Saudi Arabia

RISK & COMPLIANCE

DATE: January 2017

KNOWYOURCOUNTRY

Executive Summary - Saudi Arabia	
Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	Not on EU White list equivalent jurisdictions Failed States Index (Political)(Average score)
Medium Risk Areas:	Compliance with FATF 40 + 9 Recommendations US Dept of State Money Laundering assessment Corruption Index (Transparency International & W.G.I.)) World Governance Indicators (Average score)

Major Investment Areas:

Agriculture - products:

wheat, barley, tomatoes, melons, dates, citrus; mutton, chickens, eggs, milk

Industries:

crude oil production, petroleum refining, basic petrochemicals, ammonia, industrial gases, sodium hydroxide (caustic soda), cement, fertilizer, plastics, metals, commercial ship repair, commercial aircraft repair, construction

Exports - commodities:

petroleum and petroleum products 90%

Exports - partners:

US 14.3%, China 13.7%, Japan 13.7%, South Korea 9.9%, India 8.2%, Singapore 4.3% (2012)

Imports - commodities:

machinery and equipment, foodstuffs, chemicals, motor vehicles, textiles

Imports - partners:

China 13.5%, US 13.2%, South Korea 6.7%, Germany 6.5%, India 6.3%, Japan 6% (2012)

Investment Restrictions:

The government encourages investment in transportation, education, health, information and communications technology, life sciences, and energy; as well as in four "Economic Cities" that are in various states of development. The Economic Cities are to be new, comprehensive developments in different regions focusing on particular industries.

The foreign-direct-investment law, revised in 2000, permits foreigners to invest in all sectors of the economy, except for specific activities contained in a "negative list," currently three industrial sectors and 13 service sectors. The list includes real-estate investment in Mecca and Medina, some subsectors in printing and publishing, audiovisual and media services, land-transportation services excluding inter-city transport by trains, and upstream petroleum.

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Section 1 - Background

Saudi Arabia is the birthplace of Islam and home to Islam's two holiest shrines in Mecca and Medina. The king's official title is the Custodian of the Two Holy Mosques. The modern Saudi state was founded in 1932 by ABD AL-AZIZ bin Abd al-Rahman Al SAUD (Ibn Saud) after a 30-year campaign to unify most of the Arabian Peninsula. One of his male descendants rules the country today, as required by the country's 1992 Basic Law. King ABDALLAH bin Abd al-Aziz ascended to the throne in 2005. The king instituted an interfaith dialogue initiative in 2008 to encourage religious tolerance on a global level; in 2009, he reshuffled the cabinet, which led to more moderates holding ministerial and judicial positions, and appointed the first female to the cabinet. The 2010-12 uprisings across Middle Eastern and North African countries sparked modest incidents in Saudi cities, predominantly by Shia demonstrators calling for the release of detainees and the withdrawal from Bahrain of the Gulf Cooperation Council's Peninsula Shield Force. Protests in general were met by a strong police presence, with some arrests, but not the level of bloodshed seen in protests elsewhere in the region. In response to the unrest, King ABDALLAH in February and March 2011 announced a series of benefits to Saudi citizens including funds to build affordable housing, salary increases for government workers, and unemployment entitlements. To promote increased political participation, the government held elections nationwide in September 2011 for half the members of 285 municipal councils. Also in September, the king announced that women will be allowed to run for and vote in future municipal elections - first held in 2005 - and serve as full members of the advisory Consultative Council. During 2012, Shia protests increased in violence, while peaceful Sunni protests expanded. The country remains a leading producer of oil and natural gas and holds about 17% of the world's proven oil reserves. The government continues to pursue economic reform and diversification, particularly since Saudi Arabia's accession to the WTO in December 2005, and promotes foreign investment in the kingdom. A burgeoning population, aquifer depletion, and an economy largely dependent on petroleum output and prices are ongoing governmental concerns.


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0 100 200 mi
LEB.
SYRIA
IS.
JORDAN
IRAQ
IRAN
KUWAIT
Tabūk
Ḥā'il
Hafar al Bāṭin
Al Jubayl
Buraydah
Ad Dammām
BAHRAIN
Persian Gulf
Al Hufūf
QATAR
EGYPT
Medina
Yanbu' al Baḥr
RIYADH
U.A.E.
Jeddah
Mecca
Aṭ Ṭā' if
Red Sea
Khamīs Mushayt
OMAN
SUDAN
Jabal Sawdā'
Najrān
ERITREA
YEMEN
Arabian Sea
ETH.

Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Saudi Arabia is not currently on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Saudi Arabia was undertaken by the Financial Action Task Force (FATF) in 2010. According to that Evaluation, Saudi Arabia was deemed Compliant for 4 and Largely Compliant for 26 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 2 of the 6 Core Recommendations.

Key Findings from latest follow-up Mutual Evaluation Report (2010):

The Kingdom of Saudi Arabia (KSA) established its Anti Money Laundering (AML) / Combating the Financing of Terrorism (CFT) regime officially with the issuance of the Anti-Money Laundering Statute in 2003 and its Implementing Regulations in 2005. The legal AML framework is quite robust; however, the CFT legal framework is not as developed. In addition, the effectiveness of the AML and CFT systems needs improvement.

Legal framework

The legal AML framework in KSA is composed of Shari'ah law and the Anti Money Laundering Statute (AMLS). This framework effectively criminalizes money laundering as required by the FATF Recommendations and international conventions, although criminal liability of legal persons is missing. A confiscation and freezing framework was set up, but its effectiveness needs to be much improved. KSA should also protect the rights of bona fide third parties. Regarding terrorist financing (TF), it is clear that KSA is committed to prosecute terrorist financiers as terrorists. However, KSA was already encouraged in 2004, after it was assessed by the FATF to enact a freestanding terrorist financing offence in line with the United Nations (UN) Terrorist Financing Convention. This has still not been done. In addition, despite the fact that the Kingdom has established a mechanism to implement United Nations Security Council Resolution (UNSCR) 1267(1999); UNSCR 1373(2001) has yet to be implemented. On international cooperation, KSA has signed, ratified and implemented the UN Vienna Convention. However, the UN Palermo Convention has not fully been implemented, while the UN Terrorist Financing Convention has not been implemented. The general framework for mutual legal assistance is sound on paper, but is relatively untested and, therefore, lacks experience, which does not enhance effectiveness.

Law enforcement

The KSA Financial Intelligence Unit (SAFIU) is a well equipped and well resourced organisation that receives and disseminates relatively few Suspicious Transaction Reports (STRs). Nevertheless, at the time of the on-site visit, SAFIU faced a backlog of about 30% of STRs over the last two years that were waiting to be analysed and made available to law enforcement entities. This backlog accumulation requires constant management attention and monitoring so that STRs are processed in a timely manner.

The non-profit sector is a well organised sector. Non-profit organisations (NPOs) are licensed, registered, supervised and sanctioned, and can only have one supervised bank account. By law, NPOs are not allowed to donate or collect funds for distribution outside the Kingdom, nor are they allowed to operate abroad or accept funds from abroad (these are Royal privileges). Nevertheless, KSA has not undertaken a review or periodic reassessments of its NPO sector to identify TF risk as required by the FATF.

Financial Institutions and Designated Non-Financial Businesses and Professions

The assessment team noted the existence of a comprehensive framework for preventive measures for Financial Institutions, even though the rules for the insurance and securities sectors were only issued shortly before the onsite visit. Some of the preventive obligations for Financial Institutions are based on enforceable means rather than primary or secondary legislation. Some other obligations are not clear or consistent. For all sectors and for all measures, there is a problem with the lack of effective implementation. Promising features are the availability of sufficient resources and advanced software solutions to process and monitor banking and other financial transactions. This could be an effective foundation for improved and effective implementation, provided that these solutions are properly customized to business needs, and that better training is offered.

The assessment team noted the commitment expressed by the government to implement an effective STR reporting mechanism for AML/CFT for FIs. While the upward trend in STR filings over recent years is a positive sign, reporting levels are generally low. The low number of TF-related STR filings by Financial Institutions, and some institutions' perception that their exposure to the risk of TF abuse is low, point at deficiencies in the TF reporting system that go beyond those for the ML reporting system. Furthermore, the lack of clear understanding among financial institutions regarding the distinction between requirements to monitor transactions and to report transactions that are identified as suspicious; raises concerns about the effectiveness of the monitoring and reporting system. For Designated Non-Financial Businesses and Professions, reporting levels are not as should be expected for these sectors.

There are two supervisory agencies that supervise and regulate financial entities in KSA. Both agencies have adequate powers and financial resources to conduct their activities. While the assessment team welcomes the authorities' efforts in enhancing the current supervisory regime, it also noticed low levels of corrective measures applied by both supervisory agencies. The assessment team also noted the need for supervisors to effectively cover all types of Financial Institutions that are subject to their supervision, and the need to enhance the number of human resources available to supervise the insurance and securities sectors. Also, authorities should work closely and collectively to enhance the guidance issued by supervisory authorities to be comprehensive and industry specific.

For Designated Non-Financial Business and Profession in KSA in general, while there are basic obligations in relation to AML/CFT, the sectors lack the experience and the awareness of AML/CFT risks and obligations.

US Department of State Money Laundering assessment (INCSR)

Saudi Arabia was deemed a Jurisdiction of Concernx by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

The Kingdom of Saudi Arabia is a rapidly expanding financial center in the Gulf region and the second largest source of remittances in the world. There is no indication of significant narcotics- related money laundering. Bulk cash smuggling and money transfers from individual donors and Saudi-based charities have reportedly been a significant source of financing for extremist and terrorist groups over the past 25 years. Despite serious and effective efforts to counter the funding of terrorism originating within the Kingdom, Saudi Arabia is still home to individuals and entities that continue to serve as sources of financial support for Sunni-based extremist groups. Saudi Arabia has publicly imposed targeted sanctions on more than 20 Hizballah- affiliated individuals and companies since May 2015. Funds are allegedly collected in secret and illicitly transferred out of the country in cash, often via pilgrims performing Hajj and Umrah. The government has responded in recent years and increased policing to counter this smuggling. Recent regional turmoil and sophisticated usage of social media have facilitated charities outside of Saudi Arabia with ties to extremists to solicit donations from Saudi donors. Some Saudi officials acknowledge difficulties in following the money trail with regard to illicit finance, in large part due to a preference for cash transactions and regulatory challenges posed by hawala networks, which are illegal and dismantled upon discovery.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:
"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES
KYC covered entities: Banks and licensed money remitters and exchangers; real estate agents; investment and insurance companies; dealers in rare commodities (e.g., antiques) and precious metals and stones; lawyers, auditors, and accountants

REPORTING REQUIREMENTS:
Number of STRs received and time frame: 2,240: November 4, 2013 – October 25, 2014
Number of CTRs received and time frame: Not available
STR covered entities: Banks and licensed remittance and exchange companies; investment and insurance companies; dealers in rare commodities (e.g., antiques) and precious metals and stones; real estate agents, lawyers, auditors, and accountants

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:
Prosecutions: Not available
Convictions: Not available

RECORDS EXCHANGE MECHANISM:
With U.S.: MLAT: NO Other mechanism: YES
With other governments/jurisdictions: YES

The Kingdom of Saudi Arabia is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Money service businesses operating outside of banks and licensed money changers are illegal in Saudi Arabia. To help counteract the appeal of these types of unlicensed money services, particularly to many of the approximately 10 million expatriates living in Saudi Arabia, Saudi banks have developed fund-transfer systems that have proven capable of attracting customers accustomed to using other, non-sanctioned methods. Efforts to improve regulation of money transmitters also reportedly pushed more expatriate remittances to the formal banking system, which has facilitated greater transparency and control over such flows. The Saudis' ability to stop bulk cash smuggling has also improved, but some cash illicitly collected and transferred via pilgrims on Hajj or Umrah continues to flow.

