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INSIGHT 17 November 2026 · 10 min read

GOVERNMENT CONTRACTS AND PROCUREMENT · CONSTRUCTION

Bidding for Saudi government work in 2027: four decisions for contractors

A new procurement law governs Saudi government tenders issued from January 2027. A change to the regulations in September already lets contractors on current contracts recover more when costs rise. Contractors should settle their approach to cash flow, price claims, subcontracts and bids now, before the first tenders under the new law are issued.



Sarah Sadek
Counsel, Regulatory & Advisory



Sultan Alamri
Partner, Regulatory & Advisory

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Who this is for: For commercial and bid directors of contractors on Saudi government projects, and their general counsel.

KEY NUMBERS FOR CONTRACTORS

15%

Standard maximum delay penalty on a works contract tendered under the new law, down from 20%

57 → 47

Working days for a State-budget entity to pay: about 57 today; 47 under the draft, plus a Ministry approval step with no set timeframe

3%

The only cost threshold left on price claims since September 2026, with no item test and no cap

At a glance

IN SHORT

A contractor that models cash flow on the draft's 47 working days is relying on a step with no set timeframe. Where a signed contract caps price claims at 20%, the contractor may recover more, because the regulation in force since September 2026 has no cap. The main changes affect payment times, price claims and the cost of withdrawing from a bid, and several of the rules behind them are still in draft.

FOUR DECISIONS, AND WHAT TO DO NOW

DECISION 1

Cash flow and the claim record

Forecast cash on about 57 working days, and put every payment claim on the record.

DECISION 2

Price claims

Claim price adjustments in full and on time, and look again at claims rejected on procedural grounds.

DECISION 3

Subcontracts and consortium agreements

Rewrite your templates before the first tender under the new law.

DECISION 4

The bid and its clarification questions

Ask the same clarification questions on every bid.

THE MODEL CONTRACT · FIXED

Government entities must use the Ministry of Finance's model contracts, so the main contract is not negotiable

01

Which tenders does the new law cover, and from when?

From January 2027, new Saudi government tenders will run under a new procurement law. The trigger is the date the tender was issued, so contractors should sort their live contracts and open bids by tender date. Tenders put out under the 2019 law stay under it, although the Minister of Finance may apply selected new rules to them. Existing exceptions continue, including those for the Public Investment Fund and the Saudi Central Bank. The new law comes into force 120 days after its publication on 4 September 2026. A simple count gives Saturday 2 January 2027, but the Ministry of Finance has not confirmed the exact date.

The main contract will not be open to negotiation. Government entities must use the Ministry's model contracts, save in the narrow cases the regulations allow, so the terms a contractor controls are in its bid, its clarification questions, its subcontracts and its consortium agreements. Those documents should be reviewed before the first tender.

Several of the rules that matter most are in implementing regulations that have so far been published only in draft. The final regulations are due to take effect with the law in January. Where this article relies on the draft, it says so, and the exhibits mark those points DRAFT. We will update this article when the final regulations are published.

02

How long will a State-budget entity take to pay?

Today, the cycle runs to about 57 working days. The supervising consultant has 10 working days to report on a payment claim, and the entity has 15 working days to send the payment order to the Ministry. The Ministry then has 45 days to pay from receipt of the payment order. The Arabic text calls the two earlier periods working days and gives the Ministry's period simply in days, so we read the 45 days as calendar days, or about 32 working days. That makes roughly eleven and a half weeks from claim to payment. If the Ministry returns the payment order for amendment or clarification, its 45 days start again when the entity resubmits it, and the draft keeps that rule.

Some commentators put the figure at 70 working days. That reading is consistent with the Ministry's English translation, which says 45 working days. The model works contract says 45 days in its payment clause and defines a day as a working day. The Arabic text of the regulations governs, and the contract itself gives way to the law and its regulations in the event of a conflict.

The draft sets deadlines totalling 47 working days across four stages for entities with appropriations in the State budget. It sets no timeframe for the Ministry's approval of the entity's expenditure order, which authorises the spend. The overall payment timeline therefore depends on how long that approval takes. Exhibit 1 shows each stage.

