

## Contractor Classification Law

Royal Decree No. M/18  
20 Rabi I 1427H / 18 April 2006

### Article 1:

The following words and phrases, wherever mentioned in this Law, shall have the meanings assigned to them, unless the context requires otherwise:

Regulations: Implementing Regulations of the Contractors Classification Law.

Decisions: Decisions issued by the Minister of Municipal and Rural Affairs, in implementation of the Law and its Regulations.

Minister: Minister of Municipal and Rural Affairs.

Ministry: Ministry of Municipal and Rural Affairs.

Classification: Assessment of a contractor's financial, technical, administrative and execution capabilities, in order to classify said contractor in the appropriate field and grade in accordance with the provisions of this Law and its Regulations.

Contractor: Natural or corporate person licensed to execute, solely or jointly, a contract in one of the fields specified in the Regulations.

Field: Type of work under which a contractor is classified.

Activity: Type of sub-category in any field of work.

Grade: The grade a contractor obtains upon classification.

Element: A set of criteria used for assessment.

### Article 2:

The Ministry shall classify contractors in accordance with the provisions of this Law and its Regulations.

### Article 3:

Ministries, government agencies or public corporate entities may not accept any offer or bid for any project subject to classification unless the contractor is classified, and the project is within the field and grade under

which said contractor is classified.

Article 4:

Classification fields and grades and the maximum limit of each grade shall be determined and amended pursuant to a decision by the Minister, upon agreement with the Minister of Finance and the Minister of Economy and Planning.

Article 5:

A contractor may apply for classification in one or more of the fields stated in his commercial register.

Article 6:

1. A contractor shall be classified in the grade consistent with his financial, technical, administrative and execution capabilities in one or more of the classification fields, according to elements and criteria specified in the Regulations.
2. The financial capabilities shall be assessed on the basis of the balance sheet (budget), income statement (profit and loss account), the financial ratios as well as administrative and financial systems applied.
3. Administrative and technical capabilities shall be assessed on the basis of efficiency in financial, technical and execution management as well as their organization, records and control.
4. Execution capabilities shall be assessed on the basis of projects executed or under execution, in the public or private sector within the Kingdom or abroad.

Article 7:

A contractor classified in one or more fields shall be deemed classified in operation and maintenance in the same field(s) and at the same grade. Yet, said contractor may be classified in operation and maintenance at a grade higher than his grade in execution.

Article 8:

If classification bases and elements change in such a way that may lead to classification upgrade, a classified contractor may- after the lapse of not less than half the duration of the certificate's validity- apply for reclassification of his grade, supporting his application with information and data.

Article 9:

The Minister, or his delegate, shall issue a decision to classify a contractor in the appropriate field(s) and grade, based on available information and assessment points. A certificate to this effect, for a period of four years, shall be issued.

Article 10:

The Minister shall issue a decision identifying the activities in any of the fields specified in the Regulations. A contractor specializing in a particular activity within a field may limit his classification to such activity.

Article 11:

If two or more contractors jointly execute a project, each shall be classified in the project's field and one at least classified in the required field and grade. When calculating execution experience, the contractor with the lower grade shall benefit from the work he executed in the project, provided that such benefit does not exceed twice the maximum limit of his grade or forty percent (40%) of the value of the executed project, whichever is less. The same shall apply to sub-contractors.

Article 12:

If a classified sole proprietorship transforms into a company in accordance with the Companies Law, said company shall have the same classification grade of the proprietorship, under the following conditions:

1. Owner of the sole proprietorship is a partner in the company.
2. Proprietorship's assets and liabilities are transferred to the company.
3. All financial, technical and administrative assets according to which the proprietorship was classified are transferred to such company.

Article 13:

If a classified sole proprietorship transforms into a company where the owner of the proprietorship is not a partner, the proprietorship's classification shall be revoked and the company shall be classified at the grade consistent with its financial, administrative and technical capabilities, regardless of the proprietorship's previous classification. In the case where all assets and liabilities of the proprietorship are transferred to the company, in addition to all financial, administrative and technical assets according to which the proprietorship was classified, the past execution experience of the proprietorship shall be taken into account in the classification of the new company.

Article 14:

A contractor licensed to operate under the Foreign Investment Law shall be classified according to applicable procedures for classification of Saudi contractors.

Article 15:

1. Companies licensed to operate under the Foreign Investment Law shall be classified in accordance with their classification capabilities, regardless of the partners' classification capabilities. A foreign partner's classification

capabilities may not be considered, unless said partner is a joint partner in the company, or has committed in the company's articles of incorporation or its license application to support it financially, technically and administratively, in such a manner that guarantees its sound performance and fulfillment of obligations, in accordance with the conditions specified by the Regulations.

The classification certificate shall include a provision providing for its invalidity, unless the foreign partner provides a guarantee of the company's fulfillment of its obligations when the company submits any offer or tender.

2. A foreign partner's classification capabilities may not be considered in case said partner is classified as a foreign contractor, if these capabilities are considered in accordance with the previous paragraph.

Article 16:

In case a company licensed to operate under the Foreign Investment Law winds up and a company fully owned by Saudi nationals is established, the new company shall be reclassified according to its classification capabilities, unless all assets as well as financial, technical and administrative capabilities of the wound up company are transferred to the new company. This new company shall have the same classification grade as the wound up company until the end of the classification period.

Article 17:

Classification certificates are issued, amended and revoked according to the provisions of this Law, its Regulations, and decisions issued in implementation thereof.

Article 18:

A contractor's classification shall be revoked in the following two cases:

1. If a decision is issued by the competent authority establishing forgery of any of the basic data or information upon which the classification is based.
2. If a competent authority renders a final judgment or decision barring a contractor from dealing with ministries, government agencies and public corporate entities for a period of two years or more.

The contractor's classification shall be reconsidered if the judgment or decision is for a period less than two years.

Article 19:

Ministries, government agencies and public corporate entities shall provide the Ministry with information, data and observations it requests regarding contractors for purposes of classification, in accordance with a form prepared by the Ministry.

Article 20:

Pursuant to a decision by the Minister, a committee shall be formed to review

contractors' grievances against classification decisions or classification revocation. Said committee shall consist of not less than three members, one being a legal counsel. The committee's decisions shall pass by majority vote and shall be approved by the Minister.

Article 21:

A contractor may file a grievance with the contractors' grievances review committee against the classification or classification revocation decision within sixty days from the notification date of said decision.

Article 22:

A contractor may file a grievance with the Board of Grievances within sixty days from the date of his notification of the decision issued by the contractors' grievances review committee.

Article 23:

The Minister shall issue the Implementing Regulation of this Law within ninety days from date of publication in the Official Gazette.

Article 24:

This Law shall be published in the Official Gazette and shall come into effect ninety days from its publication date.

Article 25:

This Law shall repeal the Contractors Classification Regulations issued by Council of Ministers' Resolution No. (892), dated 19/7/1395H and all provisions and decisions conflicting therewith.