

**Quick-Wins**



# **Contracting Industry Trends of GCC Countries 2014**

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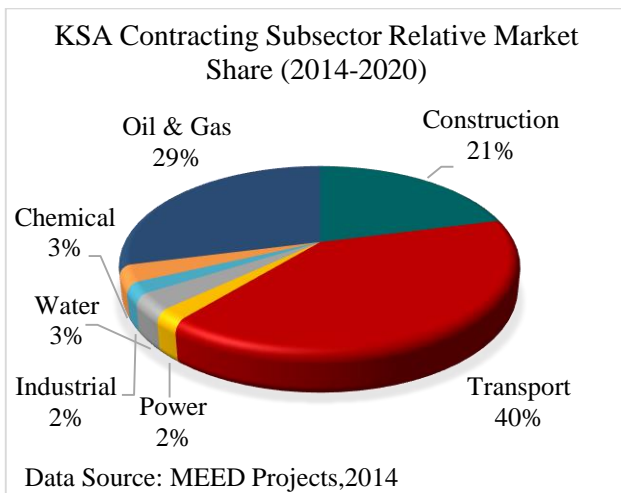
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## 1. Kingdom of Saudi Arabia

### 1.1. Overview of KSA Contracting Market

The Kingdom of Saudi Arabia (KSA) is the world's largest exporter of oil; its economy is constantly on the rise. Saudi Arabia's construction industry, the second-largest sector in the economy after oil, is experiencing rapid expansion, with no shortage of contracts in any segment. From housing and utilities to transport infrastructure, the public spending is driving the contracting industry forward. KSA displays the most favorable prospects due to high levels of liquidity, low rates of leverage in the banking sector and strong demographic fundamentals. Saudi Arabia is today by far the largest projects market in the Middle East with \$61bn worth of contracts awarded last year, and a further over \$1 trillion worth of projects planned or under construction.

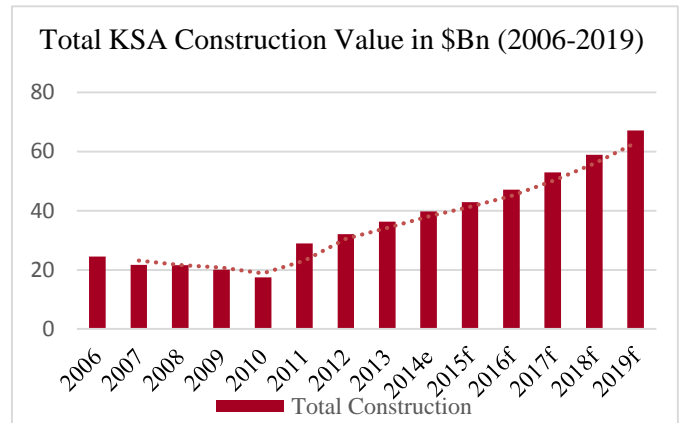


### 1.2. KSA Contracting industry Trends

#### 1.2.1. Sector Sustainable Growth

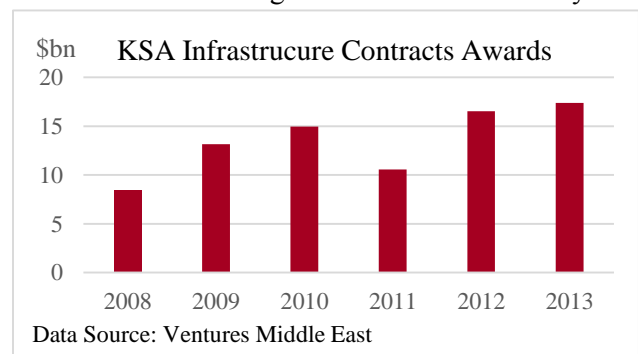
- ▶ The Kingdom of Saudi Arabia is one of the fastest growing, emerging markets of the Middle East.
- ▶ This growth is expected to continue backed up with its **strong oil reserves**, **Government plans** for

**economic development** through diversification and investment programs, **rapidly growing population**, **fast urbanization** and **constantly increased domestic demand** across the real estate, infrastructure and utilities segments of the market.



#### 1.2.2. Transportation Sector

- ▶ The Ninth Development Plan had expected a spending of US\$ 284bn to develop the social infrastructure over 2010–14.
- ▶ KSA is improving its transport infrastructure where a large proportion of the high-value construction contracts awarded in the Kingdom in the last three years have been in the transport sector. This sector is set to continuous growth over the next five years.



- ▶ Major transport projects include four rail projects with estimated value of \$50bn; metros in Jeddah, Riyadh, Land bridge (a 950 km railway from Jeddah to Dammam), and the Haramain High Speed Rail linking Mecca, Madinah and Jeddah, in addition to, the expansion of King Abdul Aziz International Airport.

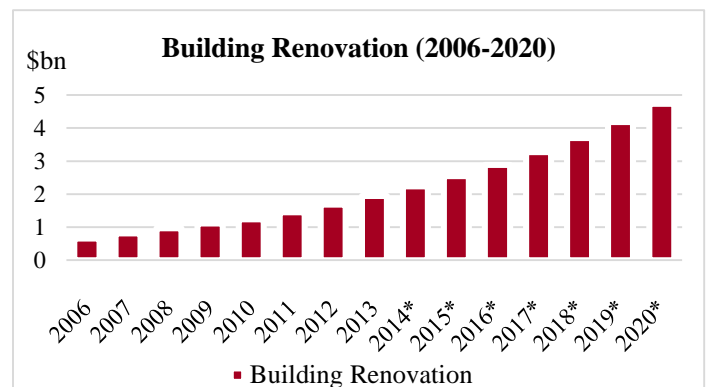
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## 1.2.3. Hospitality and Housing Sector

