

Saudi Joint Ventures: A Guide for Foreign Investors

THOUGHT LEADERSHIP

GLOBAL
EXPANSION



Table of Contents

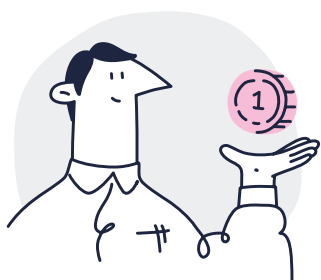
01	Introduction	P1
02	Engaging Professional Legal Advisors.....	P2
03	Foreign Investment Approval.....	P3
04	Investment Licenses	P4
05	Routes to Market	P5
06	Choosing the Right Corporate Vehicle	P6
07	Shareholder Liability.....	P6
08	Saudization/Nitaqat	P7
09	Management Structures.....	P8
10	Statutory Reserved Matters	P8
11	Dividends and Pre-emption Rights	P9
12	Transfer of Shares and Exit Strategy.....	P9
13	Shareholders' Agreement and Articles of Association.....	P10
14	Finding the Right Partner.....	P10
15	Proposed Activities	P11
16	Expand with Confidence in Saudi Arabia	P12
17	Case Studies and Additional Resources.....	P13

01

INTRODUCTION

Saudi Arabia, the Middle East's largest economy, offers great opportunities for foreign investors with its Vision 2030 initiative. However, the Kingdom's legal and regulatory environment presents unique challenges that need careful handling.

This guide offers a detailed look at key technical factors for non-GCC investors wanting to set up joint ventures in Saudi Arabia. It emphasizes the importance of professional advice and strict regulatory compliance.



02

ENGAGING PROFESSIONAL LEGAL ADVISORS

The Saudi legal system, based on Sharia law, doesn't follow a precedent-based framework, making it complex and variable.

Important technical aspects needing professional legal advice include:



Regulatory Compliance: Understanding the evolving regulatory framework and following local laws, including sector-specific regulations.



Corporate Structuring: Advising on the optimal corporate structure to maximize operational efficiency and legal protection.



Financial Compliance: Managing financial regulations, including capital adequacy requirements, profit repatriation rules, and compliance with the Saudi Arabian Monetary Authority (SAMA) guidelines.



Immigration Compliance: Managing work permits and visas for expatriate staff following the Ministry of Human Resources and Social Development (HRSD) regulations.



Taxation and Zakat: Ensuring compliance with tax obligations under the General Authority of Zakat and Tax (GAZT) and understanding zakat requirements specific to Islamic law.

03

FOREIGN INVESTMENT APPROVAL

Getting approval from the Saudi Arabian General Investment Authority (SAGIA) is a crucial first step.

The technical approval process includes:

▶ **Application Requirements:**

Detailed submission of business plans, historical performance records, and audited financial statements demonstrating profitability and operational capability.

▶ **Due Diligence:**

Comprehensive due diligence by SAGIA, including background checks on the investor and verification of financial documents.

▶ **Sector-Specific Criteria:**

Compliance with sector-specific investment criteria, which may include technological capability, capital investment thresholds, and contribution to the Saudi economy.

For further details, the [SAGIA website](#) offers extensive resources in English.



04

INVESTMENT LICENSES

SAGIA issues various types of investment licenses, each with specific technical requirements:

▶ **Industrial Licenses:**

Mandates for minimum capital investment, local content requirements, and environmental compliance as per the Ministry of Industry and Mineral Resources.

▶ **Trading Licenses:**

Requirements for retail and wholesale operations, including compliance with consumer protection laws and trade regulations.

▶ **Contracting Licenses:**

Criteria for construction and engineering projects, including technical qualifications, past project experience, and safety standards adherence.

▶ **Service Licenses:**

Specific to professional services, requiring proof of expertise, professional qualifications, and meeting local service standards.

The licensing process involves detailed documentation, which often needs translation and notarization, potentially extending preparation time to several months.

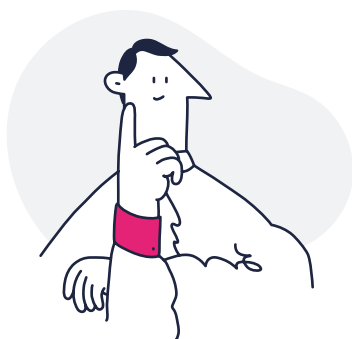
05

ROUTES TO MARKET

Choosing the right market entry strategy is crucial.

Technical considerations include:

- ▶ **Commercial Agency:**
Appointing local agents registered with the Ministry of Commerce (MOC) to facilitate market entry for non-GCC manufacturers.
- ▶ **Government Tenders:**
Compliance with the Government Tenders and Procurement Law, which may require establishing a local branch or obtaining temporary commercial registration.
- ▶ **Company Incorporation:**
Forming a joint venture entity, which provides legal protection through limited liability and meets requirements for majority ownership and control.