EXHIBIT 1

The payment cycle, step by step: today against the draft

TODAY · ABOUT 57 WORKING DAYS FROM CLAIM TO PAYMENT	STATE-BUDGET ENTITIES · 47 WORKING DAYS PLUS A STEP WITH NO SET TIMEFRAME (DRAFT)
Claim — Contractor submits	**15** — Consultant verifies (or the entity)
10 working days — Consultant reports	**5** — Expenditure order
15 working days — Entity sends payment order	**No set timeframe** — Ministry approves the expenditure order
45 days — Ministry pays (calendar days, ≈ 32 working)	**5** — Payment order
	22 — Ministry pays

Figures are working days unless stated. Entities outside the State budget must pay within 22 working days of verification under the draft.

The new law also encourages prompt payment. The Ministry must warn an entity that is late in paying its contractors, and an entity that does not act on the warning may not issue a new award decision. For a contractor with payments outstanding on a long project, the rule can help to secure payment without going to court. The rule does not apply where the

delay arises from the Ministry's procedures, or where the entity has processed the claim but no budget has been allocated to pay it. Under the draft, a claim counts as late only 5 working days after the Ministry's notice, the restriction lifts with the Ministry's prior approval, and emergency and urgent tenders are exempt.

The rule only helps with claims that are on the record. In our litigation experience in Saudi Arabia, payment disputes with government entities can be won or lost on the paper trail. A claim that was never formally submitted, or that was returned for a missing document and never resubmitted, cannot be relied on under the rule. Nor can a contractor simply stop work, since the current regulations bar it from abandoning its obligations on the ground that the entity is in breach, and the draft would keep that rule. Contractors should register every claim, keep proof of when it was submitted and returned, and respond to each rejection in writing.

> "Since September 2026, a contractor can recover more than its contract says.



03

What can a contractor recover when costs rise?

Since September 2026, a contractor can recover more than its contract says. The 3% threshold is not new. For primary materials such as cement, steel and asphalt, the Ministry's model contract, like the regulation before September, applies two tests: each item's market price must move by more than 10%, and the total cost of the contract must rise by more than 3%. The amended regulation keeps only the 3% threshold, drops the 20% cap, and allows claims up to final acceptance rather than within 60 days of the price change. It also requires proof of what the contractor actually paid for materials and services, not just duties and taxes, and reprices the affected items against a ranked list of reference prices, starting with official ones. Changes in customs duties and taxes are compensated in full, outside the 3% threshold.

The model works contract has not yet been updated. The current works contract, amended in June 2026, still contains the 10% item test, the 20% cap and the 60-day claim window. Because the contract defers to the law and its regulations where they conflict, a contractor should claim the full difference the regulation allows, whatever its signed form says. Subcontracts should require subcontractors to provide the price evidence a claim needs at the time costs move.

On timing, the safer course is to follow the stricter text. The regulation can be relied on for the amount of a claim, but claiming within the

contract's time limit avoids a time-bar dispute. Contractors should claim within 60 days of each price change, counting calendar days to be safe.

For contracts under the new law, the draft would reverse some of these changes. Claims would have to be made during the contract term and before initial acceptance of the works. The 20% cap would come back, now excluding officially priced materials or services, taxes and customs duties, and any amount above it could be claimed in court. The draft does not, however, repeat today's rule that changes in duties and taxes are paid in full outside the 3% threshold, so that point is worth raising at clarification.

A claim rejected in the past may deserve a second look. The September amendment applies the new rule to requests that were registered with the committee under the 2019 law and rejected on procedural grounds.

WORTH A SECOND LOOK (SUBJECT TO CONFIRMATION)

- ✓ Claims the committee under the 2019 law rejected on procedural grounds, provided they were filed before final acceptance
- ✓ In particular, claims rejected for missing the old 60-day window

NOT COVERED

- ✗ Claims the committee rejected as unjustified on their merits
- ✗ Claims never registered with the committee
- ✗ Claims filed after final acceptance

It is not yet clear how the new committees, which take over pending cases, will treat these requests, how a second look is requested, or whether a time limit applies.