- ▶ The housing market KSA is set to expand on the back of **high economic growth, young and fast growing population, rapid urbanization** and **rising personal income**.
- ▶ Recently, KSA Government launched **ESKAN**, a new scheme to provide housing aid to its citizens and a necessary policy to tackle the needs of the country's growing middle class. Government policies, low interest rates, easy credit accessibility, demographics, and the large housing deficit will continue to support growth in low-income residential property demand in the country.
- ▶ In 2013, the Kingdom's Housing Ministry commissioned US\$1.1bn of housing projects in seven cities including Jeddah, Dammam and Tabuk as part of King Abdullah's initiative to construct 500,000 homes.
- ▶ Saudi Housing Ministry intends to establish 414,000 housing units for limited income groups in Makkah.
- ▶ Upcoming mega-projects such as King Abdullah Economic City, Kingdom City and Jazan Economic City are well underway and positively affecting the local interiors market. Other iconic projects include the \$40bn Sudair Industrial City and \$15bn King Faisal University.
- ▶ Moreover, KSA has earmarked \$26.6bn for the construction of primary care centers and 19 new hospitals, in addition, stadiums and sports facilities in 22 towns and 15 social welfare centers.
- ▶ The foundations are nearing completion on Prince Alwaleed bin Talal's \$20bn Kingdom Tower in Jeddah which, when complete in 2017, is set to become the world's tallest building at 1 km in height.
- ▶ Due to the large number of religious tourists visiting the holy cities of Mecca and Medina, hotel investments in Saudi Arabia have increased. Leading international hotel chains have Mecca as their focal point. For example, Hilton plans to open 14 new hotels with 7,000 rooms in Saudi Arabia in 2014, six of which will be developed in Mecca.

## 1.2.4. Building Renovation

- ▶ Through the past decades, there has been growth in the significance of building sector, which lead to emerging of the renovations and maintenance as an adjacent part of the construction industry.
- ▶ Buildings renovation and maintenance segment expanded widely through the past five years and is expected to continue its growth backed with economic growth.
- ▶ The building renovation growth lead to similar on in internal design and fit-outs market.



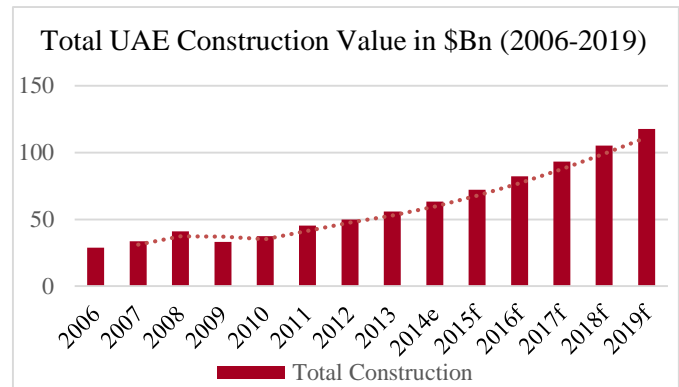
## 1.2.5. Cost of Construction

- ▶ The biggest concern in KSA due to the massive scale of construction projects is the reality of cost inflation and the possibility of project delays because of the lack of availability of resources including construction materials and labor.
- ▶ Most of the region's cement industries are already operating at full capacity, with sizeable clinker imports being seen in Saudi Arabia. Another labor issue is the implementation of the Saudization program, which could lead to 2 million-expat leave the Kingdom.
- ▶ Lack of availability of resources lead to increasing cost of construction. According to Arab News, the cost of construction in KSA has increased from \$25 to \$37 per meter, with the price of building materials increasing by 10 to 20% due to a high number of construction projects in the Kingdom.

## 2. United Arab of Emirates

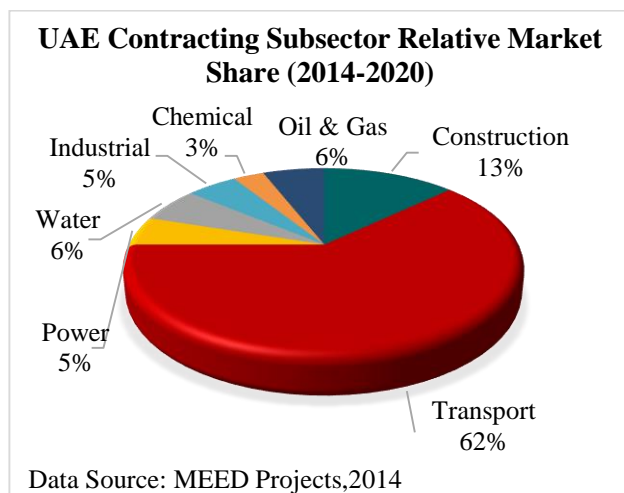
### 2.1. Overview of UAE Contracting Market

The United Arab of Emirates (UAE) is one of the fastest-growing economies in the world. It is considered as the second largest construction industry in the MENA region. The UAE has More than 6,000 construction companies operating mostly in Dubai and Abu Dhabi. According to the Dubai Chamber of Commerce and Industry, the construction industry is forecasted to contribute 11.1% to the UAE’s GDP in 2015, as compared to 10.3% in 2011. Contractors and suppliers are looking at the UAE as a growing market specially that Dubai won the rights to host the 2020 World Expo, which will act as a real further catalyst for investment.



