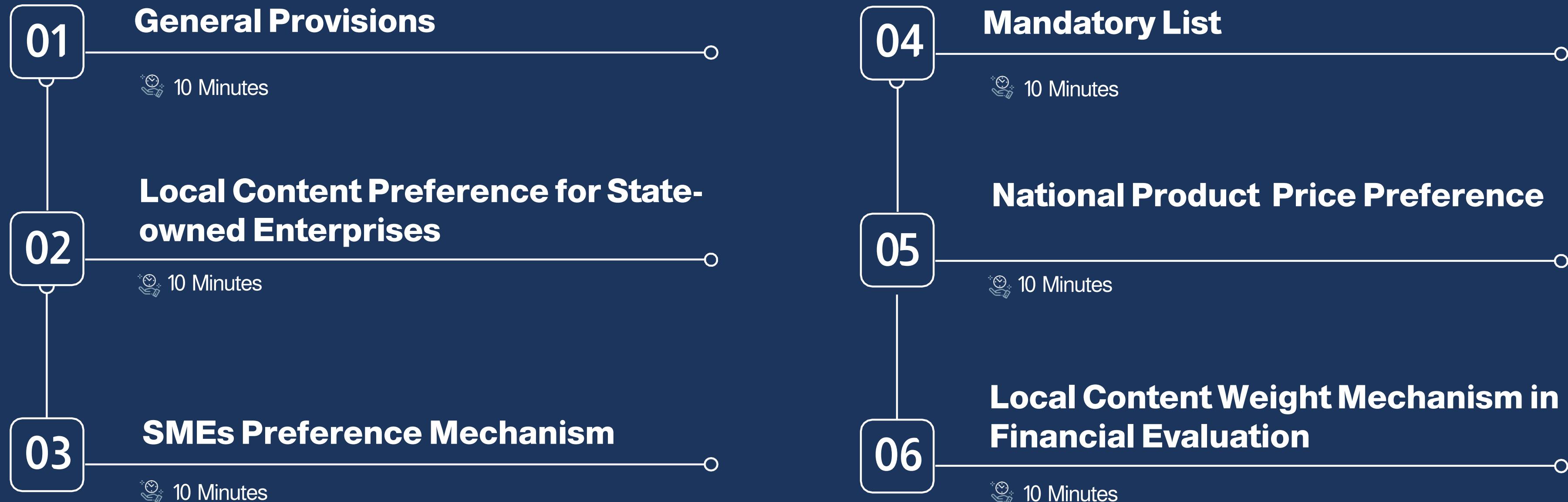




Unit 3

Introduction to Local Content Mechanisms for State-Owned Enterprises

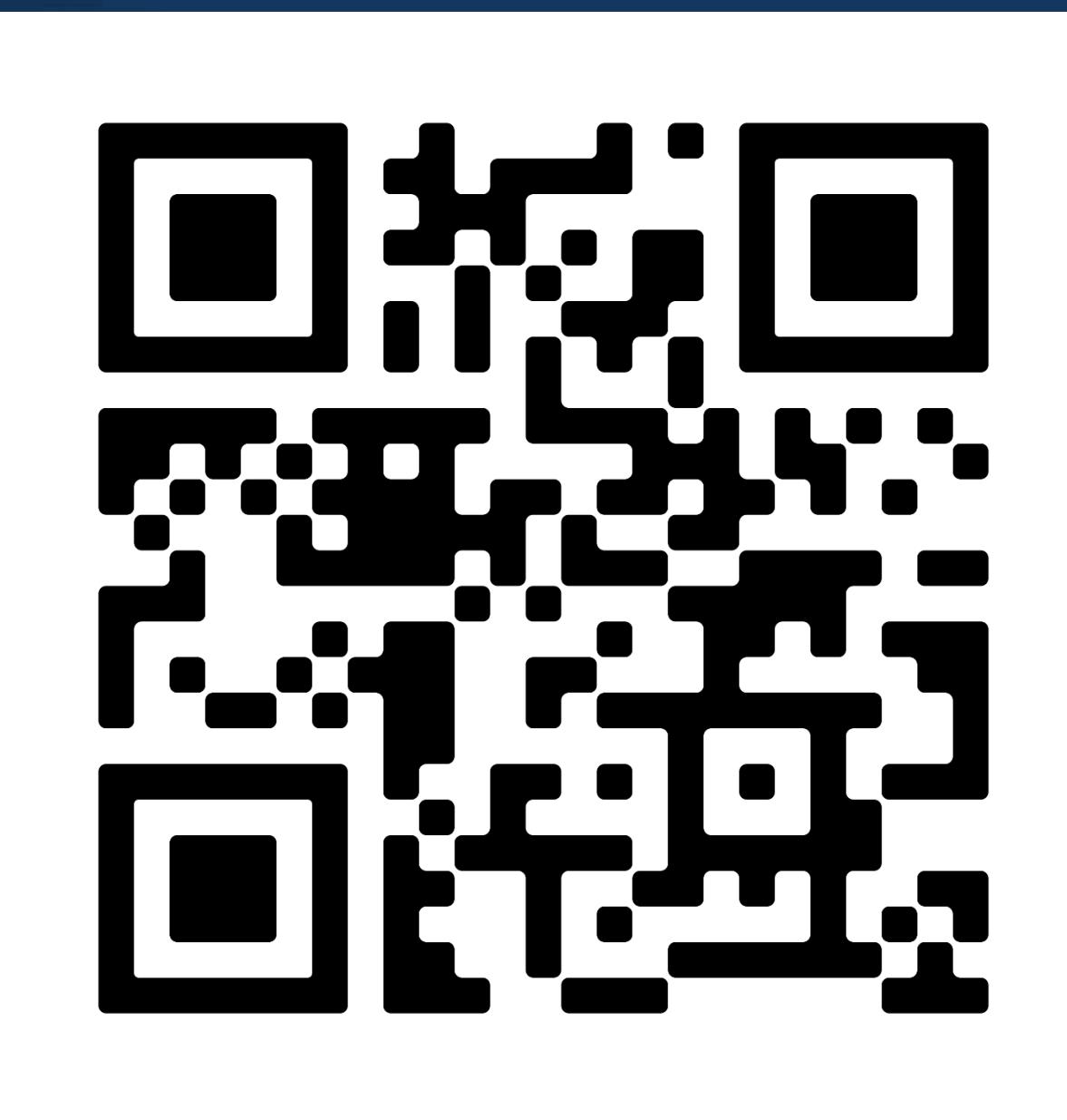
Workshop Agenda





Short Test

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01

General Provisions

Definitions

General Definitions



Enterprises

State-Owned Enterprises - or any of their government bodies - or where the State holds more than 50% of the capital, and are commercially registered in the Kingdom.

LCGPA

Local Content and Government Procurement Authority.

Local Content

Total Spending in the Kingdom through national elements, including goods, services, assets, technology, workforce, and the like.

National Product

Any product manufactured in the Kingdom, including all extractive, agricultural, animal, and industrial products, whether in its raw form or at any subsequent stage of assembly, processing, or manufacturing.

Internal Regulations

Internal Business and Procurement Regulations.

Mandatory List

It is a list of national products and services issued and regularly updated by the LCGPA.

Definitions

General Definitions



Small and Medium Enterprises

Local enterprises (micro, small-, and medium-sized enterprises), as classified by the Small and Medium Enterprises General Authority.

Targeted Local Content Percentage

The percentage of local content a bidder, upon submitting his tender, undertakes to reach by the end of the contract.

Local Content Gradual Plan

A mandatory plan prepared and submitted by the contractor to clarify the percentage of local content that is planned to be reached during the stages of contract execution.

Local Content Certificate (baseline)

A certificate issued by the LCGPA that specifies the enterprise's approved local content percentage.

Mixed Contracts

Contracts containing provisions related to both the supply of goods and the provision of services or other works, such as supply and installation contracts, construction contracts, and infrastructure development contracts in all their forms and varieties.



The LCGPA was established pursuant to Royal Decree No. (168/A) dated 20/04/1440 H, corresponding to 27/12/2018 AD, with the aim of developing local content's components at the national economic level and enhancing and monitoring government procurement activities, in accordance with the applicable systems and regulations.





Developing Local Content.

01

Monitoring local content.

02

Drafting policies and regulations.

03

Business intelligence and Research Development.

04

Raising awareness among various economic sectors.

05

Forming strategic partnerships.

06

Developing agreement Management.

07

Local Content Concept

Definition and Elements of Local Content



What is Local Content?

