



Saudi Arabia

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QUICK FACTS

Legal forms of philanthropic organizations included in the law: Association, Foundation, Cooperative, Trust, Other: Nonprofit Organizations (NPOs) established by royal decrees

Five main social issues addressed by these organizations: Primary and High School Education, Health and Medical Research, Basic Needs, Youth and Family, Religion

Average time established by law to register a philanthropic organization: 31-60 days

Average cost for registering a philanthropic organization: US \$0

There is no cost for registering a PO.

Government levels primarily regulating the incorporation of philanthropic organizations: Central/Federal Government, Other: Ministry of Labor and Social Development

The approval comes from the Ministry of Labor and Social Development.

Philanthropic Environment Scores:

Year	Ease of Operating	Tax Incentives	Cross-Border Flows	Political Environment	Socio-Cultural Environment	OVERALL SCORE
2018	2.0	3.0	2.8	3.0	4.0	2.95

I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

The three questions in this section pertain to the laws and regulations governing philanthropic organizations (POs). The scoring questions for this category cover three aspects of regulations: (A) formation and registration, (B) operations, and (C) dissolution.

Question 1: To what extent can individuals form and incorporate the organizations defined?

Score: 2.0

Individuals are somewhat free to form organizations. The process and laws have been improved (e.g. the new Law on Associations and Foundations, Royal Decree No. M/8, 19.2.1437H), in consequence, it takes less time and less people to incorporate an organization; however, certain organizations that could be seen as anti-government or anti-religion or as addressing issues that are not culturally and politically appropriate or sensitive would not be approved. At the end of the day, the final approval comes from the government. In addition, only Saudis are allowed to form POs – no foreigner is allowed to form such an organization in the country. Reporting requirements are clear and predictable; on a procedural level, the CSO Law stipulates extensive detail governing the internal affairs of an organization and allows the Ministry of Labor and Social Development extensive monitoring rights. Associations and foundations must provide the Ministry of Labor and Social Development with annual financial statements, as well as general assembly meeting minutes and voting records. Ministry representatives may attend meetings, though they do not have the right to vote (ICNL, 2017). In general, The Kingdom is trying to open up and allow individuals some rights to organize for offering public goods. However, the type of public goods (e.g. women issues/clubs, child protection), type of individuals (only Saudi citizens), type of organizations (e.g. either under 'Royal'-patronage or ministry-sponsored) and decision process (the MLSD) all are still restrictive.

Question 2: To what extent are POs free to operate without excessive government interference?

Score: 2.0

Organizations are not allowed to receive funding from abroad, unless they seek and obtain approval from the Ministry for Labor and Social Development (INCL Saudi Arabia Law Report, 2017). Any communication and collaboration with outside entities and participation in activities abroad should be reported to the government. Fundraising without permit is considered “a violation of the Kingdom of Saudi Arabia's regulations, including a regulation of combating terrorism and financing it” (Arab News, June 11, 2016).

If an organization is not doing anything against the government or the ruling family or religion, they are usually free to operate; however, if they are in any way threatening of or want to work on any issues that are not in line with the tradition, religion, policies, and government regulations they would not be allowed to function. For example, an organization interested in working on LGBTQ issues, or even focusing on human rights, would not be allowed to operate in Saudi Arabia.

Question 3: To what extent is there government discretion in shutting down POs?

Score: 2.0

If the PO is not performing, is doing activities different from what it was originally registered for, if it fails to commence its activities within one year of creation, or if there are issues of another nature – such as a misuse of funds, failure to comply with public order, public morals, or Islamic Sharia, or actions against national unity – the Ministry gives the PO 3-12 months to implement the necessary changes before shutting it down. If no improvement is made, the PO is shut down by the government. However, the government would not allow an organization to even be registered if it is in anyway against the religious rules, traditional values, politics, or ruling family. They would shut down the organization immediately if implemented any of these activities. This is not reflected in the laws, but this would certainly happen in practice. The General Assembly of each PO can voluntarily shut it down, but they have to request it from the Ministry and get an approval.