### 2.2.2. Transportation Sector

- ▶ Projects worth \$9bn are planned across Dubai to further enhance the infrastructure in the preparation of hosting Expo 2020.
- ▶ The \$9bn are allocated for 35 major projects in the next few years including the Expo center itself (\$4bn), which will cover over 1,000 acres close to the new Al Maktoum International Airport and Jebel Ali Port, in addition to, a 15km extension of Dubai Metro Red Line to the Expo 2020 site, according to Roads and Transport Authority (RTA).
- ▶ In addition, extension of the Dubai Metro Green Line, stage two of Etihad Rail project that will integrate with Dubai Metro, phase two of Dubai Tram and Urban Rapid Transit System are among the key projects expected over the upcoming few years.
- ▶ Expansion of Dubai International Airport will have increased its capacity to 90mn passengers a year from the current 60mn by 2018.



### 2.2. UAE Contracting industry Trends

#### 2.2.1. Sector Sustainable Growth

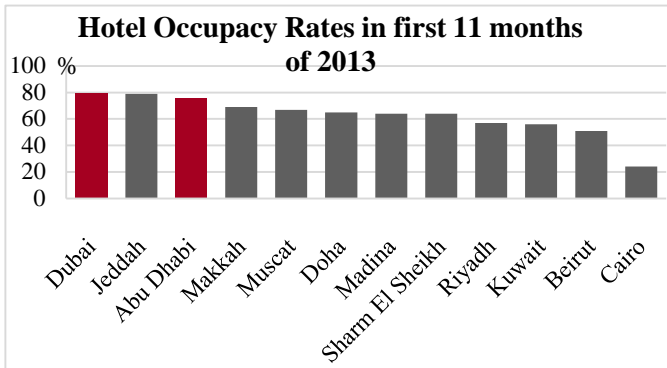
- ▶ The UAE’s market is rapidly growing backed by **rapid annual population growth (2.7%)**, **high economic growth (average of 13% annually)**, and **government plans of diversification and investments and Expo 2020**.

### 2.2.3. Hospitality Sector

- ▶ The UAE ranked the first in terms of occupancy of four and five star hotels in 2013 over the Middle East region.
- ▶ Hosting the Expo 2020 raise the demand of hotel occupation. The Expo is expected to attract 25mn visitor by 2020. The event itself will boost the tourism retail, and hotel sector, which leads for further developmental projects in hospitality construction sector.

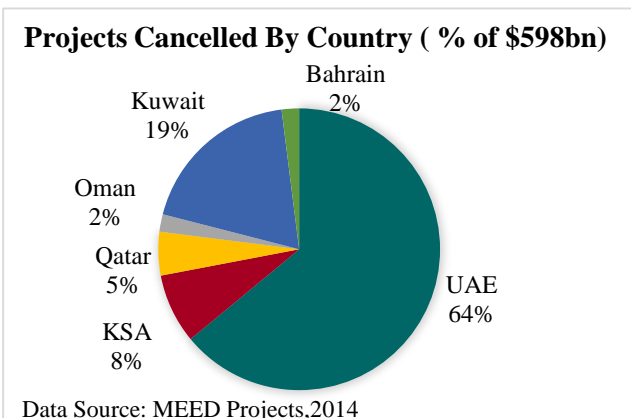
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- ▶ Plans are in place to almost double the number of hotel rooms by 2020. Tourism accounted for about 20% of Dubai's GDP in 2013, and is forecasted to increase between 7% - 9% through 2020.
- ▶ A number of huge projects have been announced over the last year. These projects includes Dubai's Mohammed bin Rashid City, a replicate for Taj Mahal, the world's biggest Ferris wheel and Abu Dhabi's US\$ 27 billion Saadiyat Island.



## 2.2.4. Cancelled Projects

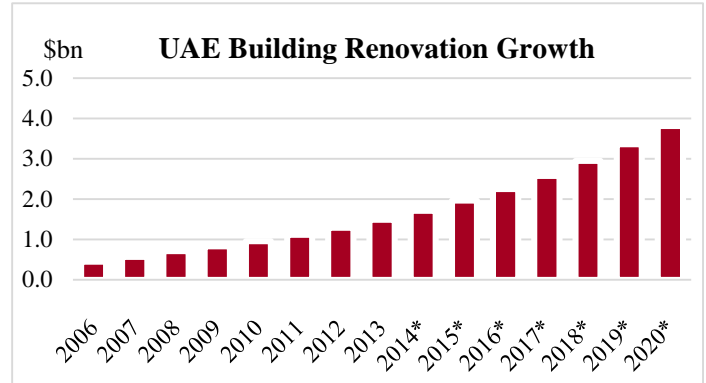
- ▶ The construction projects suffered following the collapse of the Dubai construction and real estate sectors with the world's financial crises in 2008.



- ▶ In the period 2006-12, a total of 886 projects were placed on hold or cancelled in the UAE, totaling almost \$766 billion with more than 90% of the cancelled projects were in the construction sector. Developers such as Nakheel and Limitless were forced to scale down and in some instances abandon projects altogether.

## 2.2.5. Building Renovation

- ▶ Through the past decades, there has been growth in the significance of building renovations and maintenance as a proportion of the output of the construction industry in UAE.



- ▶ The buildings renovation and maintenance segment expanded widely through the past five years in UAE and is expected to continue its growth backed with growth of construction projects, growth in internal design and fit-outs market and balance surplus that allow for government spending through this segment.

