

Understanding Foreign Investment Laws in Saudi Arabia

In the context of our talk today about Foreign Investment Laws in Saudi Arabia, we will explain the process of development of the foreign investment system in Saudi Arabia, which is an exciting journey of development amid Saudi Arabia's aspiration to absorb the areas of the modern economy with its capabilities, capabilities, manufacturing and development, benefiting from the experiences of nations and the latest developments in their expertise.

Saudi Arabia went through four phases of foreign investment systems, before the state approved an advanced system 14 years ago. This process revealed that Saudi Arabia witnessed a qualitative shift as it began with a closed, undiversified economy and then transformed into an open, diversified and flexible economy.

These systems, along with their developments, contributed to the influx of foreign capital into the Kingdom, making Saudi Arabia ranked 22nd in the world in terms of ease of doing business, according to the Competitiveness Report issued by the World Economic Forum.

Understanding Foreign Investment Laws in Saudi Arabia

The laws governing foreign investment in Saudi Arabia have evolved over the years to reflect the economic, political, and social transformations in the country. Here's an overview of this evolution:-

We explain to you the development of the regulations related to foreign investment in Saudi Arabia to Understanding Foreign Investment Laws in Saudi Arabia.

Four investment systems:-

The first system for foreign investment in Saudi Arabia was issued in the mid-fifties AD in 1957 (1376 AH), and it was not attractive to foreign capital at the time.

Another system was issued seven years later in 1963 (1383 AH) and was characterized by encouraging incentives for the foreign investor, with the condition that the percentage of capital not be less than Saudi money in the total project amounted to 25 percent

Which was considered a major leap in the laws regulating the work of foreign investment in Saudi Arabia at that time.

However, the process of development and renaissance in the Kingdom and the challenges of this stage imposed the issuance of a third system for foreign investment under the umbrella of the Ministry of Industry and Electricity in 1978 (1399 AH).

It was more open and organized, and its work continued for about 22 years, leading to the current investment system, which was coupled with the decision to establish the General Authority. For investment.

Understanding Foreign Investment Laws in Saudi Arabia, the new system that was issued in 2000 included a number of specific incentives for investment.

It stipulated in its fourth article that foreign investment establishments enjoy the benefits, incentives and guarantees enjoyed by national establishments, in accordance with the regulations in force in the Kingdom.

Among them are the freedom of the flow of funds to and from the Kingdom and respect for private property, including the impermissibility of confiscating investments except by a judicial ruling or expropriating them except in the public interest in exchange for fair compensation, and obtaining soft loans and available customs exemptions.

In addition, these establishments have the right to own real estate necessary to carry out the licensed activity or to house their employees in accordance with the provisions of the non-Saudi ownership of real estate system.

It also has the right to recruit and sponsor the foreign investor and his non-Saudi employees. Investing in the Kingdom also has other qualitative advantages and incentives that have made the Kingdom an attractive environment for investment

The most prominent of these advantages are the low prices and availability of energy, the stability of the Saudi riyal, the large profit margin on investments, the low risk ratio, the Kingdom's geographical location, tax concessions, the availability of manpower, low operating expenses, ease of procedures, and others.

The new foreign Investment Laws in Saudi Arabia in detail

This system aims to attract direct investments, enhance the investment environment, preserve investor rights, and increase his confidence in investing in the Kingdom through:-

- Facilitating entry procedures for direct investments and protecting them.
- Equality of treatment between local and foreign investors.
- Determine the investor's rights and obligations.
- Supporting the principle of competitive neutrality and fairness and ensuring equal opportunities in the treatment of direct investments made by public and private sector investors.