06

CHOOSING THE RIGHT CORPORATE VEHICLE

The primary corporate structures for foreign investment are the limited liability company (LLC) and the joint stock company (JSC):

LLCs: Require at least two founding shareholders, offering flexibility in management and operational structure, suitable for smaller-scale operations.

JSCs: Require a minimum of five shareholders, suitable for larger-scale ventures, offering the ability to raise capital through public offerings, but involving more complex incorporation and regulatory compliance.



07

SHAREHOLDER LIABILITY

Understanding scenarios that could affect shareholder liability is critical:

Capital Requirements: Ensuring sufficient capitalization to meet operational and regulatory requirements.

Loss Thresholds: Addressing potential personal liability if company losses exceed 50% of paid-in capital, necessitating shareholder intervention as per the Companies Law.

Compliance Monitoring: Regular financial audits and compliance checks to mitigate risks of personal liability for company debts.



08

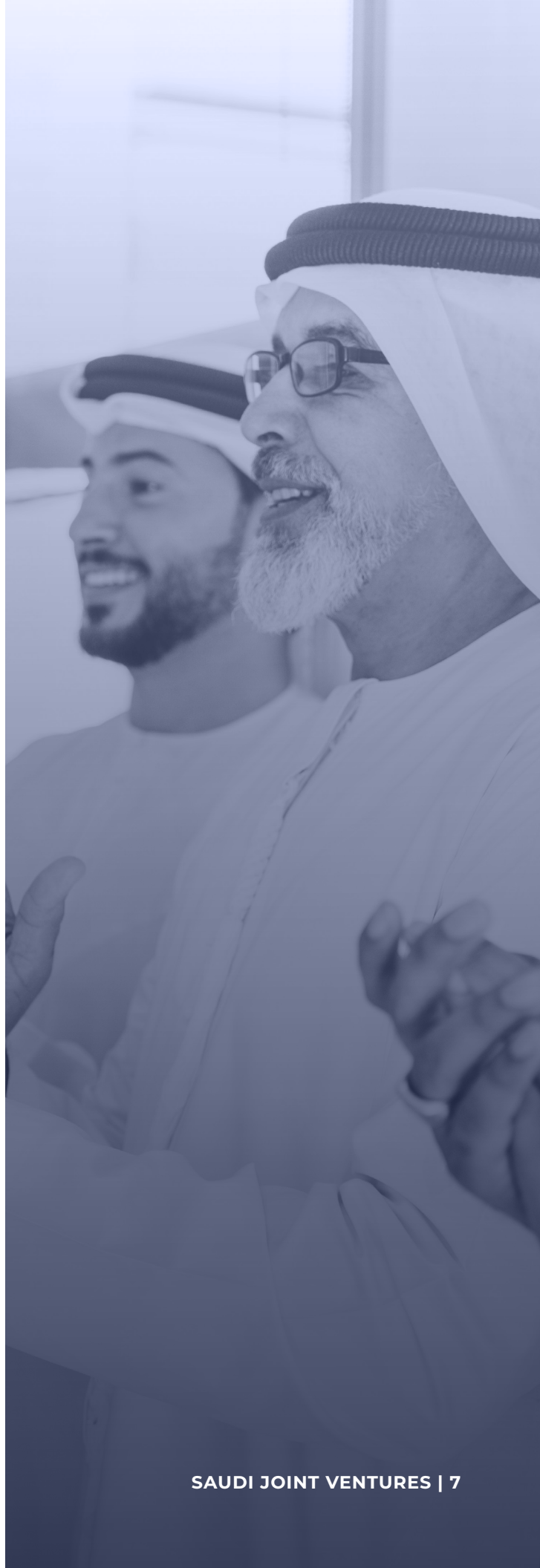
SAUDIZATION/NITAQAT

Compliance with the Saudization program (Nitaqat) is mandatory.

Technical requirements include:

- ▶ **Employment Quotas:**
Meeting specific quotas for Saudi national employment, varying by industry and company size.
- ▶ **Compliance Impact:**
Non-compliance can result in penalties, including restrictions on visa issuance and employee transfers, impacting operational capabilities.

Key positions, such as HR managers and receptionists, are reserved for Saudi nationals, influencing staffing strategies.



09

MANAGEMENT STRUCTURES



Designing effective management structures involves:

Board of Managers: Establishing a governing body with defined roles and responsibilities, facilitating strategic decision-making.

General Manager: Appoint a sole manager with comprehensive operational control, as defined in the articles of association and shareholders' agreements.