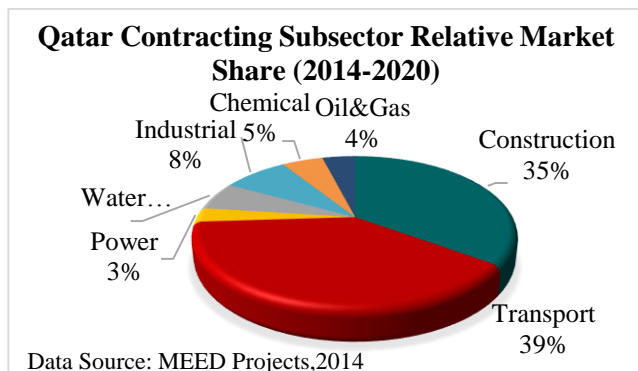
## 2.2.6. Green and Sustainable Construction

- ▶ The UAE is currently considered as the biggest renewables market in the GCC with \$1billion worth of projects under execution or operating.
- ▶ Abu Dhabi is leading the renewables drive with a target to derive 7% of its energy from renewables by 2020.
- ▶ Initiated by UAE's government in 2006, Masdar City relies on solar energy and other renewable energy sources and was estimated to cost US\$18-22 billion and take approximately eight years to build.
- ▶ Due to the impact of the global financial crisis, completion of the city is rescheduled to be between 2020 and 2025.

## 3. Qatar

### 3.1. Overview of Qatar Contracting Market

Qatar is the fastest growing projects market in the region. The contracting sector in Qatar is witnessing unprecedented expansion with diverse projects reflecting consistent and extensive growth. This boom covers almost all the sectors within contracting including construction, roads, ports, oil and gas infrastructure, education and social infrastructure as well as sports related infrastructure due to the hosting of the FIFA World Cup 2022. Construction remained the cornerstone to the economy's growth with Qatar's construction accounting for 13% of its GDP.



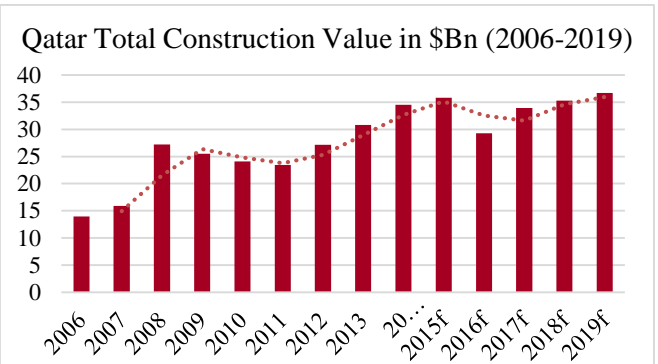
### 3.2. Qatar Contracting industry Trends

#### 3.2.1. Sector Sustainable Growth

- ▶ The main drivers for contracting sustainable growth in Qatar include **population growth**, **economic growth** around 6% annually, **budget surplus** (estimated \$15bn a year over the next five years), **Qatar Vision 2030** and the **hosting of Global Events**.
- ▶ The **Qatar National Vision 2030**, where Qatar looks to diversify its economy, achieving sustainable development and providing a high standard of living for its population, with a core

interest in developing the modern infrastructure sectors such as education, healthcare and tourism.

- ▶ Various Global events hosted in Qatar over the coming period, with a number of infrastructure projects undertaken by the government in preparation for the events. These global events include **24<sup>th</sup> Men Handball world championship 2015**, **Qatar Open**, currently known as **the Qatar ExxonMobil Open**-which held annually, and **2022 FIFA World Cup**.



#### 3.2.2. Infrastructure Market

- ▶ An infrastructure boom is taking place in Qatar to keep pace with their rapidly growing economies, population, national plans and global events.
- ▶ In order to deliver these plans, a huge number of construction and infrastructure programs will need to be undertaken in the coming decade bagged up with the government spending.
- ▶ Qatar government allocated 40% for 2014/2015 for large spending on infrastructure key projects, particularly the completion of the new Hamad international airport, eight new stadiums for 2022 world cup, local roads, expressways, the Doha metro and rail, and drains and sanitation systems.
- ▶ The major projects include US\$ 20 billion for road development, US\$ 25bn for railways, US\$ 16bn to for new airport, US\$ 4bn for stadiums, US\$ 8bn to construct a deep-water seaport and US\$ 1bn transport corridor project in Doha.

#### 3.2.3. Hospitality Sector

- ▶ Hosting of 2022 FIFA World Cup raise demand for hotel accommodation that promise increasing

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opportunities for the Qatar interiors and fit outs sector in this segment.

- ▶ Qatar has planned for the development of several hotels in Doha in the next period, the number of hotel rooms to 95,000 by 2022 from 15,000 in 2013.
- ▶ Hotel projects completed in 2014 will involve an interior spend of US\$ 1.9 billion, an approximate 22.5% of total project costs of US\$ 3.7 billion.

## 3.2.4. Government Regulations

- ▶ Qatar government undertook several regulations that drive the contracting industry. These regulations include the following:

### 3.2.4.1. Foreign Labor Regulations

- ▶ Qatar construction market has required an increase to the already large migrant-worker population, yet, the international media, unions and human rights organizations have shown a spotlight on mistreatment of migrant workers' rights in Qatar.
- ▶ Major concerns include the exploitative "Kafala" sponsorship system.
- ▶ As a result, Qatar government announced in 2014 Sponsorship System "Kafala" amendments to be made by end 2014 or 2015. In addition, it announced a draft law that would make it easier for expats to leave the country and switch jobs.
- ▶ Such regulations will affect the labor cost and construction projects budgets as well.

### 3.2.4.2. Private Sector Involvement

- ▶ Qatar's economic policy focuses on developing non-natural gas assets, and increasing private and foreign investment in non-energy sectors.
- ▶ The government is relaxing local ownership rules for foreign investors, with aim towards the development of more private sector activity. Non-Qataris are allowed to hold a maximum 70% equity stake in a company, up from 49%. The new regulations are expected to boost the creation of businesses across a number of areas of the economy.
- ▶ Nowadays, the use of **Private Public Partnership (PPPs)** in the Qatar is considerably increasing due to country massive development programs.