II. Domestic Tax and Fiscal Issues

The two questions in this section pertain to laws and regulations governing the fiscal constraints of giving and receiving donations domestically.

Question 4: To what extent is the tax system favorable to making charitable donations?

Score: 2.5

It is very hard to answer this question because there are no taxes on income, sales, or value added taxes by national and local companies in Saudi Arabia. There is also no individual income tax scheme in Saudi Arabia; therefore, there are no tax exemptions for making charitable donations. However, Saudi and other GCC country nationals working in the KSA do not pay any tax (Muslim individuals, pay 2.5 percent zakat; their companies pay 1 percent zakat). If they donate, the applicable zakat amount they do not have to pay it to the government. Other individuals do not pay any tax or get any benefit for donating to a NPO. Companies with non-Muslim partners pay 20 percent tax for their share of the company, and an equal deduction, if paying to a registered NPO. There is no ceiling for such donations. The process of receiving tax benefits is clear, consistent, and requires a reasonable amount of time and resources. Entities making the donations are mostly free from government regulation.

Question 5: To what extent is the tax system favorable to POs in receiving charitable donations?

Score: 3.5

Only non-Saudi companies are liable for income tax in Saudi Arabia; therefore, there are no tax exemptions for nationals. The only tax Saudi and other Gulf Cooperation Council (GCC) nationals have is “zakat,” which is actually a mandatory religious-based “donation” that Saudi nationals and companies have to pay on their profits. It amounts to 2.5 percent of profits. It is highly regulated and this “tax” goes directly for charitable purposes and has to be given completely to beneficiaries. However, this is not actually a tax in any sense of the western tax systems. Rather, it is a mandatory

donation, which the Saudi companies and other Gulf Cooperation Council (GCC) companies have to pay. Companies not owned by Saudi/GCC nationals pay corporate income tax, and companies jointly owned by nationals and foreign individuals pay both zakat and corporate income taxes.

III. Cross-Border Philanthropic Flows

The two questions in this section concern laws and regulations governing the fiscal constraints of giving and receiving cross-border donations. The scoring for these questions pertains to the donor and receiving entities.

Question 6: To what extent is the legal regulatory environment favorable to sending cross-border donations?

Score: 3.5

Cross-border donations are not completely forbidden; but there are strict requirements and oversight, and it needs government approval before the activity. POs must obtain prior approval from the Ministry for Labor and Social Development before communicating with regional and international peer groups. Foreign civil society organizations are also prohibited from opening branches in Saudi Arabia. Funds that are sent outside of the country are unable to receive tax benefits, and are subject to the same banking fees, tariffs, and custom duties as any other transaction.

Question 7: To what extent is the legal regulatory environment favorable to receiving cross-border donations?

Score: 2.0

POs in Saudi Arabia are not allowed to receive money from abroad in any way unless approved by the Ministry for Labor and Social Development (Article 21 of the Associations and Foundations Regulation). NPOs can receive financial and other supports from (only) Saudi nationals overseas with the Government's approval. The process to receive charitable donations from abroad is not clear and may be inconsistent.

IV. Political and Governance Environment

The three indicator questions in the next two sections concern the political and governance context, socio-cultural characteristics, and economic conditions that influence the environment for philanthropy.

Question 8: To what extent is the political and governance environment favorable for philanthropy?

Score: 3.0

Things have started to change recently (as of 2016). POs are hoping that there will be more collaboration in the future. The government is finally starting to recognize the third sector as an actual contributing part of the society. It is expected to change positively in the coming years, especially for

activities that are not against the politics or the religion. As long as POs are working on any issues that are not politically or religiously sensitive or controversial, POs are encouraged and supported.

Question 9: To what extent are public policies and practices favorable for philanthropy?