Technical specifications for these structures should be clearly outlined to ensure compliance with corporate governance standards.

10

STATUTORY RESERVED MATTERS

Certain corporate decisions require specific shareholder approval thresholds:

Amending Articles of Association:

Typically requires a supermajority vote, ensuring consensus on critical changes.

Auditor Replacement:

Subject to shareholder consent, ensuring transparency and accountability in financial reporting.



11

DIVIDENDS & PRE-EMPTION RIGHTS

Financial regulations mandate:

Statutory Reserve:

Allocating 10% of net profits annually to a statutory reserve until it reaches 50% of share capital, as per the Companies Law.

Pre-emption Rights:

Existing shareholders have the right of first refusal on share transfers, preserving control within the ownership group.

12

TRANSFER OF SHARES AND EXIT STRATEGY

The technical process for share transfers includes:

- ▶ **Shareholder Consent**
Getting approval from existing shareholders as stipulated in the shareholders' agreement.
- ▶ **Articles Amendment**
Updating the articles of association to reflect share transfer changes.
- ▶ **SAGIA License Updates**
Ensuring the investment license is updated to reflect new ownership structures.

This process requires notarization and adherence to regulatory requirements.



13

SHAREHOLDERS' AGREEMENT AND ARTICLES OF ASSOCIATION



These foundational documents govern the relationship between shareholders and third parties.

Technical considerations include:

Term Sheets: Establishing a detailed term sheet upfront to streamline negotiations and minimize costs.

Compliance Provisions: Ensuring all agreements are in line with local laws and regulations.

14

FINDING THE RIGHT PARTNER

Selecting a suitable Saudi partner is pivotal for joint venture success.

Technical aspects include:

Due Diligence: Conducting thorough due diligence on potential partners, including financial stability, industry reputation, and operational capabilities.

Local Insights: Leveraging local advisors to gain cultural and business insights, facilitating smoother collaboration.

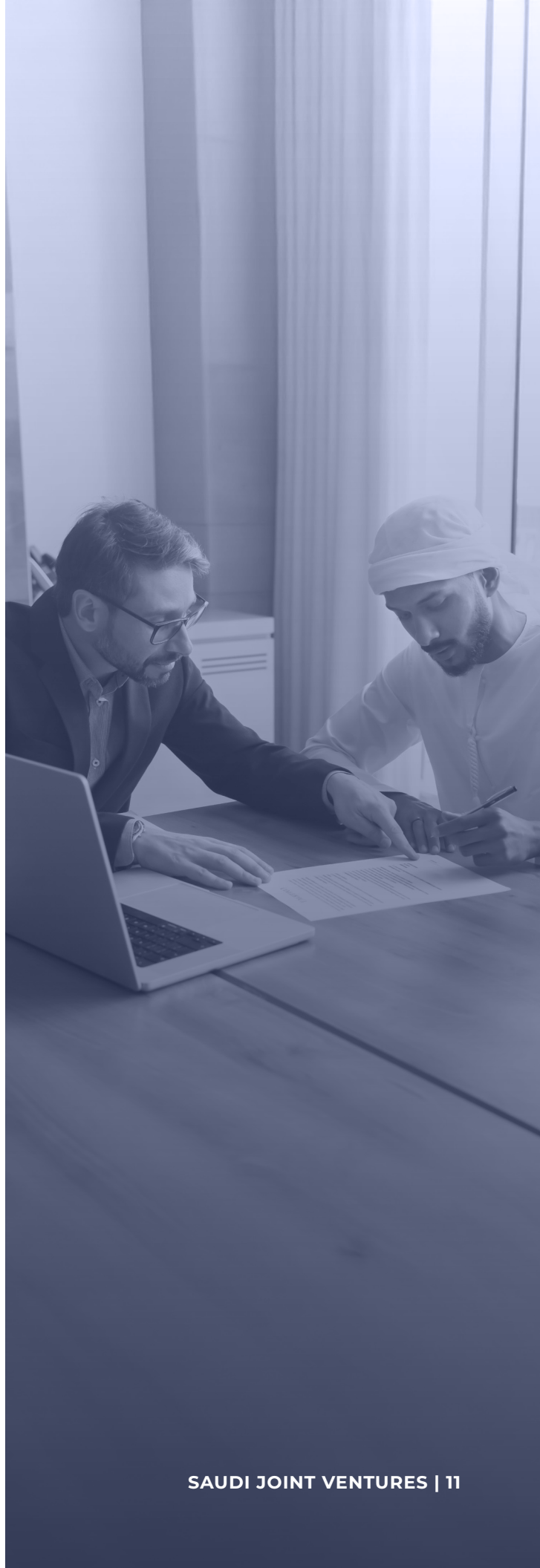
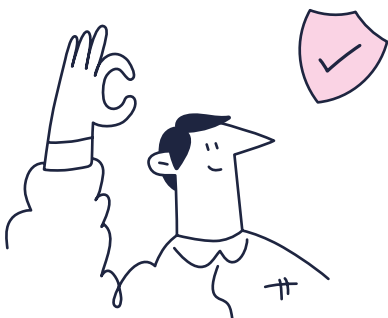


15

PROPOSED ACTIVITIES

Early consultation with legal advisors ensures that proposed activities comply with local regulations.

