



Creating a Legal Entity in the Kingdom of Saudi Arabia

Planning Notes

Introduction

These Planning Notes provide a summary of key considerations for and options available to foreign companies seeking to establish a legal presence within the Kingdom of Saudi Arabia and provide answers to some of the frequently asked questions or issues raised commonly by Clients of AEI.

As such the Planning Notes seek to set a context within which a positive and informed decision is made by a Client to enter the Saudi market place.

Please note that AEI will submit a tailored and specific proposal for a Client having completed Phase 1 below which will detail the forecast cost, schedule and other requirements associated with creating an entity in the Kingdom. The process in general terms is the same for most Clients but can vary depending on the type of entity required (e.g Limited Liability Company, Establishment etc) and the type of activity to be undertaken by the entity (e.g financial services, security etc).

Phase 1: Decide

By the completion of Phase 1, the Client (a foreign entity) and AEI have an agreed plan to follow to establish an entity in the Kingdom of Saudi Arabia. AEI will lead this phase and it will focus on the following five key points:

1. **Why do you want an entity in the Kingdom?**

There are various operating models available to foreign companies seeking to do business in the Kingdom that do not require the creation of a Saudi registered entity. These models include traditional distributor and representative arrangements but also partnerships and collaborative frameworks that can enable you to operate legally in the Kingdom without establishing an entity.

Another significant factor to consider is the availability of Residency Visas for expatriate staff members under the sponsorship of the entity.

2. **Do you need to be a shareholder of the entity?**

If the Client is not a shareholder then a Foreign Investment Licence is not required and thereby reduces the time taken to create an entity significantly.

Of course, questions of control, trust and transparency need to be addressed and AEI can provide legal frameworks which aim to mitigate risk in such areas and accelerate the creation of a Saudi registered entity.

However, in a number of circumstances, the Client decides that the best way forward is creating a wholly owned, Saudi registered entity with this being preferable to any arrangement with another party.



3. What do you want the entity to do?

The declared activities of the entity are important; in Saudi, entities have very specific objects clauses in their Articles of Association. Foreign entities are proscribed from undertaking certain activities in the Kingdom and applicants in the security or defence sector can expect particular scrutiny. The Negative List describes those areas that are restricted for Foreign Entities to become involved in and covers both manufacturing and services.

4. How long will it take to create the entity?

The process does of course depend on the operating model chosen and the type of entity required. In general terms and for planning purposes only, AEI would recommend the following min / max timescales:

- A Saudi owned and Saudi registered LLC or Establishment (in partnership with a Foreign Entity) – 4 to 6 weeks.
- A wholly or partly foreign owned, Saudi registered LLC or Establishment – 3 to 6 months.

Please note that for clients operating in sensitive sectors or seeking activities that may fall under the Negative List, timescales may be longer.

Also note that during the month of Ramadan and other Saudi holidays, such as Hajj and Eid, progress is likely to be slow.

5. How much will it cost to create the entity?

Again, costs are dependent on the operating model and type of entity required.

Generally, even for a foreign owned entity, official fees are less than SAR20k. Capital requirements vary but generally are around SAR250k for an LLC.

The main cost is having someone on the ground to chase the application through the system. Most foreign companies retain Saudi law firms at considerable expense for this task who in turn subcontract local brokers at a fraction of the cost.

AEI has in-house brokers and consultants who are very familiar with the process and can be engaged either on a monthly retainer basis or a fixed fee.

As an example, to register a foreign owned entity AEI typically charge a fixed fee of SAR100k payable through monthly instalments of around SAR20k per month.

Phase 2: Establish an Entity

Once the Client agrees to establish an entity the following process is followed:

Saudi Arabian Government Investment Authority (SAGIA)

An application to SAGIA is only required for foreign ownership (in part or wholly) and as such SAGIA grants the applicant a foreign investment licence.



The application requires a number of documents (duly attested) including but not limited to a Power of Attorney and Board Resolution.

This stage of the establishment process will take approximately 3 months.

Ministry of Commerce and Industry (MOCI)

The second stage of the process is the registration with the MOCI which, inter alia, approves the entity's Articles of Association, entity name, bank account, Chamber of Commerce registration and determines (and grants subject to approval) any specific licences that may be required.

This stage also includes registering the new entity with the Department of Zakat and Income Tax and the General Organisation for Social Insurance.

These activities generally take no more than 3 months but may be longer if particular licences are required from another Ministry department (such as Civil Defence or the Capital Market Authority).