- » It is the total expenditure in Saudi Arabia through the participation of Saudi elements in the workforce, goods and services, productive assets, technology, and the like.

Local Content Elements

.....01.....

Assets



- Sources and Components of goods for the development of production chains.

.....02.....

Workforce



- Workforce involved in manufacturing products or supplying services.

.....03.....

Goods and Services



- Local Components used in the production of goods or services.

.....04.....

Technology & the like



- Research, development and training for the Saudi Workforce.

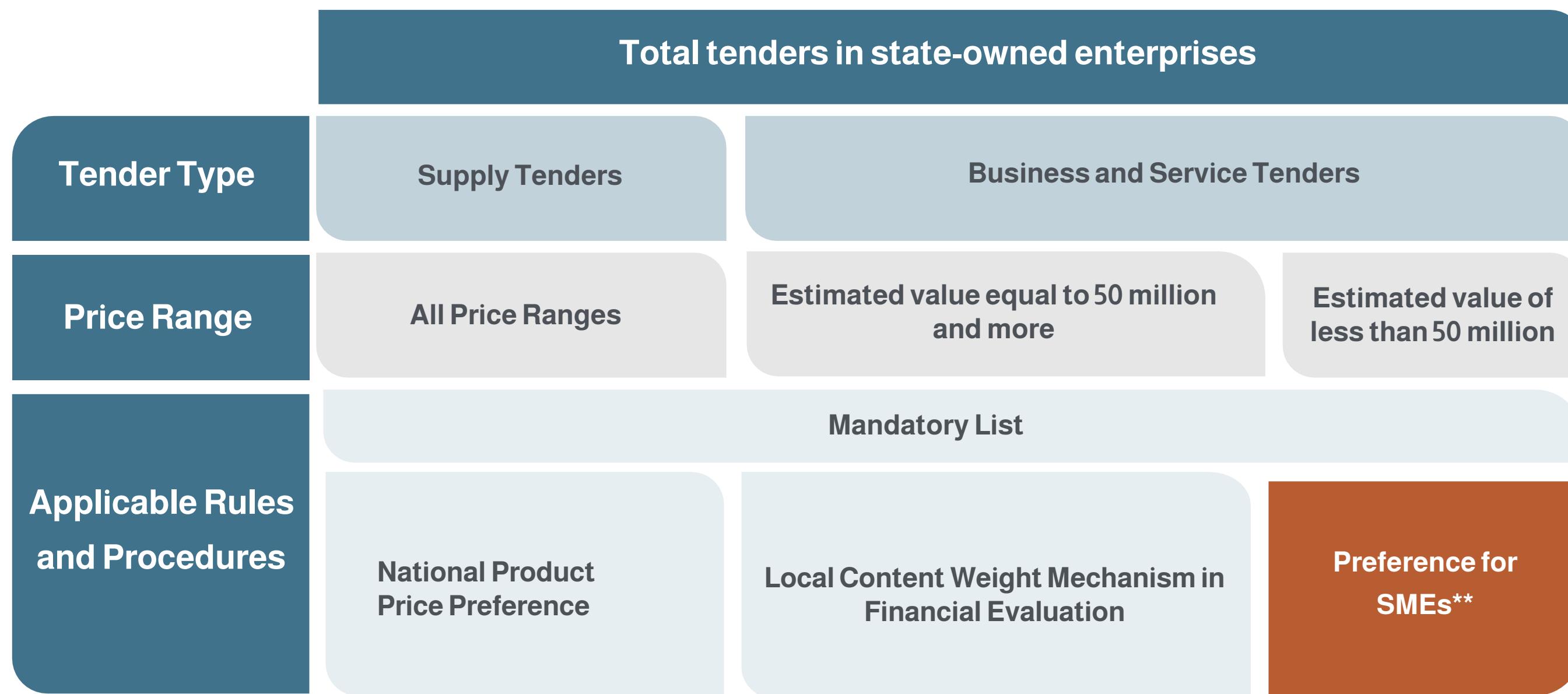


Introduction to Local Content Mechanisms



Overview of Local Content Mechanisms

Given the local content regulations for state-owned enterprises, three mechanisms for developing local content have been identified:



Local Content Mechanisms

Preference for SMEs



02

Local Content Preference for State-Owned Enterprises

Local content preference for state-owned enterprises



Purpose and Application

Objective

Developing Local Content and Local SMEs through fully state-owned enterprises transactions and procurement, or any of its governmental entities, or in which the government holds a majority stake of more than (50%) of its capital.