Sweeping counterterrorism operations have demonstrated Saudi Arabia's effectiveness at disrupting terrorist financing within the Kingdom. Contributions to charities are subject to strict guidelines, and regulations forbid charities from performing certain payment and transfer activities. Nonetheless, scores of small, online charities based outside of the Kingdom have established a presence in Saudi Arabia via social media sites and have successfully solicited donations from within the Kingdom for both licit and illicit causes tied to Syria and other regional crises. The Saudi government is working to improve cooperation with neighboring jurisdictions to close down extremist charities and continue educating Saudi citizens regarding the risks of donating to unlicensed charities. In October 2015, Saudi Arabia shared global best practices for charity oversight at a regional conference designed to facilitate Gulf Cooperation Council member countries' cooperation in improving the policing of extremist charities.

Saudi Arabia's capacity to monitor compliance with and enforce its banking rules has helped stem the flow of illicit funds through Saudi financial institutions. In recent years, improvements in the quality and consistency of suspicious activity reporting have bolstered the government's ability to identify illicit financial transfers, unlicensed charitable collections, and other illegal activity.

Authorities should be vigilant in scrutinizing the regional gold trade, often used to transfer value. The government recently began publishing official criminal statistics and should continue to improve transparency regarding the number of successful money laundering prosecutions and convictions so that the effectiveness of the Kingdom's AML/CFT program can be better evaluated. The Saudi government should continue to ensure all institutions maintain consistent and strong compliance regimes.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Saudi Arabia conforms with regard to the government legislation required to combat money laundering and the financing of terrorism.

EU White list of Equivalent Jurisdictions

Saudi Arabia is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

To view historic Governance Indicators Ctrl + Click here and then select country

Failed States Index

To view Failed States Index Ctrl + Click here

Offshore Financial Centre

Saudi Arabia is not considered to be an Offshore Financial Centre

Key Findings from other US State Department Reports:

Narcotics

The Kingdom of Saudi Arabia is not a significant transit country for drugs, nor is there notable drug production reported in the country. Drug trafficking is illegal and is punishable by death. The Saudi Arabian government (SAG) has implemented several policy initiatives aimed at curbing the trafficking and abuse of narcotics to include sponsoring drug education curricula, drug treatment facilities, and coordination with neighbouring countries on combating cross border trafficking. However, regular seizures of fenethylline (a synthetic stimulant also known as Captagon) indicate a continued trend of smuggling and use of some illegal narcotic substances.

Trafficking in Persons

Saudi Arabia is classified a Tier 3 country - a Country whose government does not fully comply with the minimum standards and is not making significant efforts to do so.

Saudi Arabia is a destination country for men and women subjected to forced labor and, to a lesser extent, forced prostitution. Men and women from countries in South Central Asia, the Middle East, and Africa, such as Bangladesh, India, Sri Lanka, Nepal, Pakistan, the Philippines, Indonesia, Sudan, Ethiopia, Kenya, Burma, and Yemen, as well as many other countries voluntarily travel to Saudi Arabia as domestic workers or low-skilled laborers; many subsequently face involuntary servitude, experiencing nonpayment of wages, withholding of passports, confinement to the workplace, long working hours without rest, deprivation of food, threats, physical and sexual abuse, and restrictions on movement. Sending-country embassies and consulates indicate that non-payment of wages is the most widespread complaint from foreign workers in Saudi Arabia. The foreign worker population is the most vulnerable to trafficking in Saudi Arabia, particularly female domestic workers, due to their isolation inside private residences. The International Labor Organization (ILO) estimates that Saudi Arabia is one of the largest employers of domestic workers in the world; this sector has the highest average working hours in Saudi Arabia. Although many migrant workers sign contracts delineating their rights, some report work conditions that are substantially different from those described in the contract. Other migrant workers never see a contract at all, leaving them especially vulnerable to forced labor, including debt bondage. Some migrant workers voluntarily enter into illegal arrangements and pay a Saudi national to sponsor their residency permit while they seek freelance work, thus becoming vulnerable to possible extortion by their sponsors. Due to Saudi Arabia's requirement that foreign workers receive permission from their employers to obtain an exit visa before they are legally able to leave the country, some migrant workers report that they are forced to work for months or years beyond their contract term because their employers will not grant them an exit permit; the government extended an amnesty from this provision to migrant workers between April and November 2013.

Some women, primarily from Asia and Africa, are believed to be forced into prostitution in Saudi Arabia. Some female domestic workers are reportedly kidnapped and forced into prostitution after running away from abusive employers. Children from Yemen, Nigeria, Pakistan, Afghanistan, Chad, and Sudan are subjected to forced labor as beggars and street vendors in Saudi Arabia, facilitated by criminal gangs. A Saudi government study conducted in 2011 reported that most beggars in Saudi Arabia are Yemenis between the ages of 16 and 25. Migrants from Yemen and the Horn of Africa enter Saudi Arabia illegally via the border with Yemen; some of them may be trafficking victims. Some Saudi nationals engaged in sex tourism during the reporting period in various countries worldwide. The Saudi government did not report efforts to address child sex tourism by Saudi nationals abroad through any law enforcement efforts. Some Saudi men used legally-contracted "temporary marriages" as a means by which to sexually exploit young girls and women overseas in countries such as Egypt, India, Jordan, Mauritania, Yemen, and Indonesia.

The Government of Saudi Arabia does not fully comply with the minimum standards for the elimination of trafficking and is not making significant efforts to do so. The government did not report prosecuting or convicting any trafficking offenders. Though the government identified and referred some victims to protection services, authorities identified fewer victims than in the previous reporting period. The government did not make systematic efforts to proactively identify trafficking victims among foreign migrants, runaway domestic workers, and vulnerable children. Some Saudi police and officials continued to arrest, detain, and sometimes charge runaway and illegal migrant workers who may be unidentified trafficking victims, while some police referred others to government-run camps for individuals being deported. During the government's amnesty period and migrant round-ups, the government did not have a systematic process in place to identify victims of trafficking among the thousands of foreign migrants who were arrested, detained, and deported; however, it reportedly investigated some potential trafficking cases at detention and deportation centers. Moreover, some migrants—some of whom may be victims of trafficking—reported abuses at the hands of government authorities during the detention and deportation process. The sponsorship system, including the exit visa requirement, continued to restrict the freedom of movement of migrant workers and to hamper the ability of victims of trafficking to pursue legal cases against their employers. Though the government adopted new laws in 2013 that provide some protections for domestic workers, including establishing working hours and requiring direct wage payments into bank accounts, the new laws also provided that domestic workers cannot refuse to work if it is in their contract; this may increase domestic workers' vulnerability to forced labor. Employers continued to regularly withhold workers' passports without punishment as a means of keeping workers in forced labor, despite this practice being prohibited by law.

Terrorist Financing 2015:

Overview: During 2015, the Saudi Arabian government continued to build and augment its capacity to counter terrorism and violent extremist ideologies. In addition to confronting the threat from al-Qa'ida in the Arabian Peninsula (AQAP), the Saudis faced lethal attacks from the Islamic State of Iraq and the Levant (ISIL), and maintained a high-tempo of counterterrorism operations. Both AQAP and ISIL continued to encourage individual acts of terrorism within the Kingdom. The spate of ISIL attacks against Shia mosques, Saudi security forces, and Western targets in Saudi Arabia and other Gulf Cooperation Council (GCC) states in 2015 underscored the threat posed to Saudi Arabia and the region by ISIL, and encouraged Saudi Arabia to work more closely with both Western and GCC partners to counter the ISIL threat.

Saudi Arabia continued to maintain a vigorous counterterrorism relationship with the United States, supported enhanced bilateral cooperation to ensure the safety of both U.S. and Saudi citizens within Saudi territories and abroad, and was an active participant in the Global Coalition to Counter ISIL. On December 14, the Saudi Arabian government announced a 34-state Islamic Counterterrorism Coalition to be headquartered in Riyadh that will focus on countering violent extremism and coordinating military efforts against all terrorist threats – including ISIL – in Muslim countries. Furthermore, the Saudi government remained attuned to the continuing threat from AQAP.

The Saudi government took a zero-tolerance stance on ISIL, condemning its activities and participating in coalition military action to defeat the group in Syria and Iraq. Its external military action against ISIL in Syria as a part of the U.S.-led coalition was complemented by an aggressive campaign by both official clerics and King Salman to discredit the group and condemn its activities as acts of terrorism. Saudi Arabia implemented UN Security Council Resolutions (UNSCRs) 2178 and 2199, and the UN 1267/1989/2253 ISIL (Da'esh) and al-Qa'ida sanctions regime; expanded existing counterterrorism programs and rhetoric to address the phenomenon of foreign terrorist fighters; and leveraged terrorism finance provisions of its Law for Crimes of Terrorism and Terrorist Financing (CT Law) to counter the funding of violent extremist groups in Iraq and Syria.

2015 Terrorist Incidents: A number of attacks on both Saudi and Western targets occurred despite Saudi efforts to detect and disrupt terrorist activity. ISIL posed a persistent challenge to Saudi security services, claiming responsibility for or inspiring the most egregious incidents in the Kingdom during 2015. On January 30, an individual, possibly inspired by ISIL, attacked two U.S. defense contractors in Saudi Arabia's Eastern Province, killing one. Since May, ISIL conducted two suicide attacks against Shia mosques in the Eastern Province, a suicide attack on Saudi security personnel in a mosque in Abha, and a suicide attack against a Shia mosque in Najran. In mid-October, a gunman affiliated with ISIL killed five Shia worshippers at a prayer hall. In addition to targeting Westerners and Saudi Shia, terrorist groups have plotted and conducted successful attacks against Saudi security forces by focusing attacks on border outposts, police stations, and military facilities. In September, two Saudi youth coerced their cousin, a cadet in the Special Security Forces (SSF) Academy, to travel to the desert and recorded a video of his execution in an attempt to gain membership in ISIL. Additionally, in fall 2015, Saudi security forces in Riyadh discovered and interdicted an IED cell and arms cache, resulting in a brief gunfight with the would-be attackers. In all cases, the Saudi government worked closely with U.S. counterparts to clarify the circumstances regarding these attacks and responded quickly to ensure proper security measures were in place to better secure U.S. installations and interests.

Legislation, Law Enforcement, and Border Security: Saudi Arabia enacted a new counterterrorism law containing 41 articles in 2014 that strengthened its existing counterterrorism provisions. In 2015, Saudi Arabia continued to disrupt terrorist activities in the Kingdom by tracking, arresting, and prosecuting terrorist suspects. The Saudi Ministry of Interior (MOI) General Investigations Directorate, also known as the Mabahith, is responsible for conducting counterterrorism investigations in the Kingdom and, upon its discretion, will cooperate with other elements of the Saudi government to further investigations into specific cases. Once the investigation is complete, the case is transferred to the Special Investigations and Public Prosecutions Office for the duration of the trial. The Saudi government continued its programs to improve physical border security through the employment of biometric systems, aerial reconnaissance, thermal imaging, and remote unattended sensors along its borders. Throughout 2015, Saudi Arabia faced a deteriorating security situation with its neighbors, Iraq and Yemen.