- ▶ Qatar has a successful record of implementation of PPP in the power sector (Ras Laffan A, B, C IWPP and Mesaieed IPP). The generation capacity built under PPP contributes over 2/3rd of installed capacity in the country.
- ▶ Qatar also has successful PPP models with public works authority Ashghal which was awarded a \$1.2 billion for Design, Build and Operate project for the new Doha solid waste management facility by the government and Qatar Foundation projects.

### 3.2.4.3. Environmental Regulations

- ▶ Construction, infrastructure and buildings subsectors affect the environment negatively by creating pollutants and wastes.
- ▶ These facts have prompted the foundation of Qatar Green Building Council (QGBC) in 2009 by Qatar Foundation to promote and equip a sustainable building industry for Qatar, thus responding to Qatar National Vision 2030's call for sustainable development and environmental protection.
- ▶ In addition, The Qatar Sustainable Assessment System (QSAS) was devised and launched in April 2009. The QSAS defines compulsory standards to be incorporated into the Qatar Building Code.

## 3.2.5. Project Delays

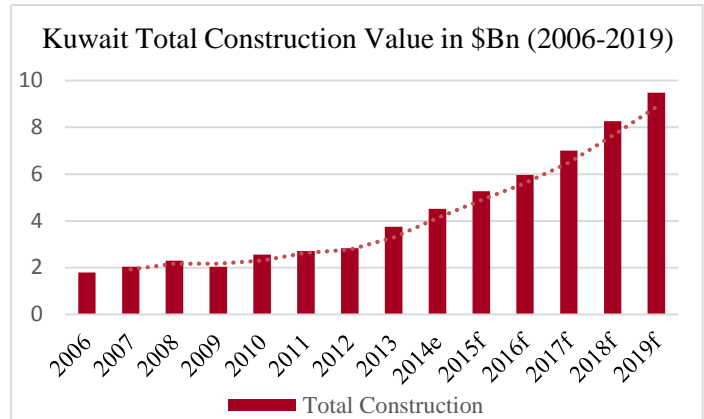
- ▶ History has shown that Qatar major programs are often subject to scope change, delay, financing problems and, in the worst cases, contract dispute.
- ▶ Qatar delayed the opening for **Hamad International Airport**, which was originally scheduled to open in 2009. After a series of costly delays, the first two phases and a part of the third phase are opened in 2014. The third and final phase are scheduled for 2015.
- ▶ The opening date for a luxury hotel scheduled to open in **Msheireb** in 2014 has been pushed forward two years.



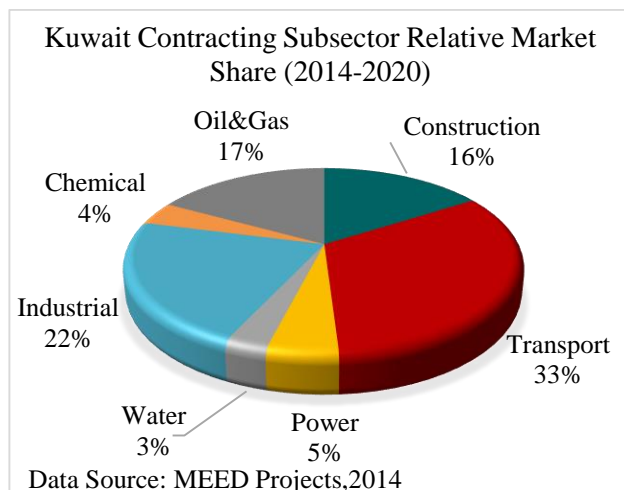
## 4. Kuwait

### 4.1. Overview of Kuwait Contracting Market

Kuwait is a wealthy, oil-based economy, with petroleum accounting for 50% of its GDP and 95% of its export and government revenues. Healthy budget surpluses have encouraged expansionary spending over the years, with diversification as its primary goal. Within the GCC, Kuwait emerged as the fourth-largest country undertaking high-end value projects, after Saudi Arabia, UAE and Qatar. Construction is the second-largest sector after Oil sector. The construction industry is set to thrive, due to new projects from the private sector and an increase in demand for residential, commercial and infrastructure activity.



- ▶ The **Kuwait Development Plan (KDP) 2015-2020** continues to uphold privatization and infrastructure as the cornerstones of its development agenda.
- ▶ Under the KDP, infrastructure is identified as the cornerstone of growth and the building construction sector with areas such as education, healthcare, hospitality and affordable housing are earmarked for developmental focus, with a greater emphasis on private participation.



#### 4.2.2. Transportation Sector

- ▶ An infrastructure boom is taking place in Kuwait to keep pace with rising domestic demand and national development and diversification plans.
- ▶ The government is building several large projects in various sectors, including roads, airports, sewage network and water network.
- ▶ The government's continuing support for infrastructure stimulus provides opportunities for developments. Improvements in power and transmission systems are particularly beneficial for sustained growth.
- ▶ Among the major infrastructure projects under various stages of planning and construction are Kuwait Metro project at US\$7bn, Kuwait International Airport re-development at US\$3.3bn, a motorway construction project at US\$6.2bn, the Subiya causeway at US\$2.6bn and the Kuwait National Rail Road System.