Investors must verify their activities are not on the Supreme Economic Council's "**negative list**" of prohibited activities.



16

EXPAND WITH CONFIDENCE IN SAUDI ARABIA

Setting up a joint venture in Saudi Arabia requires managing a complex legal and regulatory landscape. Engaging knowledgeable local advisors and understanding key aspects like investment approval, licensing, corporate structuring, and compliance are essential for success.

While Saudi Arabia's evolving economy offers great opportunities, thorough preparation and informed decisions are integral for foreign investors.

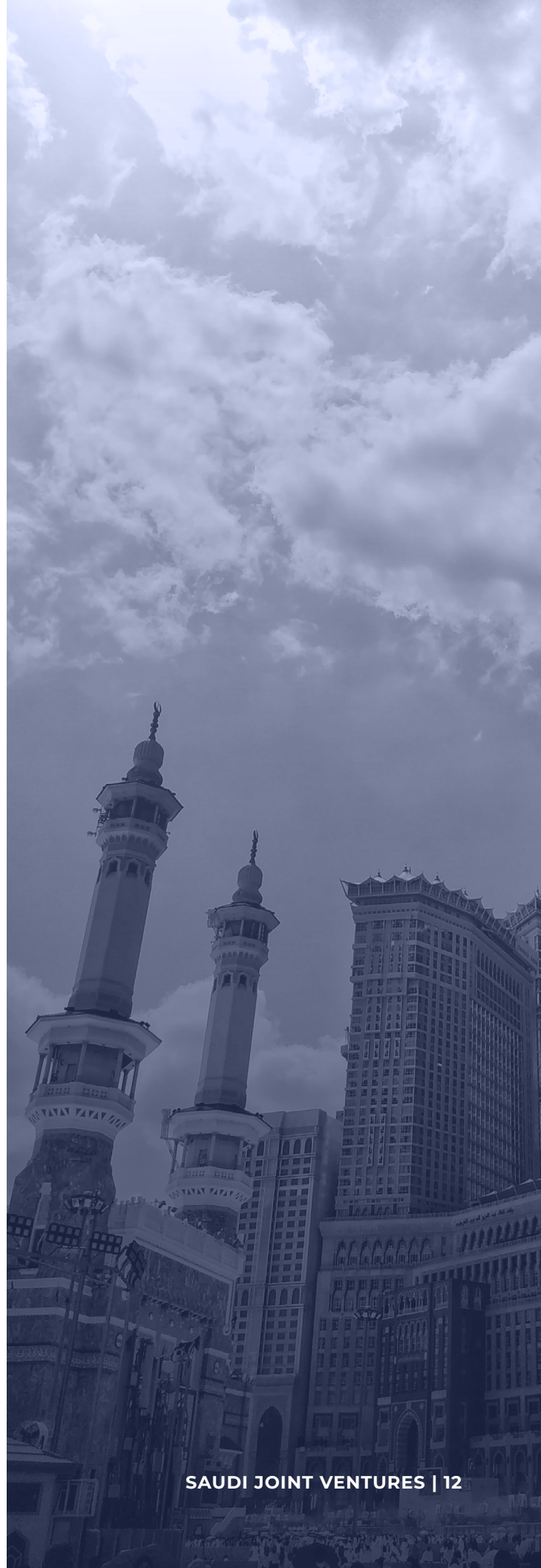
For detailed and updated information, visit the [Saudi Arabian General Investment Authority \(SAGIA\)](#) and the [Ministry of Commerce and Industry \(MOCI\)](#).

These resources and the expertise of local advisors will help foreign investors effectively structure their ventures, ensuring long-term success in the Saudi Arabian market.

References

[Saudi Arabian General Investment Authority \(SAGIA\)](#)

[Ministry of Commerce and Industry \(MOCI\)](#)



17

CASE STUDIES AND ADDITIONAL RESOURCES

Case Study 1:

[Invest Saudi - Success Stories](#)

Case Study 2:

[McKinsey & Company -
The Saudi Arabian Growth Story](#)

Additional Resource:

[PwC - Doing Business in
the Kingdom of Saudi Arabia](#)





©2024 Global Expansion. All rights reserved.