Application: These provisions shall apply to the companies' business and procurement transactions, except for the following:

- 1 Contracts between enterprises and any entities within the same group, subject to specific controls, namely:

The contractor shall, upon the execution of business and procurement, supply the products listed in the mandatory list, and apply the SMEs Preference Mechanism and non-mandatory National Product Price Preference Mechanism during the bids' evaluation process, as stipulated in the relevant provisions.

In cases where subcontracting is necessary, the subcontractor shall supply the products listed in the mandatory list, and apply the SMEs Preference Mechanism and non-mandatory National Product Price Preference Mechanism during the bids' evaluation process, as stipulated in the relevant provisions.

- 2 Enterprises contract for businesses performed outside the Kingdom.

The term "contracts within the same group" refers to contracts concluded between an entity and its affiliate or between two affiliates of the same entity. An entity shall be deemed a subsidiary of another entity if the latter directly or indirectly holds (50%) or more of the former's capital.

Local content preference for state-owned enterprises



Special Requirements

1

Enterprises shall ensure in advance that there is no more than one qualified local individual available to purchase or perform the required work when engaging with foreign individuals.

2

Companies shall include in their tender documents the terms and conditions related to local content, as applicable.

3

The technical specifications, set by companies for business and procurement transactions, shall not be designed to exclude national products that meet the required standards.

4

Companies shall ensure that both national and foreign products comply with the approved national standards, or with international standards where no national standards exist.

5

Where applicable, companies shall apply the mandatory list when executing their business and procurement transactions.

- Through the contractor's supply of national products included in the mandatory list, and by applying these requirements to all contracts that include products listed therein.

- LCGPA shall establish the necessary controls for exemptions from the Mandatory List. Companies may, in circumstances defined by their internal regulations, procure national products that fall under the Mandatory List.

- This is applicable if the price difference between the national product and the foreign product does not exceed (10%), and this is after inviting at least three local manufacturers to supply or execute the required procurements.

6

The contractor shall apply all the aforementioned provisions when executing business and procurement transactions on behalf of the enterprises.



Local content preference for state-owned enterprises



Implementation Phases



First Phase



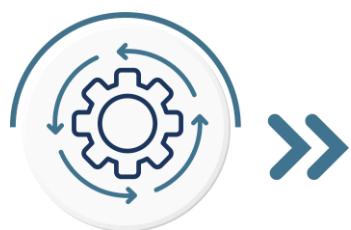
Effective from **December 18, 2022**, the following companies will contribute, as applicable, to the development of local content and small and medium-sized enterprises during this period:

Stated Members

Wholly state-owned enterprises (100%).

18 December
2022

Second Phase



Subsequent to the completion of the first phase, the second phase will commence on **December 18, 2024**, as outlined below:

Applying regulations to all wholly state-owned enterprises (or any of their government agencies (or those in which the government owns more than (50%) of the capital.

19 December
2024



Companies in which the ownership percentage of the State or its agencies exceeds (50%) of their capital – subsequent to the effective date of granting preference – are granted a 90-day period from the date their ownership percentage surpasses this threshold to commence the implementation of granting preference.



03

SMEs Preference Mechanism

Preference for SMEs

About the Mechanism



Local micro-, small-, and medium-sized enterprises, as classified by the Small and Medium Enterprises General Authority.

