

**NEW DOCUMENTARY REQUIREMENT
FOR SAUDI INDUSTRIAL PROJECTS**

by

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The Foreign Capital Investment Committee (FCIC) is the Saudi Arabian governmental authority under the Ministry of Industry and Electricity (the Ministry) primarily responsible for the review and approval of all foreign investment in the Kingdom. For industrial, that is, manufacturing, projects, however, the FCIC in practice shares such responsibility with the Industrial Licensing Department (ILD), also under the Ministry.

The ILD recently stated that a rather elaborate and detailed feasibility study will be required as a supporting document for all investors applying to establish an industrial project. In conjunction with this new requirement, the FCIC and the ILD have prepared a set of guidelines (the Guidelines) entitled "Elements that may be Contained in the Feasibility Study of any Industrial Project." The Guidelines and the new feasibility study requirement represent a departure from prior procedure although a number of years ago a similar sort of feasibility study had been required with industrial project applications.

The Guidelines contain broad and ambiguous descriptions of the information to be included in the feasibility study. Therefore, potential investors may have some difficulty in being fully responsive in the preparation of this study.

Background

The FCIC is given authority to prepare the application form or forms for foreign capital investment and specify what other data and documents must be submitted by potential investors, in accordance with Royal Decree No. M/4 (1399 H), the Foreign Capital Investment Regulations (the Regulations), and particularly Article 3 of Ministerial Resolution No. 323 (1399 H), the implementing and procedural rules to the Regulations. This authority apparently provides the basis for requiring a feasibility study from all investors in proposed industrial projects.

For investors interested in establishing an industrial project, an initial preliminary review is necessary from the ILD. (Article 2 of the Ministry's Resolution No. 952 (1400 H) defines "projects for the development of manufacturing industry" to include projects which convert raw materials into semifinished or finished goods, and may also include processing, packing and wrapping of finished goods.) A potential investor must advise the ILD of the general scope of the proposed industrial project, particularly the

products to be manufactured and the capacity of the manufacturing plant. If the ILD decides that there may be a need for the proposed project (for example, if the market can absorb the contemplated additional manufacturing output), the potential investor will be given the necessary application form. The investor submits the completed application form and accompanying documents to the ILD, which reviews the proposed industrial project in cooperation with the FCIC.

A number of years ago, the Ministry had required a feasibility study as one of the supporting documents for an industrial project application. Subsequently, however, and consistent with the Saudi government's push for increased private sector industries, the Ministry sought to eliminate certain unnecessary impediments to investment in industrial projects, and the feasibility study requirement was dropped; in its place, a "marketing study" was required, but only for proposed industrial projects capitalized at more than SR 30 million. Although the Saudi government continues to encourage new private sector industries, it appears that proposed industrial projects will receive somewhat greater scrutiny in the current economic slowdown. According to some sources, this is the primary reason that the FCIC and ILD have reintroduced the requirement for a feasibility study in place of the simpler marketing study.

The Guidelines advise potential investors of the "elements" to be contained in the feasibility study submitted, in Arabic, as one of the necessary supporting documents with any application to establish an industrial project. In contrast to prior practice, the introductory paragraph of the Guidelines implies that the feasibility study must be submitted for all industrial project applications, regardless of the amount of capital to be invested in the project.

Some of the details to be included in the feasibility study resemble those required in the earlier marketing study, while others appear to be quite similar to the type of information required at one step or another in the investment approval process (for example, in the application form for industrial projects). Other particulars of the feasibility study, however, appear to require information not previously needed to proceed with investment in an industrial project. In general, the Guidelines seem to reflect a renewed desire by the FCIC and ILD to obtain all relevant information which can be reviewed at the outset of the investment approval process. Moreover, the new feasibility study seems designed to assist the Ministry (and other concerned departments) to better evaluate and coordinate private sector industries in light of the industrial goals and development policies of the Kingdom.

To date there has been little practical experience on the specific requirements of the FCIC or the ILD concerning an

investor's feasibility study. The introductory paragraph to the Guidelines, not surprisingly, recommends that a proposed investor provide comprehensive and accurate data and information within the feasibility study.

As discussed above, the Ministry at one time required a feasibility study as a supporting document for an industrial project application, then dropped that requirement and replaced it with a marketing study. During recent years when a marketing study was required by the ILD and FCIC, the application form continued to refer to the previously required feasibility study. On page 20 of that application form, at Item I, the feasibility study is described as a "comprehensive document" which, among other things, summarizes the "provisional analysis" of the industrial project and provides the concerned parties with a clear idea of the potential commitment required for the project and the costs to be borne by those parties. Furthermore, the feasibility study should be prepared "by an independent and well-qualified agency that provides unbiased comments on an objective basis." In recent discussions, officials at the ILD have confirmed that this prior description is a generally accurate description of the new feasibility study.

It remains unclear, however, whether the FCIC and ILD will demand a greater amount of detail in the feasibility study than they have previously required for similar types of information in, for example, the investment application forms. Of course, these government bodies certainly have the discretionary authority to demand such increased detail. According to one ILD official, at least two feasibility studies submitted recently to the ILD have been rejected as "too superficial." Case-by-case informal discussions with FCIC and ILD officials probably will be one of the best ways to ensure that an investor's feasibility study is adequate and acceptable. In addition, investors may find it increasingly useful to seek the assistance of the local consulting and accounting firms that specialize in the preparation of such feasibility studies.

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29 September 1985