Neighborhood police units engaged and worked directly with community members in Saudi Arabia, encouraging citizens to provide tips and information about suspected terrorist activity. The government offered rewards for information on terrorists, and Saudi security services made several announcements throughout the year pertaining to the arrest of large numbers of ISIL and AQAP terrorists and supporters.

Countering the Financing of Terrorism: Saudi Arabia is a member of the Middle East and North Africa Financial Action Task Force, a Financial Action Task Force (FATF)-style regional body. Its financial intelligence unit (FIU), the Saudi Arabia FIU (SAFIU), is a member of the Egmont Group. The Saudi government affirmed its commitment to combatting terrorism financing in the Kingdom and sought to further establish itself as a leader in disrupting terrorism finance within the Gulf region. The MOI continued to provide specialized training programs for financial institutions, prosecutors, judges, customs and border officials, and other sectors of the government as part of its effort to enhance programs designed to counter terrorism financing. The Saudi Arabian Monetary Agency has standing requirements for all financial institutions within the Kingdom's jurisdiction to implement all of the recent anti-money laundering and combatting the financing of terrorism recommendations issued by the FATF. Saudi Arabia earned observer status in the FATF in June 2015 and is in a process toward full membership in the organization.

For the first time, Saudi Arabia produced certified bank records in response to a mutual legal assistance request, based on reciprocity and increased cooperation on identification of foreign terrorist fighters traveling to Syria and Iraq.

Saudi Arabia, along with Italy and the United States, co-lead the Counter-ISIL Finance Group, which coordinates the Counter-ISIL Coalition's efforts to disrupt and dismantle ISIL's financial infrastructure. In 2015, Saudi Arabia increased its public designations of individuals and entities for violating the Kingdom's laws criminalizing terrorism financing and support. In April, Saudi Arabia and the United States took joint action to designate al-Furqan Foundation Welfare Trust, the successor entity to the Afghan Support Committee and Revival of Islamic Heritage Society branches in Pakistan and Afghanistan. In May and November, Saudi Arabia leveraged counterterrorism financing authorities to sanction 14 individuals and two entities for acting on behalf of or providing financial support to Hizballah.

Despite serious and effective efforts to counter the funding of terrorism originating within the Kingdom, some individuals and entities in Saudi Arabia continued to serve as sources of financial support for Sunni-based extremist groups, particularly regional al-Qa'ida affiliates such as the Nusrah Front. While the Kingdom has tightened banking and charity regulations, and stiffened penalties for financing terrorism, funds are allegedly collected in secret and illicitly transferred out of the country in cash, often via pilgrims performing Hajj and Umrah. In recent years the government has responded, and in 2015 it increased policing to counter this smuggling. Recent regional turmoil and a sophisticated use of social media have facilitated charities outside of Saudi Arabia with ties to violent extremists to solicit donations from Saudi donors.

Countering Violent Extremism: As part of the Kingdom's strategy to counter violent extremism, the government focused on increasing public awareness campaigns and conducting outreach, counter-radicalization, and rehabilitation programs. Some of these efforts involved seminars that refuted violent Islamist extremist interpretation and ideology. Public awareness campaigns were aimed at reinforcing the values of the state's Wahhabi interpretation of the Islamic faith and educating Saudi citizens about the dangers of violent extremism. Methods used included advertisements and programs on television, in schools and mosques, and at sporting events. The Saudi government expanded these programs to address the rising threat to youth from recruitment efforts from groups like ISIL and to dissuade its citizens from engaging as foreign terrorist fighters in Syria and Iraq.

The MOI continued to operate its de-radicalization program (the Sakina Campaign for Dialogue), as well as its extensive rehabilitation program at the Mohammed bin Naif Counseling and Care Center.

The Department of State has long engaged the Saudi government about its educational system. During 2015, the Saudi government continued its ongoing program to modernize the educational curriculum, including textbooks, although this has not been completely implemented and some textbooks containing derogatory and intolerant references to Shia and non-Muslims remained in circulation.

The Ministry of Islamic Affairs continued to train and regulate imams, prohibiting them from incitement of violence, and continued to monitor mosques and religious education. Some privately-funded satellite television stations in the Kingdom continued to espouse sectarian hatred and intolerance.

International and Regional Cooperation: Saudi Arabia cooperated regionally and internationally on counterterrorism issues, including through its participation in the Global Counterterrorism Forum (GCTF). Saudi Arabia is also a member of the GCC. Saudi officials issued statements encouraging enhanced cooperation among GCC and Arab League states on counterterrorism issues, and the government hosted international counterterrorism conferences on subjects including, but not limited to, countering violent extremist ideology and countering terrorism financing.

Throughout the year, Saudi security professionals participated in joint programs around the world, including in Europe and the United States. The Saudi government participated in a U.S.-GCC Camp David summit, where it reaffirmed its commitment to countering terrorism. In addition to Saudi Arabia's bilateral cooperation with the United States, Saudi officials also worked with other international counterparts to conduct counterterrorism operations and exchange information. The growing threat from ISIL to both Saudi Arabia and other GCC member states encouraged greater dialogue about information sharing, coordination of counterterrorism efforts, and the importance of strategic cooperation against terrorist groups seeking influence in the region. In August, the Saudi government hosted the U.S.-GCC Counterterrorism and Border Security Working Group. Following deadly mosque attacks in

Saudi Arabia and Kuwait, the Saudis committed to greater collaboration with GCC neighbors in an effort to better counter the shared regional terrorist threat.

On December 14, Deputy Crown Prince and Minister of Defense Prince Mohammed bin Salman announced the formation of a 34-nation Islamic military coalition to fight terrorism and counter violent extremism. The joint statement from coalition members referred to the UN and Organization of the Islamic Conference charter to justify the coalition's formation. The coalition will be led by Saudi Arabia and headquartered in Riyadh. The coalition members' roles and responsibilities were not announced in 2015.

International Sanctions

Saudi Arabia is not currently subject to any International Sanctions

Arab League

The Arab League (comprising 22 Arab member states), of which this country is a member, has approved imposing sanctions on Syria. These include: -

* Cutting off transactions with the Syrian central bank
* Halting funding by Arab governments for projects in Syria
* A ban on senior Syrian officials travelling to other Arab countries
* A freeze on assets related to President Bashar al-Assad's government

The declaration also calls on Arab central banks to monitor transfers to Syria, with the exception of remittances from Syrians abroad.

The Arab League has also boycotted Israel in a systematic effort to isolate Israel economically in support of the Palestinians, however, the implementation of the boycott has varied over time among member states.

There are three tiers to the boycott. The primary boycott prohibits the importation of Israeli-origin goods and services into boycotting countries. The secondary boycott prohibits individuals, as well as private and public sector firms and organizations, in member countries from engaging in business with any entity that does business in Israel. The Arab League maintains a blacklist of such firms. The tertiary boycott prohibits any entity in a member country from doing business with a company or individual that has business dealings with U.S. or other firms on the Arab League blacklist.

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	46
World Governance Indicator – Control of Corruption	60

US State Department

Saudi Arabia has some limited legislation aimed at curbing corruption. The Tenders Law of Saudi Arabia, approved in 2004, has improved transparency of government procurement through publication of tenders. Further, ministers and other senior government officials appointed by royal decree are forbidden from engaging in business activities with their ministry or organization while employed there. There are few cases of prominent citizens or government officials being tried on corruption charges.

Despite the fact that corruption has been identified by foreign firms as an obstacle to investment in Saudi Arabia, authorities have so far taken only modest steps toward combating it. In April 2007, the King established the National Authority for Combating Corruption that was to report directly to him, but there was little, if any, follow-through to establish this institution. The General Auditing Bureau is also charged with combating corruption. In 2011, the King reconstituted the Authority as the Anti-corruption Commission under new and more energetic leadership. Although little of its work has so far been publicized and many remain skeptical, some anecdotal evidence suggests the Commission has been active in its investigations and is not shying away from influential players whose indiscretions may previously have been ignored.

Saudi Arabia ratified the U.N. Convention against Corruption (UNCAC) in April 2013 and signed the G-20 Anti-Corruption Action Plan (ACAP) in November 2010.

Corruption and Government Transparency - Report by Global Security

Political Climate

Saudi Arabia has been governed by the al-Saud monarchy since the country was unified by King Abdul Aziz Ibn Saud in 1932. The country is currently governed by Abdullah Ibn Abdul Aziz al-Saud, who formally became the sixth ruler of the dynasty when King Fahd died in August 2005. Oil income has played a major role in the formation of the Saudi Arabian state. Saudi Arabia has the largest oil reserves in the world, and its oil resources and subsequent importance to the global economy are key factors in its external relations. Saudi Arabia has gradually liberalised trade in recent years in pursuit of attracting foreign investment, and joined the WTO in late 2005. The country offers attractive opportunities for investors, including the largest market in the Persian Gulf with a very young population of more than 28 million, economic and political stability, and a well-regulated business climate.

The al-Saud family, consisting of more than 5,000 princes and princesses, uses its immense oil-wealth to shape and control domestic politics, and there are no institutional checks on royal authority. The king is formally constrained by Islamic law (Sharia), but there is little accountability and he has wide-ranging arbitrary powers in practice. According to Freedom House 2012, the monarchy has a tradition of consulting and consensus-seeking with high-ranking members of Saudi society, but this process is not equally open to all citizens. Criticism against the political system and the royal family is prohibited, and activists who protest for political change risk-facing punishments, including imprisonment and restrictions on travel. While traditionally being very conservative, the Saudi royal family has been increasingly open to the discussion of political and social reforms since the mid-1990s. However, while the transfer of power from King Fahd to King Abdullah led to increased expectations of new reforms, Abdullah has enacted few significant changes. Although Saudi society has generally supported the idea of reform, it has not been widely embraced within the royal family, which is still reluctant to share their political power. However, the radical changes that came about with the Arab Spring led the king to hold the almost two year-delayed municipal elections in September 2011. To calm the unrest, the king also pledged USD 93 billion in financial support, which include welfare benefits, funds for housing projects and health care facilities. Although the concepts of transparency and anti-bribery have long been included in Saudi Arabian legislation, anti-corruption has only recently become part of the political agenda. This happened after King Abdullah publicly admitted that corruption was a problem in the country, and culminated with the Council of Ministers' approval of a National Strategy for Maintaining Integrity and Combating Corruption in 2007, which aims at enhancing and organising the fight against corruption.

