

بطاقة النظام

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Law of Cooperative Associations

Royal Decree No. M/١٤

١٠ Rabi I ١٤٢٩H / ١٨ March ٢٠٠٨



Chapter One General Provisions



Article (١):

The following words and phrases, wherever mentioned in this Law, shall have the meanings expressed next to them, unless the context requires otherwise:

Ministry:

Ministry of Social Affairs.

Minister:

Minister of Social Affairs.

Association:

Any cooperative association registered under this Law.

General Assembly:

All members contributing to the cooperative association's capital.

Board of Directors:

Board of Directors of the cooperative association.

Member:

A founding member of the association or one who joins after establishment.

Regulations:

Implementing Regulations of this Law.

**Article (٢):**

A cooperative association is any association established by individuals in accordance with the provisions of this Law, for the purpose of improving the economic and social condition of its members, in respect of production, consumption, marketing or services through the joint efforts of members according to the principles of cooperation. The name of the association shall indicate its cooperative nature and type of business.

**Article (٣):**

An association shall consist of not less than twelve individuals, with each member holding a number of shares not exceeding 10% of the association's capital at any time during his membership. In exceptional cases, determined by the Minister, a cooperative association may consist of not less than five members, provided that each member owns not more than 10% of the association's capital at any time during his membership.



Article (٤):

An association shall become a corporate entity upon completing the registration and declaration procedures provided for in this Law, and publishing the same in two local newspapers. An association may establish branches after obtaining a license from the Ministry in accordance with controls specified by the Regulations.



Article (٥):

Subject to Article (٣) of this Law, the share price shall be fixed and may not be divided. A member withdrawing from an association may assign the value of his shares to a member of the association or to a new contributing member upon approval of the Board of Directors. If assignment is not possible and the Board of Directors is satisfied with the grounds for such withdrawal, the withdrawing member may recover the value of his shares, after adding realized profits or deducting sustained losses. The same applies if a member loses his membership for ceasing to meet a membership condition or for expulsion. If a member dies, he shall be succeeded by the heirs or some of them or by one agreed upon by them, provided that the heir meet membership conditions. Otherwise, the heirs shall redeem the value of the relevant shares after adding realized profits or deducting sustained losses.



Article (٦):

Association funds may not be seized except to satisfy its debts and pursuant to a judicial judgment. A member's liability vis-à-vis the association's rights and obligations shall be determined on the basis of the number of shares held.



Article (v):

Membership shall be available to any person meeting membership conditions, excluding exceptional cases provided for in the Regulations.



Article (w):

Individuals who take part in establishing a cooperative association are deemed founding members thereof. Said members shall undertake the preparation of the initial articles of association and the basic bylaws of the association, and shall jointly bear the initial establishing expenses and other obligations resulting therefrom. Upon registration of the association, such establishing expenses shall be refunded to founding members from the capital. Upon failure to establish the association, members may not claim reimbursement for their expenses.



Article (x):

The articles of association shall include the following:

١. Articles of association's date and venue.
٢. Founders' names, places of residence and professions.
٣. Association's name.
٤. Association's location and work zone.
٥. Association's type and purposes.
٦. Capital and nominal share value.



Article (١٠):

Each association shall have basic bylaws prepared in accordance with the provisions of this Law, including, particularly, the following:

١. Association's name, work zone, location and purpose(s).
٢. Association's capital, share value, method of payment thereof and maximum number of shares per member.
٣. Membership conditions, members' obligations, conditions for loss of membership, members' withdrawal and effects thereof.
٤. Nomination conditions for membership of the Board of Directors, number of Board members and method of their election, Board's powers and term as well as circumstances and conditions for members' withdrawal and termination of membership.
٥. Powers of the General Assembly, rules for calling for meetings and dates thereof.
٦. Association's fiscal year.
٧. Accounting and administrative records to be kept by the association and method for preparing and approving the final account and balance sheet.
٨. Rules for accepting donations, gifts, grants, wills and endowments.
٩. Rules for distribution of dividends and settlement of losses.
١٠. Rules for amending the basic bylaws of the association.
١١. Rules for merging, dissolving or liquidating the association.