Below is a full explanation of the provisions of the new foreign Investment Laws in Saudi Arabia

Article Four of the Foreign Investment Law in Saudi Arabia, entitled Investor Rights, stipulates that:-

- Local and foreign investors are treated similarly with regard to their direct investments in the Kingdom, except for the cases specified by this law or other laws and regulations in force in the Kingdom.
- Taking into account the laws and regulations in force in the Kingdom, the investor enjoys the following rights and guarantees:
- Neutral and non-discriminatory treatment.
- The freedom to manage, sell, and dispose of the economic project, acquire the property necessary to conduct the business of the economic project, conclude commercial contracts, and acquire, terminate, or sell any company.
- Facilitating procedures and providing facilities by providing the necessary support and assistance from all competent authorities.
- Transferring funds from inside and outside the Kingdom - including transferring, selling and liquidating the proceeds and profits of the economic project - through regular channels using any recognized currency inside the Kingdom, or disposing of it by any other legitimate means.
- Protect intellectual property and confidential business information.
- And personal data protection.
- Resorting to the competent courts or arbitration centers in the Kingdom.
- Implementing due regulatory procedures fairly, transparently and clearly.

Direct investments may not be confiscated in whole or in part except by a judicial ruling, and they may not be expropriated in whole.

Or in part except for the public benefit and in exchange for fair compensation in accordance with the laws and regulations in force in the Kingdom.

The Ministry provides the investor with available statistical information and data, and also provides him with the necessary services to facilitate transactions related to his direct investment.

And seeks to address complaints submitted by the investor, according to clear and transparent procedures.

Taking into account the provisions of this system, the local and foreign investors are subject to the same sectoral approval requirements, such as licenses, registration, approvals.

Or permits for specific economic activities or special economic zones, in accordance with the laws and regulations in force in the Kingdom.

When taking any measures to achieve the public interest - including the measures necessary to fulfill international obligations, maintain public order and national security considerations - the competent authority shall take into account that the implementation of those measures does not conflict with the provisions of paragraphs (2) and (3) of this article.

Article Five: Investor Obligations

The investor is obligated to abide by all laws and regulations in force in the Kingdom and international agreements to which the Kingdom is a party.

The investor is committed to the following duties and obligations in particular:-

Working through a headquarters within the Kingdom, the Ministry works to facilitate the procedures required for the process of establishing the headquarters and practicing the activity, in coordination with the competent authorities quickly and effectively, as described in the regulations.

Maintaining independent accounting records for the facility, in accordance with the laws and regulations in force in the Kingdom.

Foreign Investment Laws in Saudi Arabia, providing any information requested by the Ministry or the competent authorities; To enable them to exercise their statutory powers assigned to them efficiently and effectively.

Meeting national standards for corporate governance according to the sector in which business is conducted.

Pay all taxes and fees due within the specified period in accordance with the laws and regulations in force in the Kingdom.

Maintaining environmental and social standards, participating in developing the local infrastructure, and contributing to social responsibility in the Kingdom.

Implementing work, health and safety systems.

Article Seven: Registration

Foreign Investment Laws in Saudi Arabia, all direct investments - meeting the minimum registration level specified by the regulations - must be registered without delay with the Ministry in the following cases:

- Establishing an economic project.
- Acquisition of an economic project, in whole or in part.
- Buying a permanent stake in companies listed on the Saudi financial market.
- The foreign investor must, before any change occurs in his ownership, inform the Ministry of that and update his data, thirty (30) days - maximum - before the date of that change, and the regulations specify the necessary controls for that.
- Direct investments subject to the condition of obtaining a license must also comply with the provisions of Paragraph (3) of Article (9) of this law.

Conditions for foreign investment in Saudi Arabia

The field or activity in which the investor wishes to establish a project must be one of the fields or activities approved by the Saudi government.

The investor must be experienced in the field in which he wants to invest, and must be qualified and sane.

Not to violate any regional regulations, regulations and agreements in which the Kingdom of Saudi Arabia operates there must not have been a judicial ruling related to financial, criminal, or commercial crimes, whether in the Kingdom, his home country, or any other country.

Documents required to start a foreign investment in Saudi Arabia?