Score: 3.0

Similar to the previous answer, things have started to change in a positive direction since 2016. According to the Vision 2030 government strategic plan, Saudi Arabia now has fewer than 1,000 nonprofit and charitable foundations and associations contributing to just 0.3 percent of the GDP. Since 2015, laws and policies are changing for the better, which gives philanthropic organizations a larger role in sustainable development, mainly by supporting financial independence of people benefitted. Government plans are aimed at promoting the growth and professionalization of the nonprofit sector and increasing their contribution to the GDP to 5 percent. It will take some time, but there is a general positive trend. As long as POs are working on issues that are not politically or religiously sensitive or controversial in anyway, POs are encouraged and supported.

V. Socio-Cultural Environment

Question 10: To what extent are socio-cultural values and practices favorable for philanthropy?

Score: 4.0

There are strong philanthropic traditions and societal values that encourage giving. People recognize POs positive and important role in society. Individuals have equal opportunity to engage in philanthropic activities as donors and/or recipients. However, people sometimes tend to distrust POs due to issues with transparency and accountability. People perceive that POs do not always function effectively.

VI. Future of Philanthropy

These questions are used to provide a general picture of the future of philanthropy in this country as well as recommendations to improve the philanthropic environment.

Current state of the philanthropic sector

Philanthropy has always been a part of the Kingdom's heritage. Saudi culture and tradition encouraged and required people to help each other informally long before NPOs came to existence. Saudi Arabia is one of the world's top humanitarian donors both internally and externally. The country's annual philanthropic giving to causes within Saudi Arabia by individuals, foundations, corporations, and the government rank among the highest in the world – a 1.5-2 percent of its GDP. Similarly, the country's international humanitarian aid is among the top in the world. These statistics suggest that the pace of the philanthropic and third sector's development must be vibrant and thriving.

Surprisingly, NPOs indicate lack of funding as one of their main obstacles to growth, in addition to many other obstacles. While the Kingdom's generosity is impressive and inspiring, the quality of the sector, the institutions, as well as the talent working in the sector, and the impact of giving remain weak. A number of issues causes this weakness:

- The fact that the Saudi third sector only started in the early 1960s; as a result, over 70 percent of foundations and NPOs are brand new and lack experience, knowledge, and skills;
- "Charity" was, and still is, seen as a personal choice/obligation given through informal cash donations or other charitable acts, rather than through institutions, programs, grants or investments;
- There is a lack of trust between foundations and NPOs, so foundations prefer to do their own programs rather than give grants to NPOs;
- There is lack of qualified talent since charity was mostly done on the side as a volunteer effort and not as a viable, great profession and career opportunity. There are no academic programs in Saudi Arabia that train and teach students how to manage NPOs or how to do philanthropy;
- The laws and regulations related to the philanthropic organizations are very cumbersome and complex;
- There is lack of efficiency and impact among POs. Many of them still don't measure their impact on the society, nor do they base their activities and services on the actual needs of society;
- The majority of charitable activities in the Kingdom of Saudi Arabia are still centered on religiously-motivated giving (such as poverty and orphanages); and
- There is very little collaboration among POs. They are very much in their own silos and collaborative programs are almost non-existent.

Three major recent events affecting the philanthropic landscape between January 2014 and December 2016

- Vision2030: a national strategy for the whole country which now includes the third sector;
- Recent changes in laws and regulations related to the third sector; and
- Merger between the Ministry of Labor and the Ministry of Social Affairs into the new Ministry of Labor and Social Development.

Future development trends in the philanthropic landscape

There is continuous improvement in the strength and capacity of the philanthropy landscape in this country; however, POs still lack the capacity, knowledge, and experience needed to become effective and impactful organizations.

Philanthropy is still seen as "charity," although this is changing for the better. There will be more institutionalization of the sector in future; some hybrids will be formed and laws changed to allow for philanthropic support of social enterprises or other forms of organization. We also believe that there will be further specialization among POs and more focus on the sector.

Three key recommendations to improve the environment for philanthropy

- Further improve laws and regulations related to the third sector;
- Create a national strategy for social development, and establishing a Council for Nonprofit Organizations; and
- More internal capacity building for POs.