Since the fight against corruption made its way to the political agenda, an increasing number of public officials have been sentenced to fines and prison sentences for accepting bribes and according to the Bertelsmann Foundation 2012, this has resulted in less administrative corruption in Saudi Arabia compared to other Arab countries. Nonetheless, various sources, including the US Department of State 2011 and Freedom House 2012, report that the public perception of corruption within the royal family and the executive branch of government is still widespread. This perception is encouraged by the lack of transparency in decision-making and government budgets. Public officials are not subject to financial disclosure laws and there is no law to provide public access to government information, including ministerial budgets, according to the US Department of State 2011. As reported by the Bertelsmann Foundation 2012, mechanisms to hold accountable and investigate political elites formally exist, but are often not utilised in practice. However, investigations of corruption committed by public officials happen and have recently been made known publicly to a larger extent than previously. Nevertheless, as emphasised by Freedom House 2012, punishment of individuals involved in corruption is selective and usually includes lower-level figures indicted for relatively minor offences. In fact, the US Department of State 2011 reports that following the floods that occurred in Jeddah in January 2011, the government launched investigations into allegations of widespread official corruption and malfeasance thought to have contributed to the resulting damage and loss of life during the floods. The General Audit Bureau also confirmed the former by reporting that the happenings illustrated the poor performance of government departments due to bribery and corruption.

Furthermore, Saudi politics is generally based on patronage systems, with most princes in government having built up large clienteles and attachment to princely networks can give individuals privileges in business or administration. Moreover, no laws regulate conflicts of interest and most leading royals have large business interests, just as many non-royal ministers are involved in business beside their political carrier. The Bertelsmann Foundation 2012 reports that the royal family is perceived to abuse government funds, property rights and contracts, as well as civil and criminal justice procedures. Members of the royal family are seen as interfering in or profiting from contract awards, the allocation of money from oil sales, the profits from state-financed companies and contracts for the delivery of arms imports and military services. See 'Public Procurement and Contracting' in the 'Corruption Levels' section for more detailed information.

Business and Corruption

Saudi Arabia has long been open to foreign investment, especially if it promotes economic development, transfers foreign expertise to Saudi Arabia, creates jobs for Saudis or boosts exports. Despite the Saudi economy being bolstered by a strong performance in the oil sector in 2010, it also witnessed increasing inflation. Improvement of the business climate continues to be an important part of the Saudi government's broader programme to liberalise the country's trade and investment regime, and diversify an economy overly dependent on oil and petrochemicals, according to the US Department of State 2012. The two aforementioned sectors are strongly influenced by the interests of members of the royal family and social elite. Saudi officials, however, have given assurances that the so-called Economic Cities, a USD 60 billion project of industrial and commercial zones currently under construction, will be free from interference from the royal family. Although Saudi institutions are generally perceived to be stable, and sudden changes in basic economic rules seldom occur, it may still not be an easy environment to operate in for foreign investors for reasons such as a conservative cultural environment, according to the US Department of State 2012. Furthermore, the Heritage Foundation 2012 describes Saudi Arabia's economic freedom as deficient and the levels of investment freedom, monetary freedom and property rights as average at best. Investment freedom, the report notes, remains hampered by a heavy bureaucracy and a lack of transparency.

Information on corruption and demands for bribes between foreign investors and Saudi companies or public officials is relatively scarce, and views on the pervasiveness of the problem are fairly mixed. For example, according to the US Department of State 2012, foreign companies identify corruption as an obstacle to investment in Saudi Arabia. Public procurement and general protection of companies are cited as areas in which senior officials or social elite often have a stake and where bribes are solicited - frequently disguised as commissions. This is supported by Freedom House 2009, which states that companies often have to pay bribes to middlemen and government officials to secure business deals. On the other hand, however, the World Economic Forum Global Competitiveness Report 2012-2013 reports that companies do not identify corruption as a very problematic factor for doing business in Saudi Arabia. Other factors, such as inefficient government bureaucracy and access to financing, are cited as more problematic business constraints. Nevertheless, according to the report, companies consider the occurrence of irregular payments and bribes in Saudi Arabia as fairly common. In sum, it seems as if most sources mainly base their perception of corruption on proven high-scale corruption scandals, such as the BAE scandal, thus falling short of providing any accurate picture of the pervasiveness of corruption and the use of facilitation payments in business dealings.

Research conducted by Arab News and published in October 2009 reveals a culture of pervasive petty corruption in dealings between government officials and companies in Saudi Arabia. For example, as estimated by an anonymous Saudi businessman, 95% of governmental procedures involve bribery in the form of expensive gifts, such as plane tickets or other reciprocal favours. In addition, such bribery is typically justified as compensation for government employees who work for low wages, or simply as a 'tip' for the service being rendered. The cost of such bribes reportedly increases proportionally with the value of the service provided. In addition, public officials typically get 10% of the value of the fines issued to companies due to small violations. Businesspeople complain that this practice works as an incentive system for public officials to issue undue or inflated fines. An example of this could be the case reported by Gulf News in an August 2008 article, according to which, a company specialised in medical equipment received a fine amounting to SAR 3 million for failing to honour a contract signed with the Ministry of Health. The company tried to offer a ministerial employee a bribe worth SAR 150,000 to avoid paying the fine, but the attempt was discovered, and the company had the fine doubled and was blacklisted from bidding on future contracts. Based on the above, companies are generally advised to consult with experienced attorneys, to develop, implement and strengthen integrity systems, and to carry out extensive due diligence before committing funds or when already doing business in Saudi Arabia. In addition, Freedom House 2012 reports that rent-seeking and corruption are not uncommon in government procurement processes. In order to mitigate the corruption risks associated with public procurement in Saudi Arabia, investors are advised to exert caution when bidding on public tenders, and are therefore recommended to use a specialised public procurement due diligence tool.

Regulatory Environment

The Foreign Direct Investment Law 2000 governs the Saudi Arabian investment regime and permits foreigners to invest in all sectors of the economy, except for specific activities in some strategic sectors. Yet, the list of sectors in which foreign investment is prohibited continues to shrink due to efforts to liberalise trade. The Saudi private sector has matured considerably in recent decades and has more sophisticated managerial structures than most other Middle Eastern and North African (MENA) countries. In addition, Saudi Arabia has embarked on a process of market reforms and was ranked as the world's Top Reformer by the World Bank and IFC in 2006, which also ranked it as the 11th easiest place to do business in the world in 2011. However, according to Freedom House 2010, these impressive figures are also a result of the Saudi Arabian General Investment Authority's efforts to change specific rules and procedures that are measured by the World Bank and IFC's indicators. The procedures of starting up a business have been simplified by the creation of a one-stop office at the Ministry of Commerce and Industry, and, according to the World Bank & IFC Doing Business 2013, it now only takes an average of 21 days and 9 procedural steps at a cost of 5% of GNI per capita to start a company, and only 8 days and 5 procedural steps at no cost to register property. In general, Saudi Arabia now performs just as well or better than most OECD countries in relation to access to credit, paying taxes and importing and exporting goods. Business executives surveyed in the World Economic Forum Global Competitiveness Report 2012-2013 give complying with administrative requirements (permits, regulations, reporting) a score of 4.4 on a 7-point scale (1 'extremely burdensome' and 7 'not burdensome at all'). Moreover, business executives give the transparency of government policy-making, based on how easy it is for companies to obtain information about changes in government policies and regulations, a score of 5 on a 7-point scale (1 'impossible' and 7 'extremely easy'). However, companies identify inefficient government bureaucracy as one of the four most problematic factors for doing business in Saudi Arabia.

Although the regulatory framework for private business has improved in recent years, the Bertelsmann Foundation 2012 reports that it is applied inconsistently in practice and principles of good governance have not yet been applied to the bureaucracy. On the contrary, it has remained opaque, over-centralised and unaccountable, and no informal regulatory services are managed by NGOs or private sector associations. Freedom House 2012 also states that, while certain regulations and procedures have been simplified, the Saudi bureaucracy continues to be slow-moving, lacking transparency, and makes extensive documentation demands. While this environment has not automatically led to corruption, it has, nevertheless, facilitated its occurrence. This is supported by the US Department of State 2012, according to which, there are few aspects of the Saudi regulatory system that are transparent. Still, however, although bureaucratic procedures may be cumbersome, red tape can reportedly be overcome with persistence. All foreign investment projects in Saudi Arabia must initially obtain a licence from the Saudi Arabian General Investment Authority (SAGIA), which was established by the Council of Ministers in April 2000. Investors will find a large compilation of relevant information on the SAGIA website concerning, among other things, investment opportunities, the cost of doing business and laws and regulations.

According to the US Department of State 2012, other disincentives to investment include requirements that companies employ Saudi nationals, slow payment of government contracts, a restrictive work visa policy, a highly conservative cultural environment, and enforced gender segregation in most business and social settings. Furthermore, although the Saudi government is making progress towards establishing a commercial court system, there is not yet a transparent, comprehensive legal framework in place for resolving commercial disputes. On a more positive note, the same report notes that Saudi Arabia recently undertook a comprehensive revision of its laws covering intellectual property rights to bring them in line with the WTO agreement on Trade Related Aspects of Intellectual Property Rights. However, it is also reported that Saudi litigants typically have an advantage over foreign parties in investment disputes due to their first-hand knowledge of Saudi law and culture. For that reason, foreign investors involved in a dispute are advised to contact local attorneys with knowledge of Saudi legal procedures. Saudi Arabia has ratified the New York Convention of 1958 and is a member of the International Centre for the Settlement of Investment Disputes (ICSID). Access the Lexadin World Law Guide for a collection of legislation in Saudi Arabia.

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Section 3 - Economy

Saudi Arabia has an oil-based economy with strong government controls over major economic activities. It possesses about 16% of the world's proven petroleum reserves, ranks as the largest exporter of petroleum, and plays a leading role in OPEC. The petroleum sector accounts for roughly 80% of budget revenues, 45% of GDP, and 90% of export earnings. Saudi Arabia is encouraging the growth of the private sector in order to diversify its economy and to employ more Saudi nationals. Diversification efforts are focusing on power generation, telecommunications, natural gas exploration, and petrochemical sectors. Over 6 million foreign workers play an important role in the Saudi economy, particularly in the oil and service sectors, while Riyadh is struggling to reduce unemployment among its own nationals. Saudi officials are particularly focused on employing its large youth population, which generally lacks the education and technical skills the private sector needs. Riyadh has substantially boosted spending on job training and education, most recently with the opening of the King Abdallah University of Science and Technology - Saudi Arabia's first co-educational university. As part of its effort to attract foreign investment, Saudi Arabia acceded to the WTO in 2005. The government has begun establishing six "economic cities" in different regions of the country to promote foreign investment and plans to spend $373 billion between 2010 and 2014 on social development and infrastructure projects to advance Saudi Arabia's economic development.

Agriculture - products:

wheat, barley, tomatoes, melons, dates, citrus; mutton, chickens, eggs, milk

Industries:

crude oil production, petroleum refining, basic petrochemicals, ammonia, industrial gases, sodium hydroxide (caustic soda), cement, fertilizer, plastics, metals, commercial ship repair, commercial aircraft repair, construction

Exports - commodities:

petroleum and petroleum products 90%

Exports - partners:

US 14.3%, China 13.7%, Japan 13.7%, South Korea 9.9%, India 8.2%, Singapore 4.3% (2012)

Imports - commodities:

machinery and equipment, foodstuffs, chemicals, motor vehicles, textiles

Imports - partners:

China 13.5%, US 13.2%, South Korea 6.7%, Germany 6.5%, India 6.3%, Japan 6% (2012)

Banking

An important development in the Saudi financial scene was the Royal Directive (May 9, 2006) that established the King Abdullah Financial District in Riyadh, which will house major financial institutions, the Capital Market Authority, the Stock Exchange, and other service providers.

