

CLIENT ALERT

Short-Term Pain, Long-Term Gain: New Priorities for Foreign Investment in Saudi Arabia

May 30, 2013

The Governor of the Saudi Arabian General Investment Authority (SAGIA), His Excellency Abdullatif A. Al-Othman, has announced new priorities for the assessment of proposed foreign investments in Saudi Arabia and an intention to streamline the application process for a foreign investment license (a FIL).

In 2006, SAGIA inaugurated the 10x10 program with two main goals: (a) to enact reforms and promote targeted investments aimed at developing Saudi Arabia's private sector; and (b) to position Saudi Arabia among the world's Top 10 most competitive economies by 2010. In pursuit of these goals, the vast majority of applications for FILs (which are a condition precedent to foreign businesses conducting business in Saudi Arabia) were granted, without any regard to whether such foreign investment would yield any specific benefit to Saudi Arabia or the Saudi economy.

Since his appointment in May 2012, Governor Al-Othman has set new priorities for foreign businesses applying for a FIL. The thinking behind these new priorities is that any foreign investment into Saudi Arabia should be approved only if it adds value to Saudi Arabia or the Saudi economy.

With this in mind, applications for FILs are now being assessed, at least in part, by whether

- a. the proposed business creates jobs for Saudi nationals. The greater the number of such jobs and the higher the quality of such jobs, the more favorably the application is likely to be regarded; and/or
- b. the proposed business brings new technology or expertise to the Saudi market.

The Governor has announced that efforts are underway at SAGIA to develop a new application process for FILs that will reflect these new priorities and reduce the time required to assess applications. However, until such time as a new FIL application process is implemented, SAGIA has adopted an *ad hoc* process to ensure the new priorities are met.

This *ad hoc* process removes from individual Licensing Officers at SAGIA the authority to grant FILs and vests that authority instead in a new Licensing Committee. The Licensing Committee consists of six members and a secretary and meets one afternoon each week. Unfortunately, the introduction of the Licensing Committee has significantly extended the time required to process a FIL application; whereas previously such time could be measured in weeks, such time is now measured in months, with waits of three months or more being common.

It should be noted that, at least for now, applications for temporary foreign investment licenses submitted by foreign businesses that have contracts directly with the Saudi government seem to be largely unaffected by SAGIA's new priorities.

No timetable for the introduction of a new FIL application procedure has been announced. However, it is to be hoped that the cumbersome and time consuming *ad hoc* application system now in place will soon give way to a new and more efficient application process.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.