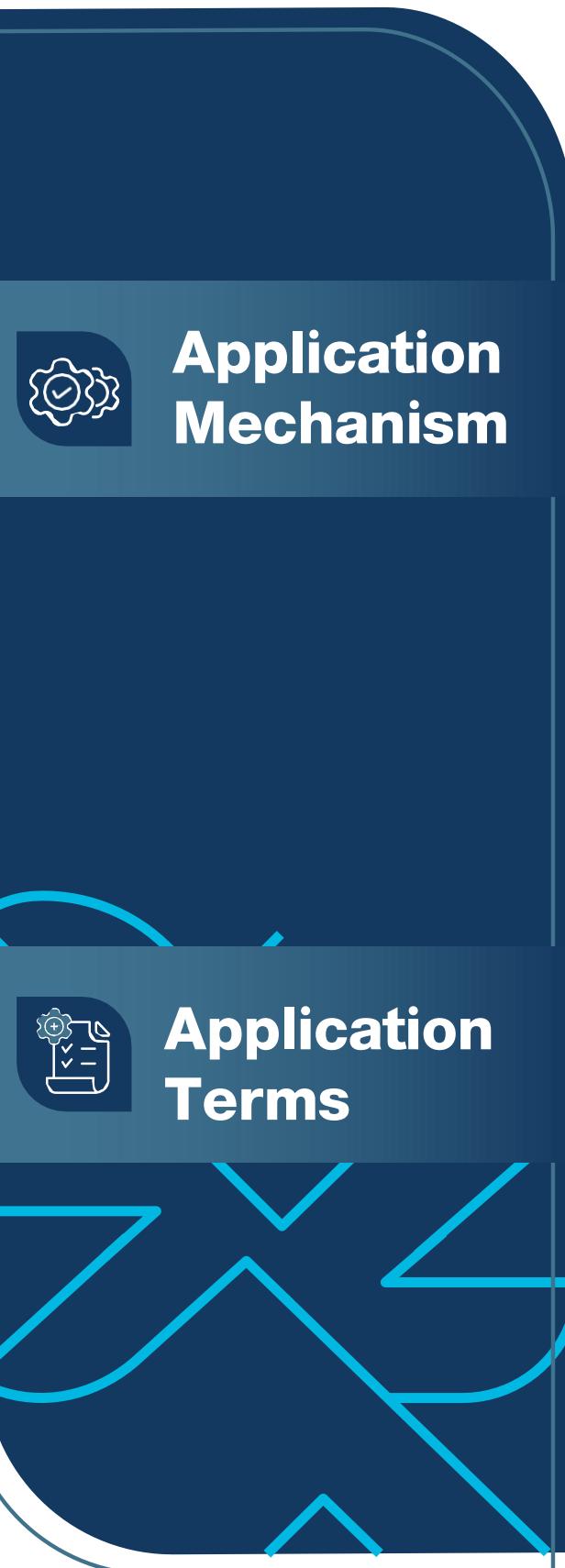
This is a mechanism established to incentivize and support the participation of small and medium enterprises (SMEs) in government procurement, thereby enhancing local content development and increasing their contribution to the private sector and the Gross Domestic Product (GDP).

Applies to all contracts with an estimated value of less than **50 million**- except supply contracts.

*The value is subject to change according to what is agreed between the Authority and the Expenditure Efficiency Authority

Preference for SMEs

About the Mechanism



A 10% price preference is granted to Small and Medium-sized Enterprises (SMEs) by adding this amount to the total price of bids submitted by entities that do not fall within this category. Next, bids are compared and the lowest bid is selected.

Small and Medium-sized Enterprises (SMEs) Certificate (enterprise size certificate) (issued by the Small and Medium Enterprises General Authority "Monsha'at").

Preference for SMEs

Case Study



Tender

Price preference is calculated as follows:



Tendering Authority:
A 70% state-owned enterprise.

Tender Type:
Services and business tender (less than 50 million).

Applicable provisions and mechanisms:
Mandatory list provisions.
SMEs Preference Mechanism.

Tender Value:
500,000 SAR.

A 10% increase is added to the bid of large enterprises, and this adjusted price is then compared to the bids submitted by small and medium-sized enterprises.



Large Enterprise

400,000 SAR



Medium-sized Enterprise
(Classified by "Monsha'at")

425,000 SAR



Small-sized Enterprise
(Classified by "Monsha'at")

410,000 SAR

Bid Price

Adjusted Bid Price

440,000 SAR

425,000 SAR

410,000 SAR

The small-sized Enterprise has been awarded.