The Saudi banking system remains one of the strongest and most profitable in the region. During the first 11 months of 2010, net income registered $6.46 billion, down by more than 10 percent from $7.24 billion in 2009. In contrast, total assets of the Saudi banking sector slightly went up, from $370 billion in 2009 to $374 billion in 2010. Aggregate consumer borrowing also increased 3.7 percent, from $199.7 billion in 2009 to $207.0 billion in 2010.

The difficulty in obtaining a banking license to operate in Saudi means that only 12 Saudi and Saudi-foreign joint venture banks operate, dominated by Al-Rajhi bank, the country's most profitable and the world's largest Islamic banks, and the National Commercial Bank the largest by asset size in both Saudi Arabia and the whole GCC. A number of international banks have entered the market by taking stakes in domestic firms, such as HSBC's 40 per cent stake in Saudi British Bank (SABB) and ABN Amro's 40 per cent stake in Saudi Hollandi Bank. Five GCC banks are licensed to operate in Saudi Arabia, and licenses were also granted to Deutsche Bank, BNP-Paribas, State Bank of India,
National Bank of Pakistan, and J.P. Morgan Chase.

Foreign banks are permitted to enter joint venture companies in Saudi Arabia with a previous foreign equity cap of 40% raised to 60%. Now, they can also open direct branches.

Stock Exchange

The stock exchange is called the Saudi Stock Exchange. The Kingdom's stock market remained relatively unchanged and the Tadawul All-Share Index (TASI) closed at 6,620.5 in 2010 compared to 6,121.76 in 2009. The total value of traded shares plummeted in 2010 reaching $202.45 billion in 2010, down by about 40%. Overall market capitalization, however, improved more than 10.8%, reaching $353.44 billion in 2010 compared to $318.8 billion in 2009. The total number of traded companies was 145 compared to 135 in 2009. The Kingdom's stock market is the largest and the most attractive in the region; it is still larger than the combined worth of companies listed in Kuwait, UAE, and Qatar and many international bankers and asset managers have re-focused their advisory and research services on the Saudi market.

The Saudi Government has also opened up asset management, advisory and brokerage services to foreign institutions.

Section 4 - Investment Climate

Executive Summary

Saudi Arabia offers an attractive and relatively stable market for investment, particularly for investors that are able to overcome initial barriers imposed on foreigners. Despite political upheaval across the Middle East and North Africa, Saudi Arabia's economy continues to expand at a healthy pace, with real GDP growth of 3.8% for CY2013. Improvement of the investment climate continues to be an important part of the Saudi Arabian government's (SAG) broader program to liberalize the country's trade and investment regime, diversify an economy overly dependent on oil, and promote employment for a young population. The government encourages investment in transportation, education, health, communications technology, life sciences, and energy; as well as in four "Economic Cities" that are at various stages of development.

The Saudi Arabian General Investment Authority (SAGIA) provides information and assistance to foreign investors and works to foster investment opportunities in energy, transportation, and knowledge-based industries (see www.sagia.gov.sa). SAGIA also maintains and periodically reviews the list of activities excluded from foreign investment. The Saudi Industrial Development Fund (SIDF), an independent entity within the Ministry of Finance, is one important source of financing for investors.

Saudi Arabia's foreign-direct-investment law permits foreigners to invest in all sectors of the economy, except for specific activities contained in a "negative list," currently three industrial sectors and 13 service sectors. The list includes real estate investment in Mecca and Medina, some subsectors in printing and publishing, audiovisual and media services, land-transportation services excluding inter-city transport by trains, and upstream petroleum. The complete "negative list" can be found at http://www.sec.gov.sa/getdoc/be8e7887-27b1-4bb7-9879-bd75f8ad9acf/list-of-types.aspx.

Investors are not currently required to purchase from local sources or export a certain percentage of output, and their access to foreign exchange is unlimited. There is no requirement that the share of foreign equity be reduced over time. Investors are not required to disclose proprietary information to the SAG as part of the regulatory approval process, except where issues of health and safety are concerned. The government does not currently impose conditions on investment, such as locating in a specific geographic area, committing to specific percentages of local content or local equity, substitution for imports, export requirements or targets, or financing only by local sources. However, the proposed national energy plan includes recommended local-content requirements of 80% or more for the sector.

The SIDF will provide additional incentives and better loan terms to foreign investors who set up their manufacturing facilities in the underdeveloped provinces of Jizan, Hail, and Tabuk. American and other foreign firms are able to participate in SAG-financed and/or -subsidized research-and-development programs.

Overall, Saudi Arabia offers attractive investment opportunities for American investors, and the climate has not significantly changed from the previous year.

1. Openness to, and Restrictions upon, Foreign Investment

Despite political upheaval across the Middle East and North Africa, Saudi Arabia's economy continues to expand at a healthy pace, with real GDP growth of 3.8% for CY2013, and inflation at 3.4% at the end of 2013. Oil revenues through Saudi Aramco accounted for 85% of the Saudi Arabian government's (SAG's) current account receipts, and approximately 86% of total export revenue in 2013. Despite overspending its budget by 12.8%, the Kingdom enjoyed a fiscal surplus of 7.4% of GDP in 2013. The Kingdom holds foreign-exchange reserves estimated at around $730 billion and is one of the least indebted countries in the world.

Improving the investment climate continues to be an important part of the SAG's broader program to liberalize the country's trade and investment regime, diversify an economy overly dependent on oil, and promote employment for a young population. Saudi Arabia has made progress on its WTO commitments since joining the organization in 2005 and underwent its first Trade Policy Review in January 2012. However, it has yet to initiate negotiations to join the Government Procurement Agreement, as agreed to during its accession process to the WTO. In its "Doing Business 2013" report, the World Bank ranked Saudi Arabia 26th out of 189 economies in terms of ease of doing business, a marked improvement from 2005, when it ranked 67th, but a drop from 22nd place in 2012. In its "Corruption Perceptions Index 2013" report, Transparency International ranked Saudi Arabia as the 63rd-cleanest out of 177 countries in terms of perceived levels of public-sector corruption, down from 57th in 2011 but still better than in 2008, when it ranked 80th. In its 2013 "Economic Freedom Index," the Heritage Foundation gave the Kingdom a score of 62.2 out of 100, a rise of 1.6 from 2012, placing it 77th of the 178 rated countries.

The government encourages investment in transportation, education, health, information and communications technology, life sciences, and energy; as well as in four "Economic Cities" that are at various stages of development. The Economic Cities are to be new, comprehensive developments in different regions focusing on particular industries. Prospective investors will find Saudi Arabia attractive for its economic stability, large market (with a population of over 28 million), sound infrastructure, and well-regulated banking system.

There are also disincentives to investment, specifically a government effort to force all employers to hire higher proportions of Saudis at higher costs, an increasingly restrictive visa policy for all foreign workers, extremely slow payment under some government contracts, a very conservative cultural environment, and enforced segregation of the sexes in nearly all business and social settings. Further, although the SAG is making progress towards establishing a commercial court system, there is no transparent, comprehensive legal framework for resolving commercial disputes in accordance with international standards. The indicator that most negatively impacts its World Bank "Doing Business" ranking is contract enforcement, where it ranks 127th out of 189.

The foreign-direct-investment law, revised in 2000, permits foreigners to invest in all sectors of the economy, except for specific activities contained in a "negative list," currently three industrial sectors and 13 service sectors. The list includes real estate investment in Mecca and Medina, some subsectors in printing and publishing, audiovisual and media services, land-transportation services excluding inter-city transport by trains, and upstream petroleum. The complete “negative list” can be found at http://www.sec.gov.sa/getdoc/be8e7887-27b1-4bb7-9879-bd75f8ad9acf/list-of-types.aspx.

The Saudi Arabian General Investment Authority (SAGIA) periodically reviews the list of activities excluded from foreign investment and submits its reviews to the Supreme Economic Council for approval. Although these sectors are off-limits to 100 percent foreign investment, foreign minority ownership in joint ventures with Saudi partners may be allowed in some sectors. Foreign investors are no longer required to take local partners in many sectors and may own real estate for company activities. They are allowed to transfer money from their enterprises outside of the country and can sponsor foreign employees. Minimum capital requirements to establish business entities range from zero to 30 million Saudi riyals ($8 million) depending on the sector and the type of investment.

In April 2000, the Council of Ministers established SAGIA to provide information and assistance to foreign investors and to foster investment opportunities in energy, transportation, and knowledge-based industries (see www.sagia.gov.sa). SAGIA operates under the umbrella of the Supreme Economic Council and is headed by Governor Abdullatif al-Othman. SAGIA's duties include formulating government policies regarding investment activities, proposing plans and regulations to enhance the investment climate in the country, and evaluating and licensing investment proposals. All foreign investment projects must obtain a license from SAGIA. Investments in specific sectors may require additional licenses from other government authorities, including, but not limited to, the Saudi Arabian Monetary Agency (SAMA), the Capital Market Authority (CMA), or the Communications and Information Technology Commission (CITC).

SAGIA’s Investor Service Center (ISC) offers detailed information on the investment process, provides licenses and support services to foreign investors, and coordinates with government ministries to facilitate investment. According to SAGIA’s regulations, the ISC must grant or refuse a license within 30 days of receiving an application and supporting documentation from the prospective investor. SAGIA established and posted new licensing guidelines in 2012, but it is still advisable for companies looking to invest in Saudi Arabia to work with local representation to facilitate the slow and often bureaucratic licensing process. Licenses in services and agriculture must be renewed after one year and in industry after two years. SAGIA’s aim is to ensure investors do not just acquire and hold licenses without investing.

SAGIA has agreements with various SAG agencies and ministries to facilitate and streamline foreign investment. These agreements permit SAGIA to facilitate the granting of visas, establish SAGIA branch offices at Saudi embassies in different countries, prolong tariff exemptions on imported raw materials to three years and on production and manufacturing equipment to two years, and establish commercial courts. SAGIA opened a Women's Investment Center in spring 2003. To make it easier for businesspeople to visit the Kingdom, SAGIA can sponsor visa requests through the Chamber of Commerce, without involving a local company. Saudi Arabia is also implementing a decree stating that sponsorship is no longer required for certain business visas. While SAGIA has set up the infrastructure to support foreign investment, many report that the process remains cumbersome and time-consuming.

Pursuant to commitments it made when acceding to the WTO, Saudi Arabia has opened additional service markets to foreign investment, including financial and banking services; maintenance and repair of aircraft and computer reservation systems; wholesale, retail, and franchise distribution services; both basic and value-added telecom services; and investment in the computer and related services sectors.

Government bodies such as the Royal Commission for Jubail & Yanbu and the Al-Riyadh Development Authority have actively promoted opportunities in Saudi Arabia's industrial cities and other regions. In addition to the majority-government-owned Saudi Arabian Basic Industries Corporation (SABIC), private investment companies, such as the National Industrialization Company, the Saudi Venture Capital Group, and the Saudi Industrial Development Company, have also become increasingly active in project development and in seeking out foreign joint-venture partners.

The Saudi Industrial Development Fund (SIDF), an independent entity within the Ministry of Finance, is an important source of financing for investors. The main objective of the SIDF is to support the development of the private industrial sector by extending medium- to long-term loans for the establishment of new factories and the expansion, upgrading, and modernization of existing ones. Foreign investors are eligible to receive low-cost financing for up to 50%, 60%, or 75% of project costs (i.e., fixed assets, pre-operating expenses, and start-up working capital) depending on the level of development of the region. Loans are provided for a maximum term of 15 to 20 years, again depending on the region, with repayment schedules designed to match projected cash flows for the project in question.