**Article (١١):**

Founders shall apply to the Ministry for registration of the association. The following documents shall be attached to the registration application form:

١. Association's feasibility study.
٢. Founders' meeting minutes.
٣. Two copies of articles of association and basic bylaws of the association, signed by the founders. The signatures shall be authenticated by the Ministry official under whose jurisdiction the association is located.
٤. A list of the names, professions and places of residence of founders, number and value of shares subscribed for by each and copies of their national identification cards.
٥. A receipt of deposit of the value of the founders' shares with a bank.

- ٦. Draft of the association's annual activity program.
- ٧. A declaration signed by all founding members naming members of the ad hoc committee in charge of establishing the association.



Article (١٢):

The Ministry shall review the documents provided for in Article (١١) of this Law. If they are in compliance with this Law, the Ministry shall complete the declaration procedures. Otherwise, the Ministry may refuse registration or require amendment to the basic bylaws. It shall notify the founders of the refusal and grounds therefor or required amendment, within sixty days from the date of receipt of the declaration application. Otherwise, the declaration shall be deemed to have occurred in law. Founders may challenge the refusal decision before the Minister within sixty days from the date of notification thereof. If the declaration is approved, the association may commence its activities and enjoy the privileges granted to associations under this Law.



Chapter Two Management of Cooperative Associations



Article (١٣):

Each association shall have a Board of Directors managing its business in accordance with its purposes and bylaws. The Board shall consist of not less than five members elected by the General Assembly from among its members, save for the first Board of Directors which shall be appointed from among the founders for a term of three years.



Article (١٤):

The term of Board membership shall be four years, renewable by the General Assembly for one or more terms. The Board shall remain in office until a new board is appointed. Board members shall not be paid for their services; however, the General Assembly may award them remunerations not exceeding 10% of the realized annual profit after deducting statutory percentages.



Article (١٥):

If a vacancy occurs in the Board of Directors for any reason, such vacancy shall be filled by the substitute member with the most votes in the ballot of the General Assembly, and he shall stay in office for the remainder of the Board's term.



Article (١٦):

In its first meeting, the Board shall elect, from among its members, a chairman, vice chairman, secretary and treasurer.



Article (١٧):

Board meetings shall not be valid unless attended by the majority of its members. Its decisions shall pass by absolute majority of attending members. In case of a tie, the chairman shall have the casting vote.



Article (١٨):

١. The Board of Directors shall constantly oversee the business of the association, and supervise the association's management, representatives and delegates.

٢. The Chairman of the Board may sign on behalf of the association and represent it before others and the judiciary. He may accordingly delegate and appoint others.



Article (١٩):

Subject to applicable accounting laws, the Minister shall issue decisions to regulate the auditing procedures.



Article (٢٠):

At the end of each fiscal year, the Board of Directors shall submit the association's accounts, which consist of:

١. Closing account for the ending fiscal year.
٢. Profit and loss account.

Both accounts– along with relevant supporting documents– shall be submitted to an auditor for examination at least one month prior to the General Assembly meeting. The closing account, profit and loss account and reports of the Board of Directors, inspectors and auditors shall be retained at the association's office for not less than two weeks prior to the General Assembly's meeting, and shall be accessible to all members, and shall remain so until put to vote.



Article (٢١):

The Board of Directors shall appoint an executive director to manage the association's business and shall determine his powers, duties and rights. The Board shall be accountable before the General Assembly for the director's discharge of his duties.



Article (٢٢):

The General Assembly, comprising of all contributing members, is the highest authority in the association. It shall convene at least once a year, and its meeting shall not be valid unless attended by at least ۲۰% of members. In the absence of a quorum, the meeting shall be postponed for fifteen days, and it shall be deemed valid thereafter if attended by not less than ۱۰% of members. Resolutions of the General Assembly shall pass by majority vote of attending members; in case of a tie, the chairman shall cast the deciding vote.



Article (۲۲):

Each member of the General Assembly shall have one vote, irrespective of the number of shares held, and he may deputize another member, other than members of the Board of Directors, to represent him in the General Assembly. A member may not act as proxy for more than one member.



Article (۲۴):

The General Assembly shall exercise the following powers:

۱. Review reports of the Board of Directors and the Ministry's comments regarding the association and make appropriate decisions thereon.
۲. Approve the balance sheet and closing accounts for the ending fiscal year.
۳. Review and approve the association's annual plan and budget for the following fiscal year.
۴. Approve draft distribution of dividends and determine manner of investment of the general reserve.
۵. Elect members of the Board of Directors as well as substitute members.
۶. Appoint the external auditor and determine his fees.
۷. Decide on objections and appeals submitted to the Assembly challenging any decision issued by the Board of Directors.
۸. Cap the limit of finance and obligations required for the association's business.
۹. Review of other matters related to the business of the association which fall within its powers under this Law and the Regulations.