### 4.2. Kuwait Contracting industry Trends

#### 4.2.1. Sector Sustainable Growth

- ▶ Kuwait's construction sector has witnessed remarkable growth at a steady pace. The main drivers of the Kuwait's contracting sustainable growth are **high oil prices, strong domestic demand, budget surplus, increase in government capital spending, Kuwait Development Plan (2015-2020) and government diversification plans.**

## 4.2.3. Government Regulations

- ▶ Kuwait government undertook several regulations with the aim to diversify its economy from oil reserves and increase participation of the private sector that will influence the contracting industry. These regulations include the following:

### 4.2.3.1. Private Sector Involvement

- ▶ The government is targeting real private sector growth of 9.4% per year on average during the next five years, with the sector's contribution to the economy rising to 34% from 22%.
- ▶ Kuwait seeks to create appropriate business climate through suitable investment opportunities that attract private equity, up-to-date technology and knowledge by implementing strategic projects based on **Public Private Partnership (PPP)** – a type of partnership between private and public sector established to Build–Operate–Transfer or Build–Own–Operate–Transfer public projects- schemes.
- ▶ Consequently, Kuwait enacted Law No 116 of 2014 regarding Public Private Partnership (PPP) by relaxing some terms of the PPP contract as stretching maximum term of the contract to 50 years.

### 4.2.3.2. Foreign Investments Regulations

- ▶ Kuwait government is keen to attract the private sector and foreign investments.
- ▶ Consequently, the government has recently suspended the **Kuwait Offset Program**, the legal obligation placed on foreign entities to invest a portion of the value of awarded contracts in the local economy (typically between 3-10%). Since its introduction in 1992, the offset program has been frequently cited by foreign partners as a disincentive for investment. This should entice contractors back to invest in Kuwait.
- ▶ Moreover, The Kuwait Direct Investment Promotion Authority (KDIPA) permit companies operating in the 14 sectors of the economy to be up to 100% foreign owned unless otherwise stipulated.

## 4.2.4. Residential and Services

- ▶ The residential construction market in Kuwait is driven by a number of factors, such as the rate of

urbanization, demographics, property prices and the disposable income of citizens.

- ▶ According to **Kuwait Development Plan 2015-2020**, the residential construction sector is set to benefit greatly from the government's plans to meet rising domestic demand.
- ▶ **Social housing** is a priority for the Kuwaiti government plans, where it intends to use private-sector partnerships to deliver affordable housing. Kuwait will construct 80,000 housing units between 2010 and 2016, part of the development of Al-Khairan and Al-Mutlaa.
- ▶ Over the past year, the government has released 220,000 plots of land to be developed for **housing**, part of a new push from the government and parliament to clear a backlog of public housing requests.
- ▶ **Education** is emerging as a major new thrust of government policy with education program centered on the \$1.3bn Sabah al-Salem university project. A \$245mn contract to build another university complex in Kuwait has been awarded to UAE-based developer Arabtec.
- ▶ The country's **healthcare** development plans include on the construction of eight public hospitals by 2016.
- ▶ The major residential projects planned include; **Jaber Al Ahmad Residential City** (US\$ 2.18bn) and **Silk City** intended to cover an area of 250 square km and is divided into four main districts: Educational City, Finance City, Leisure City and Ecological City.

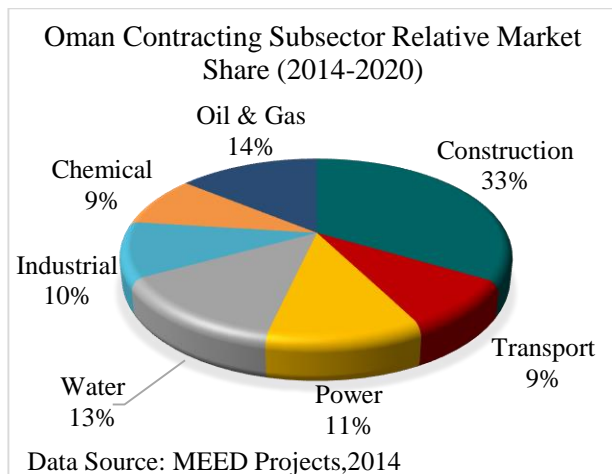
## 4.2.5. Project Delays

- ▶ Kuwait has experienced delays in some of big infrastructure projects.
- ▶ **Kuwait City's metro project**, be part of a rail network linking Kuwait with its five partners in GCC, has been subject to delays, construction was planned to begin in 2013 and expected to be completed by 2020.

## 5. Oman

### 5.1. Overview of Oman Contracting Market

Oman Construction sector performed strongly during the past five years with average annual growth of 5.5% and accounting to 5% of Oman's GDP. Moreover, the sector growth is likely to continue over the coming years supported by government spending, oil revenues and economic growth. Oman, which accounted for about 6% of construction and infrastructure projects among the GCC countries as 2014, has \$150bn worth of programs planned or underway. Oman awarded construction contracts worth total of \$15bn-\$17bn over the past seven years - making it one of the most stable markets in the region - with the value of spending expected to increase thanks to major projects planned over the coming years.

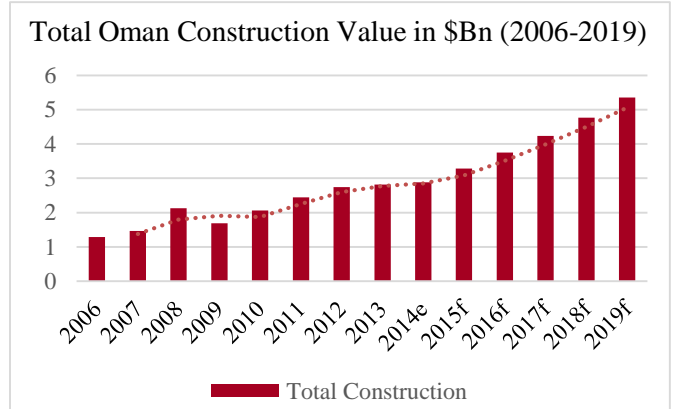


### 5.2. Oman Contracting industry Trends

#### 5.2.1. Sector Sustainable Growth

- ▶ The main drivers for contracting sector sustainable growth in Oman for are **high population growth**, **high economic growth rate (5% annual growth)**, **budget surplus** and **Oman Vision 2020**.