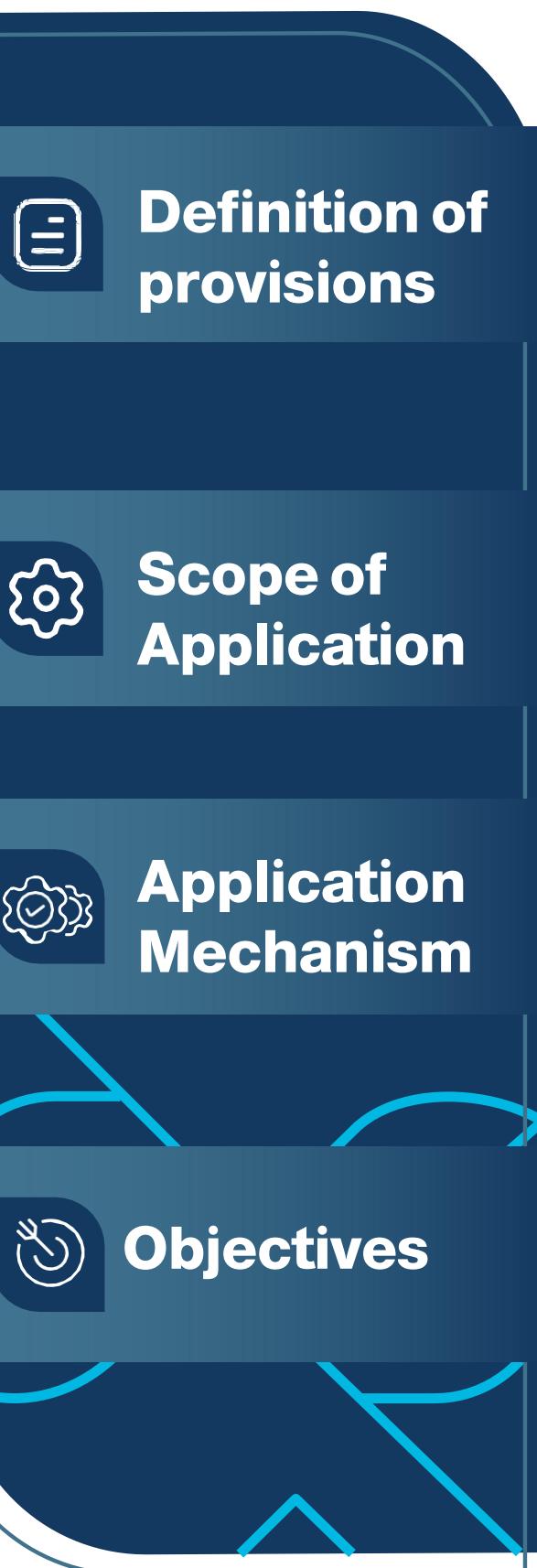


04

Mandatory List

Mandatory List

About Mandatory List





Mandatory List

Exceptions to the mandatory list



1

Exception due to insufficient production capacity of national factories to meet demand.



2

Exception due to the price difference between the national product and the foreign product exceeding 10%.



3

Exception due to the need for special specifications that do not apply to national products.



4

Exception due to technical or operational requirements mandating the supply of a foreign product.



Mandatory List

Case Study (for indivisible tenders)



Tender

Tendering Authority:

A 70% state-owned enterprise.

**Tender Type:**

Supply Tender.

**Breaking Down the Tender:**

Tender is indivisible.

**Applicable provisions and mechanisms:**

Mandatory list provisions

National Product Price Preference Mechanism

**Tender Value:**

300,000 SAR.

Three bids were submitted for this tender, as detailed in the table below:

Tender Items

Envelopes with the entity's logo

Wrapping paper

Paper gift bags

Luxury pens

Luxury Shields

Mandatory List

Bidder No. 1

Bidder No. 2

Bidder No. 3

✓	National	National	Foreigner
✓	National	National	National
✓	National	National	Foreigner
✗	Foreigner	Foreigner	National
✗	National	National	National