EXHIBIT 2 · 1 OF 2

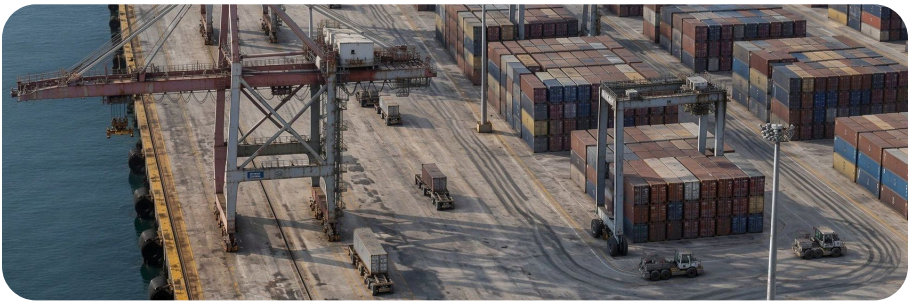
Price claims: what each text allows

	MODEL WORKS CONTRACT	REGULATION SINCE SEPTEMBER 2026	DRAFT REGULATIONS DRAFT
Cost threshold	For primary materials, total cost must rise by more than 3%	Total cost must rise by more than 3%	Total cost must rise by more than 3%
Item test	Each material's price must move by more than 10%	None	None
Cap on payments	20% of contract value; any excess claimable in the administrative court	None	20% of contract value for entity payments, excluding officially priced essential materials or services, taxes and customs duties; any excess claimable in court
Claim deadline	60 days from the price change	Before final acceptance	During the contract term and before initial acceptance

EXHIBIT 2 · 2 OF 2

Price claims: what each text allows

	MODEL WORKS CONTRACT	REGULATION SINCE SEPTEMBER 2026	DRAFT REGULATIONS DRAFT
Proof of payment	For duties, fees, taxes and officially priced items; primary materials measured against official price indicators	What was actually paid, for materials and services as well as duties and taxes	As the regulation since September
Duties and taxes	Compensated on proof of payment	The full change, outside the 3% threshold, on proof of payment	Not restated, but kept outside the cap
Who decides	Today the committee under the 2019 law; from January 2027 the new complaints committee	Today the committee under the 2019 law; from January 2027 the new complaints committee	The new complaints committee, with a court route if the claim is not referred in time or the committee rejects it



04

What should change in subcontracts and consortium agreements?

Variation tiers, approval conditions, cure periods, penalty caps and consortium terms should all be reviewed. Even a small change to the main contract can have a large effect on a single subcontractor. Under the new law, an entity can increase a contract by up to 20% in total. New items, up to 10% of contract value, need the contractor's consent. Existing items can rise by up to 20%, with consent needed for the part above 10%. Reductions of up to 20% need no consent, and larger ones need it. The Arabic text on consent is open to more than one reading. In our view, the reading given here is the better one, but contractors should ask each entity to confirm its reading in writing at clarification. Contracts tendered under the 2019 law still stop at a 10% increase. A 10% increase overall may double the scope of one package, so the variation tiers in each subcontract should follow that package's exposure rather than copy the government percentages.

Under the draft, subcontracting approval would be quicker, though the percentage limits would stay the same. Today's model works contract already allows a contractor to subcontract more than 30% but less than 50% of the contract value, with the approval of the Expenditure Efficiency and Government Projects Authority (EXPRO) and the entity, provided the work is split among several subcontractors. The draft would give EXPRO, or for military and security work the General Authority for Military Industries, 5 working days to decide, treat its silence as approval, and drop the need to split the work. Every

subcontract still needs the entity's written approval, the entity may pay subcontractors directly, and the main contractor stays jointly liable with them. Main contractors should make approval a condition of each subcontract taking effect, and build the approval timetable into the programme.

Under the draft, the time allowed to cure a breach would become a minimum rather than a fixed period: at least 30 working days for construction and 10 for other projects, against a fixed 15 working days in today's model works and consultancy contracts. A main contractor should give its subcontractors less time than it has itself.

The lower penalty caps do not pass to subcontracts automatically. On a SAR 200 million works contract tendered under the new law, delay penalties stop at SAR 30 million, not SAR 40 million. Supply contracts stay at 6%, and continuous-service contracts fall from 20% to 15%. Nor does the lower cap limit a contractor's other liabilities to the entity. A main contractor should set each subcontractor's cap by that package's real delay risk.

