

Welcome to the Magic Kingdom: Start-ups and Investment in Technology and Innovation in Saudi Arabia

Elye Parata - Associate - Corporate Structuring
- Riyadh



The Kingdom of Saudi Arabia is currently going through major social and economic reforms as part of Saudi Vision 2030 and the associated National Transformation Programme. The Saudi Arabian government is introducing a number of laws and policy changes aimed at simplifying business and increasing foreign investment in the Kingdom.

Technological innovation is a particular area of focus. Recent media reports mention global names such as Google and Snap as being particularly interested in opportunities in Saudi Arabia. Meanwhile, the Kingdom is keen to harness the benefits that technological innovation can bring to areas as diverse as education, de-salination and power distribution. With advanced technological centres (such as the King Abdulaziz City for Science and Technology ('KACST')) and plans for NEOM - a five hundred billion US dollar technology-focused mega city - the potential for businesses operating in the areas of technology and innovation will continue to grow.

In this article, we look at some key issues associated with setting-up in Saudi Arabia - whether you are a local start-up with a great mobile app idea, or a major global tech company looking to get in on the action.

Local opportunities

The government views technology and innovation as one of the most important areas for investment, and there has been significant growth and success in this area in recent years. The Badir Program, initiated under the auspices of KACST, is a nation-wide program aimed at accelerating the growth of emerging, technology-based businesses in the Kingdom. As a result of the Badir Program, around 250 new companies have already become active in the fields of e-commerce, communications, software and smart device applications.

The barriers to entering the KSA market, for a Saudi national investor, are very low. The most common options available for individuals thinking about starting new businesses in technology and innovation are sole proprietorships and Limited Liability Companies ('LLCs').

For a Saudi national (who is not a public servant) to incorporate a sole proprietorship or an LLC, all that is required is his or her Saudi national identification card, and completion of an online registration process via the Ministry of Commerce and Investment ('MOCI') website. The entire process can be completed in a single working day and will allow the local investor to begin undertaking business under the umbrella of the new business vehicle.

At this stage, because of current foreign investment regulations in Saudi Arabia, opportunities for start-ups as entrepreneurs are really only available to Saudi nationals and Saudi companies. This is generally because a foreign investor must provide financial statements and a proven track-record of business before being allowed to invest in the KSA market. The government has only recently provided start-up opportunities for entrepreneurs with intellectual property or an invention to invest as individuals since the beginning of 2018. Whether the economic liberalisation arising out of Saudi Vision 2030 will eventually extend to allowing non-Saudis to establish start-ups in Saudi Arabia is difficult to say.

Foreign investment in Saudi Arabia

Where a prospective investor in Saudi Arabia is a foreign investor for the purposes of the Kingdom's foreign investment laws, it is necessary to obtain a Foreign Investment Licence from the Saudi Arabian General Investment Authority ('SAGIA') in order to establish a corporate entity. Other specific approvals may be required from other authorities, depending on the business that the entity wishes to undertake.

Obtaining a Foreign Investment Licence has become much easier than in previous years. With the leadership of the Council for Economic and Developmental Affairs ('CEDA'), and internal reforms within SAGIA, the processing time has decreased to a number of days. This is a stark contrast to the six to nine months that it would have typically taken in the relatively recent past.

Significantly, the business activities that an overseas investor wishes to undertake must not be activities classified as exclusive to Saudi Arabian (or GCC) companies and nationals. This restriction could arise due to the activities being on the so-called "Negative List" (being business activities that SAGIA has specified as being exclusive to Saudis) or being otherwise identified as being restricted to Saudis in internal SAGIA policies and guidelines.

Types of entities

The most common activities undertaken by technology companies in KSA are generally related to services or trading.

Companies with overseas ownership that desire to undertake services (e.g. installation or maintenance of software and/or hardware products), are usually incorporated as a "Branch Office" or as an LLC, and can typically be completely foreign-owned. Entities incorporated to undertake services are not permitted to conduct any advertising or trading activities.

Companies with overseas ownership that wish to undertake marketing, promotions and sales activities (e.g. sales of software and/or hardware products) are generally regarded by SAGIA as 'trading' entities. A trading entity would typically be an LLC (or, less typically, due to rigorous governance requirements) a Joint Stock Company, but it could not be a Branch. It is possible to incorporate a wholly foreign-owned trading entity, although the significant investment requirements (between two and three hundred million Saudi Riyals over a five year period) mean that this is not very common in practice.

Besides a Branch Office and an LLC there are some other options available

- **Temporary Commercial Registration:** This type of corporate entity is similar to a Branch, but is only relevant to servicing a government contract. As such, this type of entity is not uncommon in the context of technology projects with government ministries. In order to obtain a temporary commercial registration, it is necessary to submit a signed copy of the relevant contract to SAGIA.
- **Technical Scientific Office:** This type of corporate entity has the ability to provide sales and marketing assistance to a registered agent in Saudi Arabia. However, it is not permitted to market or sell products, or generate any revenue in and of itself; it can only provide support to the registered agent.

Secondary registrations

Once a Foreign Investment Licence has been granted by SAGIA and a Certificate of Commercial Registration has been issued from MOCI, a number of additional registrations must be completed with various governmental authorities to enable the new entity to function. These types of registrations allow an entity to pay taxes and insurance, obtain visas for expatriate workers, and register signatures at the Chamber of Commerce, etc. Each of these secondary registrations must be renewed and kept valid in order for the entity to continue to do business in Saudi Arabia. Substantial delays and inconvenience could arise if any of these licences are not maintained.

Following the completion of the secondary registrations process, any additional licensing for CITC will generally be required. The CITC has authority for the regulation of the internet and information technology and is generally responsible for the licensing of information technology companies that are providing services such as cloud computing and telecommunications. With Saudi Vision 2030's focus on technology and artificial intelligence, the CITC is set to play a more pivotal role in the KSA economy.

Conclusion

For overseas investors, particularly in the technology sector, the investment climate in Saudi Arabia has never been better. The social and economic reforms that underpin Saudi Vision 2030 are having a positive impact on the adoption of technology and innovation in Saudi Arabia, and will assist in propelling the Kingdom into the post-oil era. As the building blocks of Saudi Vision 2030 fall into place, setting-up business in Saudi Arabia is becoming more efficient than ever before.

Al Tamimi & Company's [Corporate Structuring](#) team regularly advises on setting up businesses – large and small – in Saudi Arabia. For further information, please contact [Hesham AlHomoud](#) (h.alhomoud@tamimi.com) or [Elye Parata](#) (e.parata@tamimi.com).