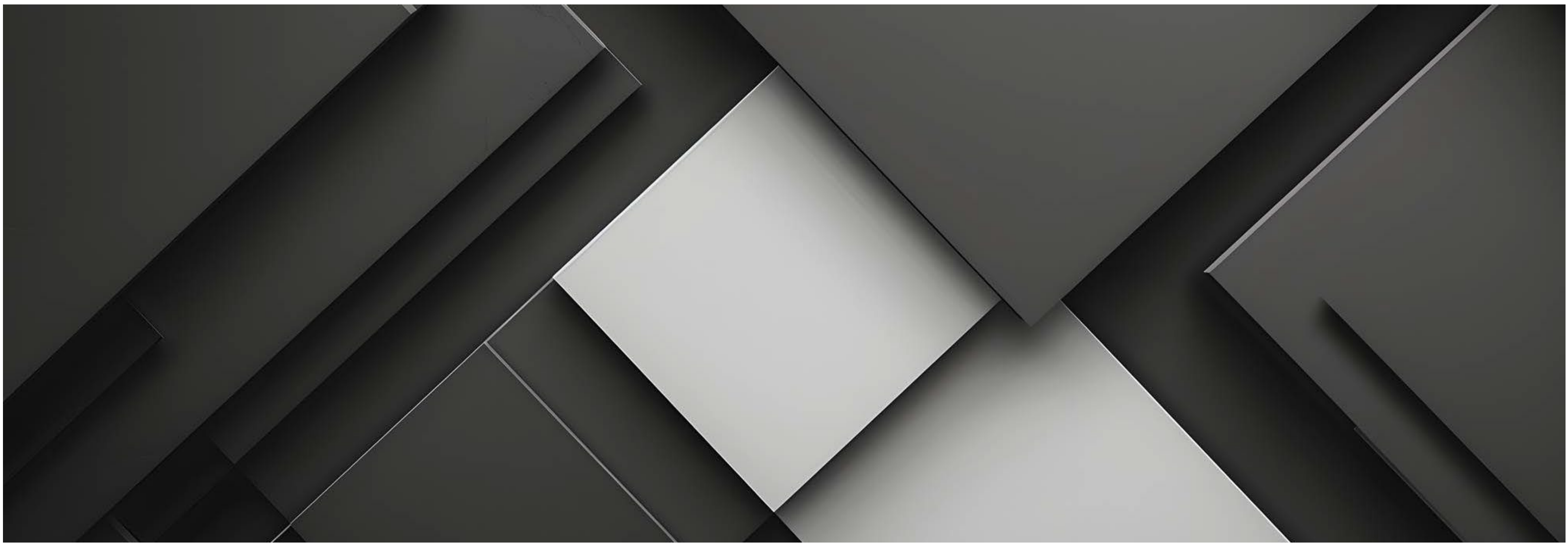

Why Vision 2030 demands a new delivery model

HKA Partner, Tim Whealy hails early signs of a construction market shift

As Saudi Arabia constructs a new economy, the country must recast its construction and engineering market to deliver an unprecedented pipeline of major projects. And the early signs of this essential transformation, formally known as Vision 2030, are highly encouraging.

As evidence for this positive assessment, consider the significant legal reforms that have taken place, the growing desire to embrace technology, a drive for sustainability, increasing early involvement of contractors in projects, and the steady shift towards more equitable contractual agreements we are witnessing.

As claims experts and strategic advisors, HKA is familiar with past chequered performance on projects. The huge volume of work planned across Saudi Arabia necessitates a whole new approach.

We have seen massive changes in the Kingdom during the past 13 years, and a marked shift over the last five. There has been recognition at the highest levels that radical change is essential if Vision 2030 and other major developments are to be delivered. It is truly incredible to see the pace at which the Kingdom is building world-class infrastructure, and in the process, how it is creating a whole new and fully diversified economy.

In reality, only Europe's post-war reconstruction or China's modernisation bear comparison to the scale of the Saudi plans. The timeline is also daunting. As well as delivering what must be the world's largest transformation programme, there are the event-driven deadlines of the 2029 Asian Winter Games, 2030 World Expo and 2034 World Cup. Associated infrastructure, stadia and facilities must be built alongside giga-project cities still in their embryonic stages.