- ▶ **Oman Vision 2020** defines Oman development plan focusing on diversification, industrialization and privatization, with the objective of reducing its reliance on the oil sector's contribution to GDP and promote economic and financial stability.



- ▶ Construction industry in Oman is expected to remain robust driven by major expansion of infrastructure projects planned by the government along with many tourism projects as well as construction of private and commercial buildings.

#### 5.2.2. Hospitality Sector

- ▶ Tourism has been a key economic driver in the past, creating job opportunities and encouraging further investment into the country. Under **Vision 2020**, Government intends to invest in integrated tourism complexes in Oman.
- ▶ **Al Madina A'Zarqa** (formerly known as Blue City) is a \$15bn megacity project, spread over 34.5 square kilometers and 16 kilometers of coastline along the coastal region at Al Sawaadi, intended to serve up to 2mn tourists per year.
- ▶ Major projects includes; The **Wave Muscat** a \$2.4bn mixed-use project developed in partnership between the Omani Government and Dubai-based Majid Al-Futtaim including four luxury hotels, leisure facilities, and 4,000 residential properties.

#### 5.2.3. Transportation Sector

- ▶ An infrastructure boom is taking place in Oman to keep pace with its rapidly growing economy and national development and diversification plans.

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- ▶ The government is building several large projects in various sectors, including roads, bridges, airports, seaports, sewage network and water network.
- ▶ Oman has also allocated US\$ 3.2bn for roads, such as 2244 km nationwide railway construction program, as well as a connection to the planned GCC rail system.
- ▶ Moreover, Oman is carrying out plans for the construction of six new airports and the expansion of the existing airports of Muscat International Airport (\$1.8bn) and Salalah (\$765mn).
- ▶ The plans include a new international airport at Duqm due by 2014 and \$12bn Port of Sohar investment project with US\$ 15bn investment in Salalah Free Zone by 2025.
- ▶ Oman has also allocated US\$ 1.3bn for seaports, US\$ 1.17bn for water and US\$ 1.16bn for housing projects.

## 5.2.4. Government Regulations

- ▶ Oman government undertook several regulations that drive the contracting industry. These regulations include the following:

### 5.2.4.1. Private Sector Involvement

- ▶ **Oman Vision 2020** and economic policy focuses on increasing private and foreign investment in non-oil sectors. The industry growth will be supported by private and public investment in infrastructure, residential, commercial and institutional construction projects in an effort to diversify the country's economy and reduce its oil dependence.
- ▶ One way of the governmental support is **Public Private-sector Partnerships (PPP)** where partnership between private and public sector is established to Build–Operate–Transfer or Build–Own–Operate–Transfer public projects. Construction being the largest sector and the biggest employer among industrial sectors in Oman has the highest share of PPPs, with many major projects in the pipeline and under construction.
- ▶ In 2004, Oman established the country's Royal Decree No. 77/2004 (Law of Privatization) that allows for the establishment of PPP and grants the

private sector the right to construct, own and manage privatization projects.

- ▶ Since then, Oman has a successful record of implementation of PPP in construction sector such as Galfar Engineering & Contracting that was awarded \$1.4bn for buildings and roads.

### 5.2.4.2. Foreign Investments Regulations

- ▶ Oman government is keen to attract the private sector, including foreign companies, and has a strong market orientation.
- ▶ Seeking to attract foreign investments and activate the role of the private sector, Oman provides many incentives and unpaired financial support, including:
  - ▶ Free transfer of capital and profits, and access and departure of expatriate workers to and from abroad.
  - ▶ Foreign ownership up to 70%.
  - ▶ Corporate tax exemption up to 5 years.
  - ▶ Exemption from custom duty on imports of machines, equipment and raw materials of industry.
  - ▶ No tax for personal income.
  - ▶ Provision of soft loans with low interest rate.
- ▶ Furthermore, Oman's entry into the World Trade Organization and its free trade and Customs Union agreement with its GCC neighbors will have further positive impact on the economy.

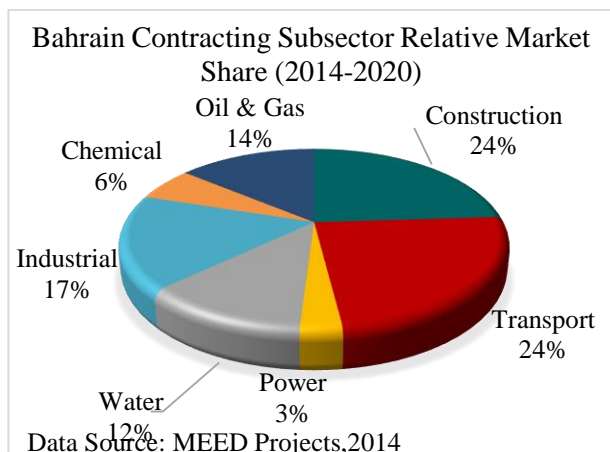
## 5.2.5. Project Delays

- ▶ Oman has experienced delays in some big infrastructure projects, including the on-going expansion of its airports.
- ▶ **Muscat International Airport** \$7bn worth expansion, was originally scheduled to open in 2012, after several delays, the project was back on track after it was awarded to US firm, Hill International, and expected to be opened late 2014.