There is no prohibition on foreign investment in refining and petrochemical development, and there is significant foreign investment in the downstream Saudi energy sector. ExxonMobil and Shell are both 50% partners in refineries with Saudi Aramco. ExxonMobil, Chevron Texaco, and Shell, as well as several other international investors, have formed joint ventures with SABIC to build large-scale petrochemical plants that utilize natural-gas feedstock from Saudi Aramco's existing operations at Ras Tanura. Aramco selected the Dow Chemical Company as its partner in a $20-billion joint venture to construct, own, and operate a chemicals and plastics production complex in Saudi Arabia's Eastern Province. The national mining company, Maaden, has a $12-billion joint venture with Alcoa for bauxite mining and aluminum production and a $7-billion joint venture with Mosaic and SABIC for phosphate-based fertilizers.

Joint ventures almost always take the form of limited-liability partnerships, to which there are some disadvantages. Foreign partners in service and contracting ventures organized as limited-liability partnerships must pay, in cash or in kind, 100 percent of their contribution to authorized capital. SAGIA's authorization is only the first step for setting up such a partnership. Still, foreign investment is generally welcome in Saudi Arabia if it promotes economic development, transfers foreign expertise to Saudi Arabia, creates jobs for Saudis, and/or expands Saudi exports.

Professionals, including architects, consultants, and consulting engineers, are required to register with, and be certified by, the Ministry of Commerce and Industry, in accordance with the requirements defined in the Ministry's Resolution 264 from 1982. These regulations, in theory, permit the registration of Saudi-foreign joint-venture consulting firms. As part of its WTO accession commitments, Saudi Arabia generally allows consulting firms to establish an office in Saudi Arabia without a Saudi partner. However, offices practicing law, accounting and auditing, design, architecture, engineering, or civil planning or providing healthcare, dental, or veterinary services must have a Saudi partner, and the foreign partner's equity cannot exceed 75% of the total investment.

In 2002, the Supreme Economic Council announced the approval of a privatization strategy and procedures, open to domestic and foreign investors, and a timetable to transfer certain public services to the private sector. Twenty state-owned companies handling water supply and drainage, water desalination, telecommunications, mining, power, air transportation and related services, railways, some sectors of roadways, postal services, flour mills and silos, seaport services, industrial-cities services, government hotels, sports clubs, some municipality services, educational services, social services, agricultural services, health services, government portions of SABIC, banks, and local refineries were slated for privatization.

As a result of the privatization strategy, the Saudi Telecommunications Company (STC) floated a minority stake (approximately 20%) on the stock market in January 2003, netting close to $4 billion in proceeds. An additional 10% has since been offered for private ownership. The initial public offering of 50% of the formerly state-owned National Company for Cooperative Insurance (NCCI) was completed in January 2005. The first SABIC offering went public on December 17, 2005, for 35% of the newly formed Yanbu National Petrochemical Company (YANSAB) (to be capitalized at $1.5 billion). YANSAB is SABIC's largest petrochemical complex to date, and the IPO netted $533 million in capital.

In July 2003, the SAG took significant, long-awaited steps to lower the corporate tax rate on foreign investors to a flat 20%; however, separate rates apply to investments in hydrocarbons. The flat tax replaced a tiered system with tax rates as high as 45%. While this is a welcome step toward more balanced treatment of foreign and Saudi-owned capital, the tax structure still favors Saudi companies and joint ventures with Saudi participation. Saudi investors do not pay corporate income tax, but are subject to a 2.5% tax, or “zakat,” on net current assets.

Measure	**Year**	**Index or Rank**	**Website Address**
TI Corruption Perceptions index	2013	63 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation’s Economic Freedom index	2013	77 of 177	http://www.heritage.org/index/ranking
World Bank’s Doing Business Report “Ease	2013	26 of 189	http://doingbusiness.org/rankings

of Doing Business”			
Global Innovation Index	2013	42 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	USD 24,310	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

There are no restrictions on converting and transferring funds associated with an investment (including remittances of investment capital, earnings, loan repayments, and lease payments) into a freely usable currency at a legal market-clearing rate. There have been no recent changes, but press reports have quoted the Minister of Labor as saying the SAG intends to limit remittances by foreign workers in the near future. There are no delays in effect for remitting investment returns such as dividends, repatriation of capital, interest and principal on private foreign debt, lease payments, royalties and management fees through normal legal channels. There is no need for a legal parallel market for investor remittances.

There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs, with the exception that bulk cash shipments greater than 60,000 riyals must be declared at the point of entry or exit. Since 1986, when the last devaluation occurred, the official exchange rate has been 3.75 Saudi riyals per U.S. dollar. Transactions occur using rates very close to the official rate.

3. Expropriation and Compensation

The Embassy is not aware of the SAG ever expropriating property from foreign investors. There have been no expropriating actions in the recent past or policy shifts that would lead the Embassy to believe there may be such actions in the near future.

4. Dispute Settlement

Saudi commercial law is still developing. In 1994 the Kingdom joined the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Saudi Arabia is also a member of the International Center for the Settlement of Investment Disputes (also known as the Washington Convention). In 2012, the SAG revised its arbitration law to update certain provisions. However, dispute settlement and enforcement of foreign arbitral awards in Saudi Arabia continues to be time-consuming and uncertain, along with the risk of sharia principles possibly trumping any judgments or legal precedents. Even after a decision is reached in a dispute, effective enforcement of the judgment can still take years. The Embassy suggests that American firms investing in Saudi Arabia include a foreign-arbitration clause in contracts, but advises that such clauses are not allowed in government contracts without a decision by the Saudi Council of Ministers.

Saudi litigants have an advantage over foreign parties in almost any investment dispute because of their first-hand knowledge of Saudi law and culture and the dispute-settlement process, as well as a perceived tendency of authorities to favor local parties in a dispute. Foreign partners involved in a dispute typically find it advisable to hire local attorneys with knowledge of Saudi legal practices. Many Saudi attorneys, in turn, retain non-Saudi (and particularly American) lawyers to facilitate the handling of disputes involving foreign investors.

Legal System

The Saudi legal system is derived from the legal rules of Islam, known as the sharia. The Ministry of Justice oversees the sharia-based judicial system, but most ministries have committees to rule on matters under their jurisdiction. Many disputes that would be handled in a court in the United States are handled through intra-ministerial administrative processes in Saudi Arabia. Generally, the Saudi Board of Grievances has jurisdiction over disputes with the government and over commercial disputes. The Board also reviews all foreign arbitral awards and foreign court decisions to ensure that they comply with sharia law. This review process can take years, and outcomes are unpredictable. Currently, the Saudi Ministry of Commerce and Industry is leading an ambitious project to overhaul commercial laws. This project entails drafting new laws while modernizing current ones, along with creating an arbitration center in cooperation with the Saudi Chambers of Commerce and Industry. In several cases, disputes have caused serious problems for foreign investors. For instance, Saudi partners have blocked foreigners' access to exit visas, forcing them to remain in Saudi Arabia against their will. In cases of alleged fraud, foreign partners may also be jailed to prevent their departure from the country while awaiting police investigation or adjudication of the case. Courts can impose precautionary restraint on personal property pending the adjudication of a commercial dispute. As with any investment abroad, it is important that U.S. investors take steps to protect themselves by thoroughly researching the business record of the proposed Saudi partner, retaining legal counsel, complying scrupulously with all legal steps in the investment process, and securing a well-drafted agreement.

The Committee for Labor Disputes (under the Ministry of Labor) and the Committee for Tax Matters (under the Negotiable Instruments Committee, also called the Commercial Paper Committee) handle disputes involving private individuals. Judgments of foreign courts are not consistently enforced by Saudi courts, despite Saudi Arabia's signature of the New York Convention. Monetary judgments are based on the terms of the contract—i.e., if the contract were in dollars, the judgment would be in dollars. If unspecified, the judgment is denominated in Saudi riyals. Non-material damages and interest are not included in monetary judgments.

In October 2007, King Abdullah issued a royal decree to overhaul the Kingdom's judicial system and allocated 7 billion Saudi riyals (approximately $1.9 billion) to train judges and build new courts. To date, few changes have been implemented, although the SAG has disbursed a portion of the funds allocated in 2007 for constructing new appeals courts and sending judges abroad for legal seminars. In early 2010, Saudi Arabia started the process of codifying the sharia regulations that govern the Kingdom's courts in an effort to bring clarity and uniformity to judicial rulings.

Bankruptcy

A bankruptcy law was enacted by Royal Decree no. N/16, dated 4/9/1416H (corresponding to 1/24/96). Articles contained in the law allow debtors to conclude financial settlements with their creditors through committees in each municipal or regional Chamber of Commerce and Industry or through the Board of Grievances. Designated as the Regulation on Bankruptcy Protective Settlement, the law is open to ordinary creditors, except in the case of privileged debts, and debts which arise pursuant to the settlement procedures. The Ministry of Commerce and Industry is revising the bankruptcy law to update key provisions and address several deficiencies in the Saudi bankruptcy regime.

5. Performance Requirements and Investment Incentives

Investors are not currently required to purchase from local sources or export a certain percentage of output, and their access to foreign exchange is unlimited. There is no requirement that the share of foreign equity be reduced over time. Investors are not required to disclose proprietary information to the SAG as part of the regulatory approval process, except where issues of health and safety are concerned. The government does not impose conditions on investment, such as locating in a specific geographic area, committing to specific percentages of local content or local equity, substitution for imports, export requirements or targets, or financing only by local sources.

Nonetheless, the SIDF will provide additional incentives and better loan terms to foreign investors who set up their manufacturing facilities in Jizan, Hail, and Tabuk. American and other foreign firms are able to participate in SAG-financed and/or -subsidized research-and-development programs.

The government uses its purchasing power to encourage foreign investment, requiring offsetting investments equivalent to 35% of a program’s value for defense contracts exceeding 400 million Saudi riyals ($107 million). In addition to defense offset, the SAG is also seeking FDI in various key sectors, such as oil, power generation, railways, and others, with the aim of fostering job creation.

To date, the SAG has not notified the WTO of any measures inconsistent with the requirements of the Agreement on Trade-Related Investment Measures (TRIMs), nor does it maintain any measures that are alleged to violate the WTO TRIMs text.

The SAG announced in 2002 it would ease restrictions on the issuance of visas to foreign businessmen to allow greater access and decreed in 2005 that sponsor requirements for business visas would be lifted. Difficulties remain regarding the Saudi visa procedures, however, despite the government’s announcement that foreign business visitors will no longer need to provide invitation letters from Saudi businesses to receive visas. In November 2007, Saudi Arabia declared that it would begin issuing U.S. business visitors five-year, multiple-entry visas at Saudi embassies, consulates, and ports of entry, but it has not yet fully implemented this policy. One-year “business visas” are routinely issued to U.S. visitors who do not have an invitation letter from a Saudi company, and the visa applicants must provide proof that they are engaged in legitimate commercial activity. By contrast, “commercial visas” are issued by invitation from Saudi companies to applicants who have a specific reason to visit a Saudi company, and the maximum validity is five years if sponsored by Saudi Chamber of Commerce, rather than the company that issued the invitation letter.