Termination by agreement will be easier. It no longer needs the Ministry's approval for contracts tendered under the new law. The draft adds conditions and requires signed minutes approved by the head of the entity. Contractors can treat termination by agreement as a route out of a contract that neither party wishes to continue, but should wait for the final text before relying on the procedure.

Consortium agreements need new terms. Under the draft, where there is more than one contractor, a negotiated exit needs every one of them to agree, so the agreement should say how members decide whether to seek one. As today, three rules apply. Members are jointly and severally

liable to the entity for all the works. The agreement cannot be changed after the bid without the entity's consent. If one member withdraws or breaches the tender terms, the entity must exclude the whole bid unless the other member is qualified to do the work alone and agrees in writing. The text is written for a two-member consortium, so a larger consortium should ask at clarification how the entity will apply it. Members should agree before bidding what a member that withdraws owes the others, and which member bears any fine it causes, including the fines the new law imposes on bidders exempt from guarantees.



05

What should bidders raise at clarification?

Because the main contract is fixed, the clarification stage is where a contractor can still price these risks. Exhibit 3 sets out the questions worth asking on every bid.

EXHIBIT 3

Five questions to put at clarification on every bid under the new law

1. **Does the tender set a delay-penalty cap above 15%?**
   Only possible with the Minister's prior approval and notice to bidders; price the answer.
2. **Is an advance payment available, and how much?**
   The law allows up to the full contract value against an equal guarantee; under the draft an entity may pay up to 10%, or more with the Ministry's prior approval, but need not. If the tender is silent, price on no advance.
3. **What cure period applies?**
   Under the draft, at least 30 working days for construction and 10 for other projects; ask for a longer period if the work needs it.
4. **How does the entity read the consent rule for increases to existing items?**
   The Arabic text is open to more than one reading; see section 04.
5. **Will changes in duties and taxes still be paid in full outside the 3% threshold?**
   The draft does not repeat that rule; see section 03.

Under the new law, bidders exempt from guarantees can be fined where a guarantee would have been lost, for example if they withdraw. Contractors should make sure exempt consortium members and subcontractors understand the cost of withdrawing.

EXHIBIT 4

Fines for bidders exempt from guarantees under the new law

EXEMPT FROM	WHO IS EXEMPT	WHAT TRIGGERS A FINE	FINE
Bid guarantee	Includes local small and medium-sized enterprises	Any event that would have forfeited the guarantee	**2% of the bid**
Final guarantee	Includes contracts up to SAR 300,000, local non-profit bodies, professional practitioners, contracts between government entities, emergency and urgent cases	Failing to sign the contract after a warning	**5% of the bid**
Final guarantee	As above	Termination for bribery or fraud, unapproved assignment, unapproved subcontracting, or uncorrected delay or breach	**Equal to the final guarantee, payable within 60 working days**

Failure to pay a fine can lead to a ban from government contracts of up to a year. Local small and medium-sized enterprises are exempt only from the bid guarantee. They still need a final guarantee unless another exemption applies.

06

What should contractors in Saudi Arabia do now?

1

Re-base cash-flow forecasts, and put every payment claim on the record.

Assume about 57 working days from claim to payment, not the draft's 47.

2

Claim price adjustments in full and on time.

List past claims filed before final acceptance and rejected by the committee on procedural grounds, so they can be looked at again.

3

Rewrite subcontract and consortium templates.

Set variation tiers and penalty caps by each package's exposure.

4

Ask the same clarification questions on every bid.

Recheck every point this article marks as draft once the final regulations are published.

If you bid for Saudi government work, Sultan Alamri and Sarah Sadek would be pleased to review your subcontract suite, consortium agreements and bid templates against the new law before January. They can also give a view on outstanding payment or price claims, including those rejected in the past.

info@zamakhchary.com

AUTHORS



Sarah Sadek

Counsel, Regulatory & Advisory
sarah.sadek@zamakhchary.com



Sultan Alamri

Partner, Regulatory & Advisory
sultan.alamri@zamakhchary.com

For other questions about this article or the firm, contact us at info@zamakhchary.com.

Z&CO.

الزمخشري ومشاركوه

Zamakhchary & Co

zamakhchary.com · info@zamakhchary.com

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