Foreign Investment Laws in Saudi Arabia, article Seven of the Foreign Investment System Law in Saudi Arabia provides details of the papers required to obtain an investment license. Text of Article Seven:

The license applicant or his legal representative must fill out the investment license application form electronically through the Authority's official website

And complete the following documents in Arabic or have them translated into Arabic from an accredited office in the Kingdom:-

- Copies of the commercial register and articles of association of the establishment in its country, certified by the competent authorities and the embassy in Saudi Arabia.
- A copy of the trade name reservation from the Ministry of Commerce and Industry.

- Draft contract for establishing a limited liability company.
- Draft articles of association and articles of association for the joint-stock company.
- The decision of the partners about their desire to invest in the Kingdom, indicating the names of the partners, the capital, the ownership percentage of each partner
- The main location of the facility, the nature of the activity, the appointment of the general manager and determining his powers, certified by the competent authorities and the Saudi embassy.
- A copy of the passport of the general manager.
- A copy of the national identity and family registry if one of the partners has Saudi Arabian citizenship, and a copy of the commercial registry to prove the profession or a civil status extract.
- Providing initial approval from the relevant ministries or bodies in the Kingdom if the activity requires approval from the relevant authority.
- Submitting a detailed business plan that accurately shows the project's ability to achieve investment objectives, including its contribution to increasing the Kingdom's income, and the jobs it will provide for citizens.
- How the project contributes to enhancing competition, improving services, and diversifying options for consumers, the strategic dimensions of the project on investment in the Kingdom, and the benefit that will accrue to the city that will be the center of the project and its affiliated region.
- The employment and training plan includes estimating the number of employees and the percentage of Saudis in each department and administrative level, employee training and qualification programs, the number of branches planned to be opened, and estimating the costs of starting the activity and the necessary financing.
- Submitting a budget for the facility requesting a license from outside the Kingdom for a period of no less than 3 years shows the soundness of the facility's financial position.
- Approved by an accounting office and certified by the agency concerned with commercial activities and taxes in its country, and by the Kingdom's embassy.
- Submitting a budget for the facility requesting a license from outside the Kingdom for a period of no less than 3 years that shows the soundness of the facility's financial position
- Approved by an accounting office and certified by the agency concerned with commercial activities and taxes in its country, and by the Kingdom's embassy.

- Proof of financial ability to invest in proportion to the project capital and the share of each partner, and in proportion to the business plan submitted for the project.
- Any documents, data or other information requested by the Authority.

Foreign capital requirements

A foreign investor may own up to 100% of the capital of the company he intends to establish, subject to some exceptions according to the following limits:-

- Professional services (such as accounting, law, tax collection, architecture, auditing, and medical services) are within 25%.
- Telecommunications services are around 60%.
- Franchise up to 75%.
- The minimum capital if the foreign ownership is 100% is 30 million riyals
- Financial and banking services 60%.
- Insurance 49%.

As for wholesale and retail trade, and as a result of the Kingdom's accession to the World Trade Organization, the Kingdom agreed to allow foreign investment in accordance with the following conditions:

- The ownership share of the foreign investor in any company must not exceed 75%.
- A minimum capital of 20 million riyals for each service provider.
- The number of display stores may be determined by the service provider.
- To employ at least 15% of its workforce from Saudis every year and train them.

What are the regulations for foreign companies operating in Saudi Arabia?

According to what is stated in Article 237 of the Companies Law and foreign Investment Laws in Saudi Arabia, every branch or representative office of a foreign company must display on all its papers, documents, publications.

And its address in the Kingdom, in addition to the full name of the company, its address, and its main headquarters.

The second paragraph of Article 238 of the Companies Law also stipulates that the branch of a foreign company must prepare the financial statements related to its activity within the Kingdom in accordance with the accounting standards approved in the Kingdom.