6. Right to Private Ownership and Establishment

All entities with appropriate licenses have the right to establish and own business enterprises and engage in all forms of remunerative activity, except in those sectors on the SAG's "negative list" reserved for state monopolies and Saudi citizens. Private entities generally have the right to establish, acquire, and dispose of interests freely in business enterprises.

7. Protection of Property Rights

Real Property

The Saudi legal system protects and facilitates acquisition and disposition of private property, consistent with Islamic practice respecting private property. Non-Saudi corporate entities are allowed to purchase real estate in Saudi Arabia according to the foreign-investment code. Other foreign-owned corporate and personal property is protected, and the Embassy knows of no cases of government expropriation or nationalization of U.S.-owned assets in the Kingdom. Saudi Arabia does have a system of recording security interests.

Intellectual Property Rights

Saudi Arabia recently undertook a comprehensive revision of its laws covering intellectual property rights to bring them in line with the WTO agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) and promulgated changes in coordination with the World Intellectual Property Organization (WIPO). The SAG updated its Trademark Law (2002), Copyright Law (2003), and Patent Law (2004) with the dual goals of TRIPs compliance and effective deterrence. In 2008, the Violations Review Committee created a website and has populated it with information on current cases. Although intellectual property right reforms are slow and inconsistent in some areas, the Kingdom is progressing overall.

The current Law on Patents, Layout Designs of Integrated Circuits, Plant Varieties and Industrial Designs has been in effect since September 2004. The patent office continues to build its capacity through training, has streamlined its procedures, hired more staff, and reduced its backlog. Patents are available for both products and processes. The term of protection was increased from 15 to 20 years under the new law, but patent holders can no longer apply for a routinely granted five-year extension. In December 2009, the Saudi Council of Ministers approved the Kingdom's accession to both the Intellectual Property Owners Association Patent Cooperation Treaty (PCT) and its Implementing Regulations and the Patent Law Treaty (PLT) adopted by the Diplomatic Conference in Geneva on June 1, 2000.

In September 2009, the King approved a mechanism to protect Exclusive Marketing Rights (EMR) for certain pharmaceutical products that had lost patent protection when Saudi Arabia transitioned to a new TRIPS-compliant patent law in 2004. EMR protection in Saudi Arabia expires on the same date the patent expires in the United States or the European Union, and companies report that they have received EMR protection for accepted applications.

The SAG has revised its Copyright Law and is seeking to impose stricter penalties on copyright violators. In January 2010, the Ministry of Culture and Information referred the first-ever copyright-violation case to the Board of Grievances for deterrent sentencing. However, as of this writing, no verdict has been handed down. The SAG has stepped up efforts to force pirated printed material, recorded music, videos, and software off the shelves of stores, including raids on shops selling pirated goods. However, many pirated materials are still available in the marketplace, increasing possible cyber-security vulnerability in some systems. An Islamic religious edict, or *fatwa*, stating that software piracy is "forbidden" backs enforcement efforts.

The Rules for Protection of Trade Secrets came into effect in 2005. Trademarks are protected under the Trademark Law. Saudi Arabia has one of the best trademarks laws in the region, and the Saudi Customs Authority has significantly stepped up its enforcement efforts. Saudi Arabia received anti-counterfeiting and piracy awards from the World Customs Organization (WCO) in 2009 for organizing the first Pan-Arab conference on this issue, building the capacity of the Customs Authority, and translating WCO documents into Arabic. Saudi Arabia has not signed or ratified the WIPO internet treaties.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Embassy point of contact: Erik Hunt Hunte@state.gov and Timothy Haynes haynestf@state.gov

Local lawyers list: http://riyadh.usembassy.gov/service/country-specific-information.html

8. Transparency of Regulatory System

There are few aspects of the SAG's regulatory system that are transparent, although Saudi investment policy is less opaque than many other areas. Saudi tax and labor laws and policies tend to favor technology transfer and the employment of Saudis rather than fostering competition. Saudi health and safety laws and policies are not used to distort or impede the efficient mobilization and allocation of investments. Bureaucratic procedures are cumbersome, but red tape can generally be overcome with persistence.

There are no informal regulatory processes managed by NGOs or private-sector associations. Proposed laws and regulations are generally not published in draft form for public comment. Some government agencies permit public comments through their websites. There are no private-sector or government efforts to restrict foreign participation in the industry standards-setting consortia or organizations that are available.

9. Efficient Capital Markets and Portfolio Investment

Financial policies generally facilitate the free flow of private capital, and currency can be transferred in and out of Saudi Arabia without restriction (with the exception of previously mentioned limits on bulk cash movements). However, non-GCC foreign investors may only invest in the stock market through swap agreements and exchange-traded funds.

The Capital Markets Law, passed in 2003, allows for brokerages, asset managers, and other non-bank financial intermediaries to operate in the Kingdom. The law created a market regulator, the Capital Market Authority, which was established in 2004, and opened the stock exchange to public investment. As of the end of 2012, the CMA listed 84 companies licensed to work in financial advising and brokerage services in Saudi Arabia. There is an effective regulatory system governing portfolio investment in Saudi Arabia.

In 2003, SAMA, the central bank, enhanced and updated its 1995 Circular on Guidelines for the Prevention of Money Laundering and Terrorist Financing. The enhanced guidelines are more compliant with the Banking Control Law, the Financial Action Task Force (FATF) 40 Recommendations, the nine Special Recommendations on Terrorist Financing, and relevant UN Security Council Resolutions. In 2014, King Abdullah ratified a new counter-terrorism law officially criminalizing acts of terrorism and the financing of terrorism.

Historically, credit was widely available to both Saudi and foreign entities from commercial banks and was allocated on market terms. The global financial crisis of 2008, followed by the default on $20 billion in debt by two Saudi business concerns and the debt restructuring in Dubai, substantially reduced this availability to all parties, resulting in the delay or cancellation of some projects. Credit became somewhat more available in 2011 and 2012, but extraordinary public spending limited the demand for private lending. In addition to large-scale supplemental programs, credit is available from several government institutions, such as the SIDF, which allocate credit based on government-set criteria rather than market conditions. Companies must have a legal presence in Saudi Arabia in order to qualify for credit. The private sector has access to term loans, and there have been a handful of issuances of sharia-compliant bonds, known as *sukuk*, but there is no fully developed corporate bond market. There were only five IPOs in 2013, as the Saudi exchange continued to trade at a low level, with volumes a fraction of what they were before the financial crisis.

The Council of Ministers issued five long-awaited new laws concerning mortgages and the wider financial sector in July 2012—the Real Estate Finance Law, Financial Lease Law, Law on Supervision of Finance Companies, Real Estate Mortgage Law, and Execution/Enforcement Law. Private-sector contacts are generally optimistic about the laws' long-term potential to enhance mortgage penetration, attract additional investment to the private housing market, and increase overall lending, but the extent of their impact remains unclear. The eventual implementing regulations for the Execution/Enforcement Law will prove especially important, given that uncertainty about enforcement of lenders' rights has been cited as a major reason for anemic mortgage lending in the Kingdom.

As part of the economic reforms initiated for accession to the WTO, Saudi Arabia liberalized licensing requirements for foreign investment in financial services. In addition, the government increased foreign-equity limits in financial institutions from 40% to 60% to entice further foreign investment. In the last few years, the SAG has taken steps to increase foreign participation in its banking sector by granting operating licenses to foreign banks. As of 2012, SAMA had granted 11 foreign banks licenses to operate in the Kingdom: BNP Paribas, Deutsche Bank, Emirates NBD, Gulf International Bank, J.P. Morgan Chase, Muscat Bank, National Bank of Bahrain, National Bank of Kuwait, National Bank of Pakistan, State Bank of India, and T.C. Ziraat Bankasi A.S. On August 6, the Cabinet further approved the licensing of a branch of the Chinese Bank of Industry and Commerce.

The legal, regulatory, and accounting systems practiced in the banking sector are generally transparent and consistent with international norms. SAMA, which oversees and regulates the banking system, generally gets high marks for its prudent oversight of commercial banks in

Saudi Arabia. SAMA is the only central bank in the Middle East other than Israel's that is a member and shareholder of the Bank for International Settlements in Basel, Switzerland.

10. Competition from State-Owned Enterprises

State-owned enterprises (SOEs) play a leading role in the Saudi economy, particularly in water, power, oil, natural gas, and petrochemicals. Saudi Aramco, the world's largest producer and exporter of crude oil and a large-scale oil refiner and producer of natural gas, is 100% SAG-owned, and its revenues typically account for around 85% of the SAG's budget. Aramco's board reports to the Supreme Council for Petroleum and Minerals Affairs, which the King chairs. The Kingdom's leading petrochemical company, Saudi Basic Industries Corporation (SABIC), is 70% owned by the SAG. SABIC's Chairman is a member of the royal family and also the chair of the Royal Commission of Jubail & Yanbu, and four additional members of SABIC's seven-member board are SAG officials as well. The SAG tends to be similarly well represented in the leadership of other SOEs. State-owned Saudi Arabian Airlines (Saudia) competes against Nas Air, a private, low-cost carrier, but enjoys substantial discounts on aviation fuel.

The Embassy is not aware of SOEs expressly exercising delegated governmental powers, though they are heavily involved in policy consultations. SOEs benefit from water, power, and feedstock sold below market rates and often receive free land from the SAG. Generally, private industries also get water, power, and feedstock at below-market prices, and the SAG often gives land as part of public-private partnerships, but fully private enterprises do not typically receive free land unless as part of a SAG effort to stimulate specific sectors. In principle, credit is equally available to private companies and SOEs. The Embassy does not believe Saudi SOEs to operate, in practice, under hard budget constraints. The detail and regularity of financial reporting by SOEs vary and do not consistently meet international financial reporting standards.

Sovereign Wealth Fund

In 2008, the Kingdom established a sovereign wealth fund, the Saudi Arabian Investment Company (also known as Sanabil al-Saudia), a wholly SAG-owned entity within the Ministry of Finance's Public Investment Fund. The fund began with $5.3 billion of startup capital, but little information is available regarding the fund's organization or operations.

11. Corporate Social Responsibility

There is a dawning awareness of corporate social responsibility (CSR) in Saudi Arabia. The SAG sees CSR primarily as a component of its competitiveness vis-à-vis global economies and has knit CSR promotion to its goal of becoming a top-ten economy. In July 2008, SAGIA, the King Khalid Foundation, and the international NGO AccountAbility jointly established the Saudi Arabian Responsible Competitiveness Index (SARCI), a ranking of companies' CSR contributions. The results led to the granting of the King Khalid Responsible Competitiveness Award in several categories at the annual Global Competitiveness Forum. The Embassy believes the SAG and major corporations are fully aware of CSR but does not believe CSR currently has a broad impact on consumer perception.

12. Political Violence

The Department of State authorized the return of all family members to U.S. Embassy Riyadh, U.S. Consulate General Jeddah, and U.S. Consulate General Dhahran in 2010 but continues to warn U.S. citizens about the security situation in Saudi Arabia and reminds U.S. citizens of recommended security precautions. In the most recent Travel Warning for Saudi Arabia, the Department of State urges U.S. citizens to consider carefully the risks of traveling to Saudi Arabia. Significant enhancements in the capacity and capability of Saudi security and intelligence forces have greatly improved the security environment, but it is important to note that there is an ongoing security threat from transnational terrorist organizations such as Al Qaida in the Arabian Peninsula (AQAP).