Article (٢٥):

The General Assembly's extraordinary meeting is held upon an invitation by the Board of Directors, the auditor, a request by at least two thirds of its members or the Ministry to review any of the following:

١. Amending the association's basic bylaws.
٢. Disposing of its real properties and investments.
٣. Dissolving of, merging or breaking-up the association into two or more associations.

The General Assembly's extraordinary meeting shall be deemed valid if attended by a majority of members. However, in the event of dissolution of the association, paragraph (٦) of Article (٣٧) of this Law shall be observed.

**Article (٢٦):**

The General Assembly shall elect a chairman from among its members.



Chapter Three

Association's Revenues

**Article (٢٧):**

The association's revenues are as follows:

١. The association's capital.
٢. Donations, gifts, grants, wills and endowments in accordance with the rules stipulated in the association's basic bylaws.
٣. Charges for services rendered by the association to members and others.
٤. subsidies provided by the State.
٥. Proceeds from the association's activities and investments.



Chapter Four Distribution of Dividends



Article (٢٨):

The association's dividends shall be distributed as follows:

١. ٢٠% of profits shall be allocated for the association's statutory reserve until it becomes equal to the capital; thereafter, said percentage shall be allocated towards the general reserve.
٢. An amount not exceeding ٢٠% of the remaining profits shall be distributed as dividends.
٣. An amount not exceeding ١٠% of the remaining profits shall be allocated for social services.
٤. Subject to the General Assembly's resolutions regarding remuneration of members of the Board of Directors in accordance with Article (١٤) of this Law, the remaining profits shall be allocated to members as rebate in accordance with the Regulations.



Chapter Five Cooperative Association Council



Article (٢٩):

A council for cooperative associations shall be formed. The Regulations shall specify its formation and powers and regulate its financial and administrative affairs as well as its relationship with other associations and the extent to which it shall benefit from subsidies and privileges granted to associations.



Chapter Six Subsidies and Facilities Granted to Cooperative Associations



Article (٢٠):

The Ministry shall provide the following subsidies:

١. A one time subsidy not exceeding ٢٠% of an association's capital, upon registration of the said association, to help with the start-up costs.
٢. A subsidy for constructing the association's offices, to carry out its business and activities, provided that the subsidy does not exceed ٥٠% of the estimated construction costs paid in installments according to construction stages and does not exceed ٥٠% of the actual construction costs.
٣. A project subsidy not exceeding ٥٠% of the project's costs, if an association undertakes a production or marketing cooperative project within the scope of its objectives.
٤. A risk subsidy, if an association suffers substantial loss due to force majeure, provided that the subsidy does not exceed ٩٠% of the said loss.
٥. A management subsidy if an association appoints a competent and adequately qualified full-time Saudi manager, provided that the subsidy does not exceed ٥٠% of the manager's monthly salary for three years. Such subsidy may be extended for additional years, subject to the Minister's approval.
٦. A subsidy for the remuneration of members of the Board of Directors when Board meetings become regular and not less than twelve per year. Said subsidy shall not exceed ٢٠% of the association's annual profits.
٧. An operation subsidy not exceeding ٥٠% of the average wage of three machine operators, if an association owns not less than three machines continuously operating for more than three months a year in the area served by the association.
٨. A training subsidy for members or staff of an association enrolled in courses, seminars or conferences in the field of cooperation within the Kingdom or abroad. Said subsidy shall not exceed ٩٠% of the costs, provided that the Ministry does not bear the costs of more than two individuals a year.
٩. An accounting subsidy for the association in the following cases:
 - A. If an association enters into an agreement with a registered accounting firm to audit its closing accounts and balance sheet, provided that the subsidy does not exceed ٥٠% of agreed upon costs for two years. Such period may be extended subject to the Minister's approval, provided that the subsidy does not exceed ٢٥% of the costs.
 - B. If an association enters into an agreement with an adequately experienced accountant,

provided that the subsidy does not exceed ٥٠% of the accountant's salary for two years, and ٢٥% for the third year.

١٠. A study and research subsidy not exceeding ٥٠% of the costs.

١١. A technical subsidy to aid the association, when necessary, to develop its business, including assigning some Ministry staff for work at the association for specified periods.