## 6. Bahrain

### 6.1. Overview of Bahrain Contracting Market

Covering just 765 square kilometers and with a population of 1.2 million people, Bahrain has traditionally been the smallest construction market in the GCC. With the total value of major projects planned or under construction standing at \$62 billion at the end of 2013, Bahrain is by far the smallest market in GCC, accounting for just under 3% of combined value of projects in the region. Looking to 2014, Bahrain's construction industry is showing positive signs as finance from a \$10 billion stimulus package has been granted to government from Kuwait and KSA, to commence infrastructure and housing.

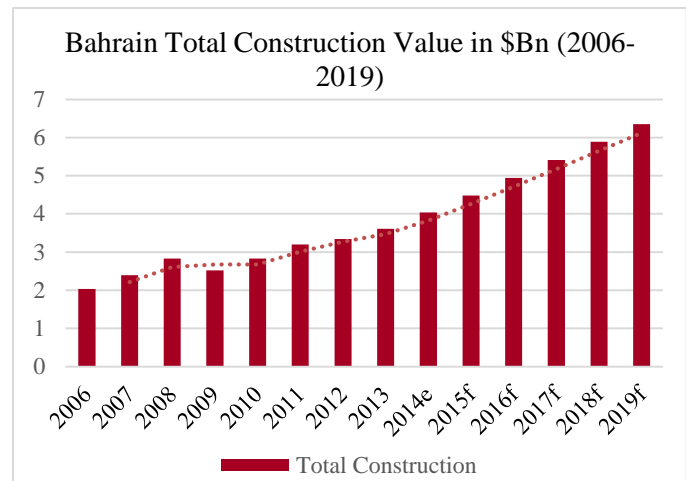


### 6.2. Bahrain Contracting industry Trends

#### 6.2.1. Sector Sustainable Growth

- ▶ The Bahrain construction industry's contribution to GDP is 6.3% in 2013.
- ▶ Industry expansion is driven by **population increase**, **Bahrain Economic Vision 2030** and **government initiatives** to support the growth of high value-add projects, **Gulf Marshal Plan** and an **expected revival in investor confidence**.

- ▶ One of the major drivers for construction growth is **Bahrain Economic Vision 2030**, through which the country is looking to become a developed nation by diversifying its economy, achieving sustainable development and providing a high standard of living for its population.



#### 6.2.2. Infrastructure and Transport

- ▶ The largest individual segment of the market is infrastructure comprising road schemes primarily. It is followed by the residential sector, mixed-use and hospitality projects, which altogether comprise more than 75% of the total construction projects market.
- ▶ The majority of construction projects are focused on the Capital Governorate and the main business and government hub in the kingdom.
- ▶ The estimated value of projects planned or underway in Bahrain totaled US\$ 62bn. Major projects include US\$ 4.8bn for Bahrain International Airport expansion, US\$ 4.2bn for a 40km Bahrain-Qatar Friendship Bridge, and US\$ 3.2bn for housing development.
- ▶ Other major projects are either in the planning stage or under construction, such as the Gulf rail line development, infrastructure for three new cities, investment in power and water projects (US\$2.2bn), a public transport network due in 2030, Bahrain Bay development (US\$2.5bn) and a new state-of-the-art exhibition center.

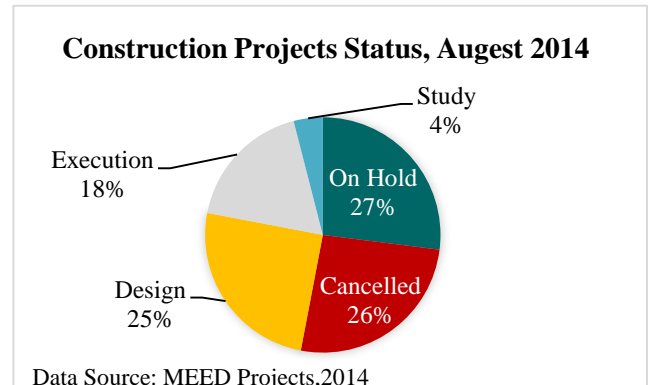
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## 6.2.3. Housing Sector

- ▶ The infrastructure and residential market are expected to be the main growth drivers over the forecast period (2014–2018) supported by public investments.
- ▶ Housing is the government's biggest construction priority. More than 55,000 are on the waiting list for affordable housing (not taking into account the likely high number of unregistered 'applicants').
- ▶ In response, and as part of a wider effort to placate a very volatile and negative public sentiment, the Bahraini government has earmarked US\$1.5 billion for the construction of new, low-cost units.
- ▶ The plan is going to be financed by US\$636mn earmarked in the 2013 budget and US\$901mn from the 'GCC Marshal Plan', a regionally-funded pool of money set up to support the spending sprees of governments facing domestic volatility and opposition.
- ▶ By beginning of 2014, the housing ministry allocated US\$8 billion towards the construction of new housing. It includes the construction of the first phase of the Durrat Marina, the second phase of the Wahat Al Muharraq and a new 128 villa project at Durrat Al Areen.
- ▶ Government allocated \$3.2bn to construct 30,000 homes by year 2016 to meet increasing demand.

## 6.2.3. Project Delays

- ▶ Just over 50% of all construction schemes are on hold or cancelled in Bahrain, indicating the localized challenges facing the construction sector.



## 6.2.5. Government Regulations

- ▶ Bahrain is about to undertake a radical overhaul of its localization program. Under the new setup, firms will be allowed to hire any number of expatriates that they wish.
- ▶ However, they will have to pay a substantial visa fee equivalent to around \$3,000 per year per expatriate employee. The proceeds from this 'levy' will go into a fund to be used for the training and development of Bahraini nationals. If confirmed, the new setup will dramatically increase the cost base for contractors, as it will virtually double the cost of employing blue-collar workers.

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