13. Corruption

Saudi Arabia has some limited legislation aimed at curbing corruption. The Tenders Law of Saudi Arabia, approved in 2004, has improved transparency of government procurement through publication of tenders. Further, ministers and other senior government officials appointed by royal decree are forbidden from engaging in business activities with their ministry or organization while employed there. There are few cases of prominent citizens or government officials being tried on corruption charges.

Despite the fact that corruption has been identified by foreign firms as an obstacle to investment in Saudi Arabia, authorities have so far taken only modest steps toward combating it. In April 2007, the King established the National Authority for Combating Corruption that was to report directly to him, but there was little, if any, follow-through to establish this institution. The General Auditing Bureau is also charged with combating corruption. In 2011, the King reconstituted the Authority as the Anti-corruption Commission under new and more energetic leadership. Although little of its work has so far been publicized and many remain skeptical, some anecdotal evidence suggests the Commission has been active in its investigations and is not shying away from influential players whose indiscretions may previously have been ignored.

Saudi Arabia ratified the U.N. Convention against Corruption (UNCAC) in April 2013 and signed the G-20 Anti-Corruption Action Plan (ACAP) in November 2010.

14. Bilateral Investment Agreements

Saudi Arabia has Investment Promotion & Protection Agreements with Austria, Belgium, China, France, Germany, Italy, Malaysia, and Taiwan. The Kingdom has cooperation agreements of varying scope with 36 countries, including an agreement on secured private investment with the United States that has been in place since February 1975. The United States and Saudi Arabia signed a Trade and Investment Framework Agreement in 2003. As of 2011, the Kingdom had ratified agreements on avoidance of double taxation with 19 countries. Further information on the above, and on miscellaneous additional agreements, can be found at http://www.sagia.gov.sa/en/Investment-climate/Some-Things-You-Need-To-Know-/International-agreements/.

15. OPIC and Other Investment Insurance Programs

OPIC stopped operating in Saudi Arabia in 1995 due to the Kingdom's failure to take steps to adopt and implement laws that extend internationally recognized workers' rights to its labor force. Saudi Arabia has been a member of the Multilateral Investment Guarantee Agency since April 1988.

16. Labor

The Ministry of Labor and the Ministry of Interior regulate recruitment of expatriate labor, which makes up a large majority of the private-sector workforce. The government encourages recruitment of Saudi employees through a series of incentives and limits placed on the number of visas for foreign workers available to companies. The largest groups of foreign workers now come from Bangladesh, Egypt, India, Pakistan, the Philippines, and Yemen. Westerners compose less than 2% of the labor force.

Beginning with the 1969 Labor and Workman Regulations, Saudi Arabia has pursued a number of localization schemes to combat unemployment among Saudis, which the CIA World Factbook put at 10.9% for 2011, a rate believed to be much higher among women. These schemes attempted to require blanket “Saudi-ization” percentages irrespective of sector or company size, failing to account for fundamental differences in organization and the nature of work. Enforcement was inconsistent. The SAG largely ignored violations by influential business owners and lacked resources to conduct sufficient inspections elsewhere, as a majority of firms were unable to meet the unreasonable requirements.

In 2011, however, the Ministry of Labor laid out a more sophisticated plan known as *Nitaqat*, under which companies are divided into sectors, each with a different set of quotas for Saudi employment based on company size. Each of the sectors is subdivided into four strata based on actual percentage of Saudi employees, with platinum and green strata for companies meeting or exceeding the quota and yellow and red strata for those failing to meet it. The Ministry of Labor set the quota for each sector so that 50% of companies were already platinum or green and the remaining 50% non-compliant. Expatriate employees in red and yellow companies can move freely to green or platinum companies, without the approval of their current employers, and green and platinum companies have greater privileges with regard to securing and renewing work permits for expatriates. The Ministry of Labor has announced its goal of reducing the expatriate population to 20% of the Saudi population.

Many elements of *Nitaqat* have garnered criticism from the private sector and parts of the government, but the SAG claims it led to the employment of 380,000 Saudis in its first ten months. Most recently, the Ministry of Labor and Ministry of Interior launched a campaign to deport illegal and improperly documented workers, which has resulted in higher labor costs for many businesses. In addition, all companies operating in the Kingdom, regardless of sector or size, are now obliged to pay SR 2,400 ($640) per year for each expatriate employee in excess of the number of the company’s Saudi employees. Numerous sources, particularly in construction and other blue-collar services sectors, have vehemently criticized the SAG’s new labors policies, but it appears the Ministry will continue to enforce them.

Saudi labor law forbids union activity, strikes, and collective bargaining. However, the government allows companies that employ more than 100 Saudis to form "labor committees." By-laws detailing the functions of the committees were enacted in April 2002. Domestic workers are not covered under the provisions of the latest labor law, issued in 2005. The Saudi Majlis al-Shura, a consultative assembly with a role in the legislative process, has proposed a law covering domestic workers, which is now with the Council of Ministers for review.

Overtime is normally compensated at time-and-a-half rates. The minimum age for employment is 14. The SAG does not adhere to the International Labor Organization's (ILO) convention protecting workers' rights. A July 2004 decree addresses some workers'-rights issues for non-Saudis, and the Ministry of Labor has begun taking employers to the Board of Grievances. Some of these penalties include banning these employers from recruiting foreign and/or domestic workers for a minimum of five years.

17. Foreign-Trade Zones/Free Ports

Saudi Arabia permits transshipment of goods through its ports in Jeddah, Dammam, and King Abdullah Economic City, and it has bonded re-export zones at the Jeddah and Dammam ports. Saudi Arabia is also a member of the Gulf Cooperation Council (GCC), which confers special trade and investment privileges among the six member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE), and is a member of the Arab Free Trade Zone, established in 2005.

18. Foreign Direct Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Saudi Central Department of Statistics and Information		USG or international statistical source		USG Source of Data
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*U.S. Dollars)*	2012	$711 billion	2012	$896 billion	https://www.cia.gov/library/publications/the-world-factbook/geos/sa.html
Foreign Direct Investment	Host Country Statistical source		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (*Millions U.S.*	N/A	N/A	2012	9,692	U.S. Department of Commerce, Bureau of Economic Analysis

Dollars, stock positions)					

Figures provided below are taken from United Nations Conference on Trade and Development's "World Investment Report 2013 Country Fact Sheet." Following are key FDI indicators for 2012 (all figures in USD millions unless otherwise indicated):

- FDI Inflow 12,182
- FDI Inflow as % of GFCF 10.1
- FDI Outflow 4,402
- FDI Outflow as % of GFCF 3.6
- FDI Inward Stock 199,032
- FDI Inward Stock as % of GDP 30.7
- FDI Outward Stock 34,360
- FDI Outward Stock as % of GDP 5.3

GDP = gross domestic product

GFCF = gross fixed capital formation

TABLE 3: Sources of FDI

Saudi Arabia: 2010

Direct Investment from/in Counterpart Economy Data		
From Top Five Sources/To Top Five Destinations *(US Dollars, Millions)*		
Inward Direct Investment (Outward Direct Investment unavailable)		
Total Inward	169,206	100%
Kuwait	16,761	10%
France	15,918	9%
Japan	13,160	8%
United Arab Emirates	12,601	7%
China, P.R.: Mainland	9,035	5%

"0" reflects amounts rounded to +/- USD 500,000.

Source: http://cdis.imf.org

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments

Legal system:

Islamic (sharia) legal system with some elements of Egyptian, French, and customary law; note - several secular codes have been introduced; commercial disputes handled by special committees

International organization participation:

ABEDA, AfDB (nonregional member), AFESD, AMF, BIS, CAEU, CP, FAO, G-20, G-77, GCC, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IDB, IFAD, IFC, IFRCS, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM (observer), IPU, ISO, ITSO, ITU, LAS, MIGA, NAM, OAPEC, OAS (observer), OIC, OPCW, OPEC, PCA, UN, UNCTAD, UNESCO, UNIDO, UNRWA, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Exchange control

Saudi Arabia imposes no exchange control regulations on the entry and repatriation of funds, profits and salaries paid to foreigners employed in the Kingdom.

Treaty and non-treaty withholding tax rates

Saudi Arabia has exchange of information relationships with 81 jurisdictions through 30 DTCs, 0 TIEAs and 1 multilateral mechanism, Convention on Mutual Administrative Assistance in Tax Matters.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
Austria	DTC	19 Mar 2006	1 Jun 2007	No	No
Bangladesh	DTC	4 Jan 2011	1 Oct 2011	Unreviewed	No
Belarus	DTC	20 Jul 2009	1 Aug 2010	Unreviewed	No
China	DTC	23 Jan 2006	1 Sep 2006	Yes	No
Czech Republic	DTC	25 Apr 2012	not yet in force	Unreviewed	Yes
France	DTC	18 Feb 1982	1 Mar 1983	Yes	Yes
Greece	DTC	19 Jun 2008	1 May 2010	Yes	No
India	DTC	25 Jan 2006	1 Nov 2006	Yes	No
Ireland	DTC	19 Oct 2011	1 Dec 2012	Yes	Yes
Italy	DTC	13 Jan 2007	1 Dec 2009	Yes	No
Japan	DTC	15 Nov 2010	not yet in force	Yes	Yes
Korea, Republic of	DTC	24 Mar 2007	1 Dec 2008	Yes	No
Luxembourg	DTC	7 May 2013	not yet in force	Unreviewed	Yes
Malaysia	DTC	31 Jan 2006	1 Jul 2007	No	No
Malta	DTC	4 Jan 2012	1 Dec 2012	Yes	Yes
Netherlands	DTC	13 Oct 2008	1 Dec 2010	Yes	No
Pakistan	DTC	2 Feb 2006	15 Nov 2006	Unreviewed	No
Poland	DTC	22 Feb 2011	not yet in force	Yes	Yes
Romania	DTC	26 Apr 2011	1 Jul 2012	Unreviewed	No
Russian Federation	DTC	11 Feb 2007	1 Feb 2010	Yes	No
Singapore	DTC	3 May 2010	1 Jul 2011	Yes	Yes
South Africa	DTC	13 Mar 2007	1 May 2008	Yes	No
Spain	DTC	19 Jun 2007	1 Oct 2009	Yes	Yes
Syrian Arab Republic	DTC	7 Sep 2009	1 Oct 2010	Unreviewed	No
Tunisia	DTC	8 Jul 2010	not yet in force	Unreviewed	No
Turkey	DTC	9 Nov 2007	1 Apr 2009	Unreviewed	No
Ukraine	DTC	2 Sep 2011	1 Dec 2012	Unreviewed	No

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5
United Kingdom	DTC	31 Oct 2007	1 Jan 2009	Yes	Yes
Uzbekistan	DTC	18 Nov 2008	not yet in force	Unreviewed	No
Viet nam	DTC	10 Apr 2010	1 Feb 2011	Unreviewed	No

Methodology and Sources

Section 1 - General Background Report and Map

(Source: CIA World Factbook)

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: CIA World Factbook)

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: US State Department)

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: CIA World Factbook / https://www.cia.gov/library/publications/world-leaders-1/index.html)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: OECD Global Forum on Transparency and Exchange of Information for Tax Purposes PKF International)

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Via our Contact Page at KnowYourCountry.com