Analysis by the MEED Business Intelligence Consultancy shows a sharp spike in the value of contract awards in Gulf Cooperation Council states to more than $209 billion in 2023. The UAE market is also booming, accounting for $85 billion. But Saudi Arabia's $95 billion share will continue expanding, driven by a $1.53 trillion pipeline of known projects. Of the planned giga-project contracts, valued at $880 billion, only $80 billion have so far been awarded.

Learning the lessons

Avoiding past conflicts and overruns will be crucial. HKA has first-hand knowledge of the factors that shape the successes and failures of projects in the region and globally. We distil and share the lessons through the

CRUX integrated research programme. Last year, the Sixth Annual CRUX Insight Report analysed more than 1,800 projects in 106 countries with a combined CAPEX of $2.247 trillion. CRUX showed that overruns in the Middle East were among the longest of the world's regions, averaging 82% of planned schedules (and nearly 100% in Saudi Arabia). On average, the costs claimed on these 401 projects exceeded 35% of budgets.

The most dominant causes of project claims and disputes were change in scope (54%) and the often-related problems of design information being issued late (34.9%) or incomplete (30.5%). Conflicts over contract interpretation (28.8%) and late approvals (27.1%) were the other 'top five' causes.

Within the Kingdom, scope change (54%) and late designs (34.5%) again came top, with restricted or late access to sites (also 34.5%), followed by late approvals (31.9%) and cashflow and payment issues (23.6%).

Early contractor involvement (ECI) is absolutely critical to pre-empt these recurrent factors – especially, design-centric failures – and thus to delivering Vision 2030. Many projects start with incomplete or flawed designs. Contract periods are misused to rectify these design problems, so contractors overrun schedules and budgets. Contractors need to be incentivised and have an input early on to ensure designs are buildable and schedules are achievable.

Re-balancing risk

While the risks of delay and cost overruns mount over the project lifecycle, the opportunities to minimise those risks are greatest in pre-construction – during inception, design and procurement. Risk allocation needs to be realistic and reasonable. In a super-heated market, there is a re-balancing of power and contractors are in a more equitable position. They can push back on onerous terms. So, we are beginning to see a more sensible view of risk sharing and changes in the way that employers and contractors are procuring, such as collaborative contracting and public-private partnerships (PPPs).

Based on recent experience in the Kingdom and other regions, the benefits of ECI and collaborative approaches to contracting are evident in increased certainty around projects' cost, time, value for money, and safety performance, as well as market appetite. But changes in the market need to go further. We need to plan to succeed, rather than repeat past mistakes. As well as ECI, this new delivery model should involve open-book accounting and incentivising target costs and key outcomes, with sharing of gains and pain. High performance must be encouraged and rewarded to achieve what's most important to the client, and allow any claims to be resolved before developing. This innovative approach benefits all parties.

Reforming the law

Having advised many lenders on construction risk, as well as acting as a quantum expert in disputes, we are also heartened by other trends, such as offsite prefabrication, increasing commitment to ESG (environment, social and governance) since COP28, and – not least – legal reforms.

Adversarial contracts, an opaque legal system and heavy losses sustained on past projects have made many contractors reluctant to enter the market. The Civil Transaction Law promises fair dealings in contracts, while the Saudi Centre for Commercial Arbitration (SCCA) is a truly credible forum for administering international disputes. These are massive changes that can build confidence among foreign contractors.

The world's best constructors will be needed along with capacity-building in the region. Again, the Kingdom is taking a strategic approach, by developing ports, roads and rail, and through reverse integration of the supply chain: from buying stakes in the country's top contractors to incentivising major producers to set up locally and investing in cement production capacity. MEED's analysis indicates that Public Investment Fund (PIF) projects alone will require almost a billion tonnes of cement (970 million) between now and 2030. That is just one commodity. Think of the demand over the next decade for steel, rebar, aggregates, plasterboard, and other materials.

Caution is required, however, given that the construction market is still in the early stages of transition, and the capacity, supply chain and cost escalation risks will be colossal. But the opportunities created by Saudi Arabia's epoch-making vision are hugely exciting. It is a privilege to be here and to be able to contribute to a national transformation that will embrace every sector from construction and power to transportation, tourism and housing.

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