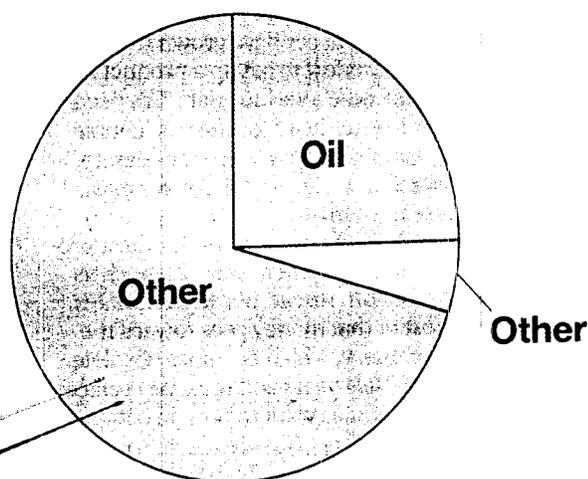


PROPOSALS FOR SAUDI ECONOMY



Step 19: Diversify

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► Cheap oil means Saudi Arabia has to change. Enter the consultants

► “There’s a lot more action around initial public offerings and privatization”

A new security checkpoint has been installed at the usually quiet Al Khozama Center office building in the heart of Riyadh. A guard stops visitors to ask, “Which ministry are you with?”

Inside, the lobby is full of Saudis in traditional dress and foreigners in suits and ties working on laptops and holding impromptu strategy meetings on large leather sofas. Huge Arabic-language posters hanging on the walls are loaded with buzzwords: empowerment, ambition, change, rationalization, and sustainability. Government agencies have staked out office space throughout the building, with the Ministry of Economy and Planning on the top floor.

This is the center of a new boom for consultants in Saudi Arabia. With crude trading below \$35 a barrel for most of 2016 so far, the kingdom, which derives 73 percent

of government revenue from oil, is looking for a new business plan—or, as officials call it, a National Transformation Program, which could be unveiled as soon as March. And much as when a big company finds itself eager to catch up with a changing world, firms including **McKinsey** and **Boston Consulting Group** are lining up to offer advice for a price to the Saudi government and businesses.

The country is the fastest-growing large market for management consultants, which are set to collect fees of \$1.3 billion in Saudi Arabia in 2016. That’s an increase of 60 percent from four years ago, according to estimates from London-based Source Global Research, a firm that tracks the industry. “The opportunities for consulting firms are huge,” says Jodi Davies, general manager of Source Global Research in the Middle East.

“Consultants are working to transform an entire country.”

There’s urgency to the task. As recently as late 2014, oil traded at more than \$90 a barrel. To adjust to the sharp drop, the government has had to cut spending, delay projects, tap foreign reserves, and issue debt to pay for a budget deficit that Riyadh-based Jadwa Investment projects will reach almost 18 percent of economic output this year. The new plan for the economy, say people familiar with it, will look for ways to attract private investors and hold ministries more accountable. It’s also expected to look for ways to diversify beyond oil.

Among the consultants spotted at the Al Khozama Center was Gassan Al-Kibsi, a Yemeni national and Massachusetts Institute of Technology grad who’s leading McKinsey’s work with the Saudi government, according to one person

"Consultants are working to transform an entire country."
— *Jodi Davies of Source Global Research*

who attended meetings there. BCG, meanwhile, is seeing "healthy double-digit growth" in its Saudi Arabia business, says Joerg Hildebrandt, managing partner for the Middle East. BCG opened an office in Riyadh in October and plans to hire more staff, he says. **Oliver Wyman** and **Deloitte** are also active in the kingdom, say executives at those firms. McKinsey declined to comment on its contracts. In a December report, it said Saudi Arabia needs public and private investment of \$4 trillion to boost productivity and jobs, and couldn't wait for oil prices to recover.

Some consultants are working with companies to reduce costs. The oil crash is causing a lot of "stress in the market, particularly among contractors and the construction supply chain," says Ben Hughes, Dubai-based director for capital projects at Deloitte. That company is drafting consultants from its European offices to fly in for Saudi projects.

Also, says Hughes, "there's a lot more action around initial public offerings and privatization." In January, Deputy Crown Prince Mohammed bin Salman, son of King Salman, suggested that the giant state-owned oil company Saudi Aramco could sell shares in an IPO. Officials are weighing plans to sell assets such as hospitals and airports.

BCG is working with the country's Public Investment Fund to help start a state-owned mortgage firm, similar to Fannie Mae and Freddie Mac in the U.S., to help develop a secondary market for home loans and encourage homeownership, people with knowledge of the plans said in November. Saudi Arabia has one of the world's lowest rates of mortgage borrowing.

One hitch for the consultants, says Hughes, is that so many are jostling for business that "it's a buyer's market." Fees aren't as rich as in some other countries in the region.

But there should be plenty of work to do. Saudi Arabia has a huge population of young people it needs to keep employed. "Because of the demographic pressure and the ticking clock

on oil prices, Saudi Arabia's change is being accelerated," says Jonathan Woetzel, director of the McKinsey Global Institute, the research arm of the consulting firm. "A transition in the economic model that had been expected to take 10 or 20 years is now expected to happen in just three to five." — *Stefania Bianchi, Matthew Martin, and Vivian Nereim*

The bottom line Consultants have descended on Saudi Arabia to offer advice on cost-cutting, privatization, even the housing market.