And deposit these documents and the auditor's report thereon, within six months from the end of the fiscal year of that branch's activity

It is also permissible, in accordance with the third paragraph of the same article, to appoint an auditor by decision of the director of the branch of the foreign company based on an authorization from the foreign company.

This is in addition to what Article 239 of the Companies Law states that a branch of a foreign company or its representative office inside the Kingdom is considered its home with regard to its activity.

And business within the Kingdom, and all the regulations in force in the Kingdom of Saudi Arabia apply to it.

Likewise, if the foreign company carries out its activity and business before completing the licensing procedures, if any, and registering it with the commercial registry, or carries out activities that exceed what it is licensed for.

The company and the persons who practiced that activity and carried out those actions were jointly responsible for it, in accordance with what was approved by Article 240 of the new companies law.

List of incentives offered to investors in Saudi Arabia

The Kingdom of Saudi Arabia offers a wide range of incentives to investors in various sectors to support economic development and investment. Here is a detailed list of incentives offered:-

- Financing and loan support programs
- Financing public and private investment projects:
- Reducing the interest rate.
- A grace period ranging from 4 to 6 months.
- Long-term loans extending up to 22-25 years.
- Loan program for economic development and reform:
- Loans and facilities to address the general deficit in the balance of payments.
- It includes four types of loans with various terms.
- Financing services for commercial transactions of Arab goods origin:
- Refinancing services for exports of Arab origin.
- Pre-export and post-shipment financing, buyer credits and imports.
- Political and commercial risk insurance:
- Schemes and guarantees to encourage investments in Arab countries.
- Equity and debt financing for productive institutions and projects:

- Financing schemes to support investment capital, taking into account the provisions of Islamic Sharia.
 - Employment and training support programs
 - Tamheer Program:
 - Providing financial support of 3,000 riyals per month during the training period, which ranges between 3 and 6 months.
 - Insurance coverage against business risks.
 - Industrial and technical investment solutions
 - Saudi Authority for Industrial Cities and Technology Zones (MODON).
 - Royal Commission for Jubail and Yanbu.
 - Special Economic Cities and Zones Authority.
 - King Abdullah Economic City.
 - National Center for Industrial Development.
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- Financial incentives for research and development:
 - Investment in research and development projects to support economic growth.
 - Credit and tax exemption:
 - The Ministry of Investment, in coordination with the Ministry of Finance and the Zakat, Tax and Customs Authority, announced the provision of a new tax incentive package, for a period of 30 years, with an exemption rate of 0% on income and withholding tax, to support the program to attract the regional headquarters of international companies, in order to encourage and facilitate the procedures for opening international companies.
 - For its regional headquarters in the Kingdom of Saudi Arabia.
 - A tax credit of up to 50% on the cost of salaries and training of Saudi workers for a period of 10 years.
 - Indirect lending initiative:
 - Low-cost loans to licensed finance companies to support small and medium enterprises.

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They are distinguished by their knowledge of all corporate systems and regulations in the Kingdom of Saudi Arabia.

They provide all legal services related to companies, including establishing foreign companies in Saudi Arabia, carrying out all company registration procedures, and representing clients before the Ministry of Commerce and the Ministry of Investment.

Al-Othman Company is considered one of the most famous law firms in Saudi Arabia, and it provides its clients with legal advice in Riyadh and Jeddah by all means available to clients.

In conclusion, Foreign Investment Laws in Saudi Arabia have undergone significant development and reform over the years, driven by the Kingdom's vision for economic diversification and sustainable growth. With the introduction of modern legislation, streamlined administrative procedures, and incentives for investors, Saudi Arabia has positioned itself as an attractive destination for foreign capital.

As the country continues to implement its ambitious Vision 2030 and pursue further economic reforms, the outlook for foreign investment remains promising. By fostering a conducive investment environment, Saudi Arabia aims to unlock new opportunities, drive innovation, and contribute to the long-term prosperity of its economy and society.