١٢. A social service subsidy not exceeding ٥٠% of the amounts spent from the funds allocated for such purpose in the association's budget.



Article (٣١):

The Ministry shall determine subsidies in accordance with the provisions of this Law and associations' needs, subject to availability of necessary appropriations. The Regulations shall specify the conditions and controls for granting said subsidies.



Article (٣٢):

The Minister may, temporarily or permanently, suspend subsidies provided for an association in the following cases:

١. If a decision is issued to dissolve, liquidate or stop the activities of the association.

٢. If the association does not hold its annual General Assembly meeting without reasonable justification.

٣. If the association fails to submit its balance sheet and closing accounts to the Ministry six months following the end of its fiscal year, without reasonable justification.

٤. If the purpose for the subsidy cease to exist.



Article (٣٣):

An association may not combine two government subsidies for the same project. It shall be eligible only for the larger of the two subsidies.



Article (٣٤):

Subsidies under this Law may not be disbursed until the Ministry is satisfied that the association is able to continue its business and achieve its goals, and receives positive reviews, without deviating from its set objectives or violating this Law and its Regulations or the association's basic bylaws.



Article (٣٥):

The cooperative sector may be granted the following facilities and privileges:

١. Land grants to associations.
٢. Priority in renting government sites at incentive rates.
٣. Facilitating loan procedures from different government funds, particularly in terms of guarantees and increased access to loans.
٤. Facilitating import procedures for items required by the associations' members and clients.



Chapter Seven Control



Article (٣٦):

١. Associations shall be subject to the Ministry's control, which includes examining the association's activities to ensure compliance with the laws, the basic bylaws and the resolutions of the General Assembly, as well as monitoring the association's accounts by auditors.
٢. The Minister may stay the execution of the General Assembly's resolutions if they violate the laws or the association's basic bylaws.
٣. The Ministry shall have the right to act on behalf of the General Assembly in recovering its dues.



Chapter Eight

Dissolution and Liquidation of Associations



Article (٣٧):

The Minister may dissolve and liquidate an association in any of the following cases:

١. If the association fails to commence operation within two years after registration and publication thereof.
٢. If the association's total losses in a year exceeds half its paid-in capital.
٣. If the number of its members falls below the number stipulated in Article (٣) of this Law.
٤. If the association deviates from its set objectives.
٥. If the association fails to continue its business due to constant disruption of its activities or repeated violation of the provisions of this Law, its Regulations, and the association's basic bylaws.
٦. If the General Assembly decides, by a majority of at least three quarters of the shareholders, to dissolve the association.



Article (٣٨):

In the event of dissolution, the Ministry shall appoint one or more liquidators to liquidate the association. The liquidator shall take all necessary legal measures to recover the association's dues and settle its debts in order to determine surplus assets. The liquidator's task shall be limited to winding up the association's ongoing business; he shall refrain from initiating new business. The liquidator shall prepare a closing account to be audited in accordance with the provisions of Article (٣٠) of this Law.



Article (٣٩):

An abstract liquidation account shall be published in a local newspaper. Any association member may challenge the said account before the Minister within thirty days from the date of publication, and the Minister shall decide on it within thirty day from the submission date.



Article (٤٠):

The liquidation surplus shall be distributed among members, provided that each member receive a sum not exceeding the actual amount paid for the shares held and the realized profits. The balance shall be deposited with a bank in an account for establishing a new cooperative association or transferred, pursuant to a decision by the Minister, to another cooperative association engaged in the same or similar activity.



Chapter Nine
Concluding Provisions



Article (٤١):

Competent ministries shall undertake technical supervision over associations in terms of their activities.



Article (٤٢):

The Minister shall issue the Regulations and decisions necessary to implement the provisions of this Law, provided that the Regulations be issued no later than ninety days from the date of its issuance and shall come into effect as of the date this Law becomes effective.

**Article (٤٣):**

This Law shall supersede the Cooperative Association Law issued by Royal Decree No. (٢٦) on هـ ١٣٨٢ / ٦ / ٢٠٢١, and the Cooperative Association Subsidy Regulations issued by the Council of Ministers Resolution No. (٤١٩) on هـ ١٣٩٨ / ٥ / ١٠٢١.

**Article (٤٤):**

This Law shall be published in the Official Gazette and shall come into effect ninety days from its publication date.

