

Foreign direct investment in Saudi Arabia

By Philip O’Riordan



The Kingdom of Saudi Arabia (KSA) is the largest market in the Arab world and an impressive opportunity for foreign investors. Sectors identified as specific targets for investment include energy and utilities, transportation infrastructure, logistics, information and communication technology, health, life sciences and education-related services.

The Foreign Investment Act issued by Royal Decree No. M/1 dated April 10th, 2000 (the Foreign Investment Law) established the Saudi Arabian General Investment Authority (SAGIA) as the primary authority for authorising foreign investment. Since its establishment, SAGIA has become almost a one-stop-shop for most licenses, registrations, and permits required by foreign investors seeking to establish a branch or a limited liability company in the KSA.

The Foreign Investment Law permits foreign investors to own up to 100 percent of an entity licensed to operate in the KSA, unless the proposed activities:

- are subject to restrictions barring foreign ownership. Such activities are often referred to as appearing on the ‘negative list’. For example this list bars foreign companies from owning entities which practice oil exploration and production, security and detective services, real estate investment in Makkah and Madina, recruitment and employment services, land transportation services (excluding inter-city passenger transport by train), and certain audiovisual and media-related activities.
- involve special activities for which some portion of local ownership is required; or
- require separate licenses from other authorities before a licence may be issued (e.g., insurance activities require a licence from the Saudi Arabia Monetary Authority, Insurance Department).

In every case, an examination of the proposed activities is a prerequisite before attempting an application for investment. The activities authorised by SAGIA will play a crucial role for the entity going forward, and it is a serious violation for a licensed entity to practice unlicensed activities or to assist or facilitate other entities in practicing such unlicensed activities.

After obtaining a foreign investment license, a foreign investor is eligible to proceed with establishing an entity in the KSA with the Ministry of Commerce and Industry (MOCI). To complete the application process, the foreign investor must comply with the requirements of the KSA Companies Law and perform certain steps, such as opening a bank account to deposit the capital and formally notarising its constitutional documents (e.g. the articles of association).

When establishing a presence in the KSA, foreign investors may choose from a range of entities according to the appropriate business vehicle suitable for the nature of the proposed activities of their business:

- a limited liability company, which must be owned by at least two different entities, both of which may be foreign companies;
- a branch;
- a scientific and technical office; or
- entering into joint venture arrangements with a local partner.

The process for establishing an entity in the KSA entails deciding on what type of business/legal entity the investor is willing to pursue, residency authorisations, foreign investment license application, commercial registration certificate application and the entity’s registration at the various government agencies (i.e. Chamber of Commerce and Industry, Department of Zakat and Income Tax, General Organization for Social Insurance, Ministry of Municipality and Rural Affairs, Labor Office and any other relevant body). Upon completion of the authorities’ requirements, the issuance of the SAGIA license and the Commercial Registration Certificate, the foreign investor may commence its business.

After establishment, a foreign investor may proceed to open accounts enabling it to request work visas and employ personnel, pay social insurance, pay tax/zakat issues, and permits involving the facilities used by the entity after establishment. Most, but not all such licenses and registrations, are required to renew the foreign investment license in future years.

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