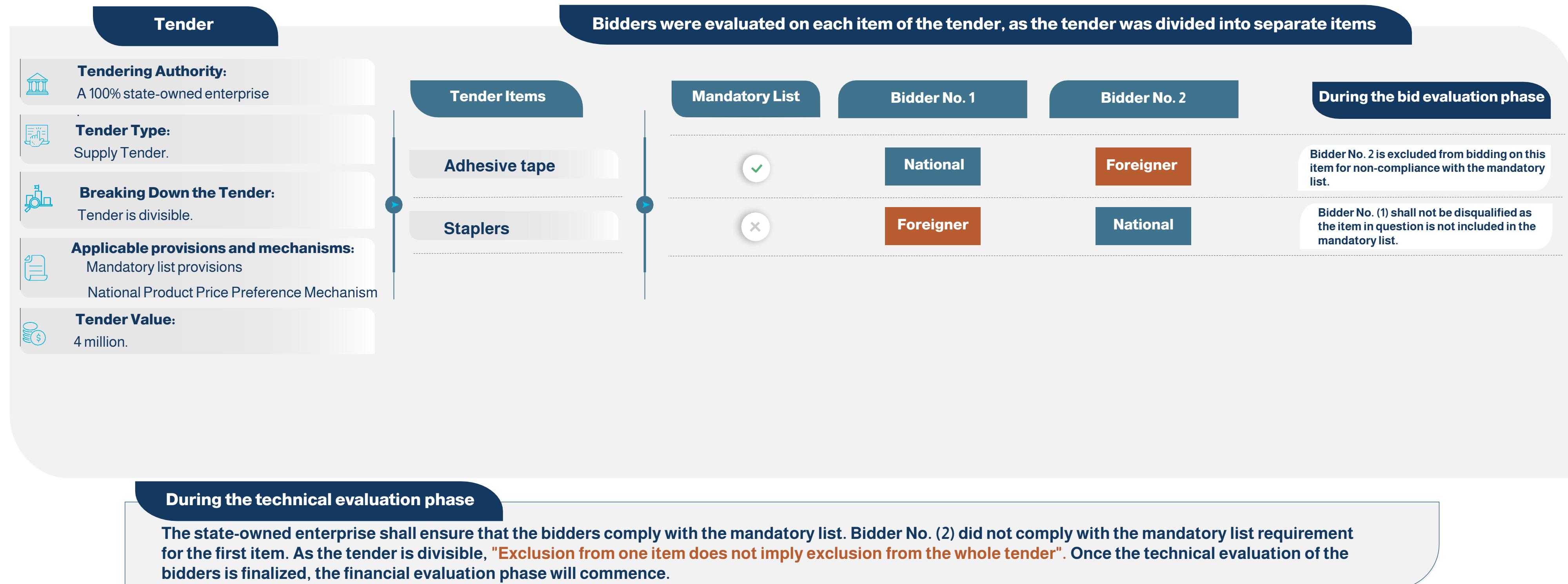
During the Technical Evaluation Phase

The state-owned enterprise shall ensure that the bidders comply with the mandatory list. Bidder No. (3) did not comply with the mandatory list in two items, namely: reusable cups, paper gift bags. Since the tender is indivisible, the bidder shall be technically disqualified from all items. Once the technical evaluation of the bidders is finalized, the financial evaluation phase will commence.



Mandatory List

Case Study (for divisible tenders)





05

National Product Price Preference

National Product Price Preference



About the Mechanism



It involves granting a 10% price preference to national products over foreign products.

Applied in supply contracts or mixed contracts.

A National Product shall be granted a price preference by assuming that the price of a foreign product is 10% higher than the price stated in the bid documents. Companies may, in circumstances determined by their internal regulations, increase this percentage.

National Product Price Preference

Case study for an indivisible bid



Tender

Tendering Authority:

A 60% state-owned enterprise

Tender Type:

Supply Tender.

Breaking Down the Tender:

Tender is indivisible.

Applicable provisions and mechanisms:

Mandatory list provisions
National Product Price Preference Mechanism

Tender Value:

4 million.

A state-owned enterprise has issued a tender for the procurement of office supplies

Tender Items

Adhesive tape

Paper Shredder

Staplers

Mandatory List

Enterprise 1

Enterprise 2

Enterprise 3

	50,000 SAR	National Product	50,000 SAR	National Product	50,000 SAR	Foreign Product
	50,000 SAR	National Product	53,000 SAR	National Product	63,000 SAR	National Product
	150,000 SAR	Foreign Product	160,000 SAR	National Product	170,000 SAR	National Product
	250,000 SAR		263,000 SAR		263,000 SAR	

Price after adding 10%

During the technical evaluation phase

Bidder No. 3 failed to comply with the mandatory list for the Adhesive tape item. Since the tender is indivisible, the bidder is technically disqualified from all items of the tender. Once the technical evaluation of the bidders is finalized, the financial evaluation phase will commence.

During the financial evaluation phase

The evaluation committee of the state-owned enterprise assessed the bidders, and the contract was awarded to bidder No. (2) who submitted the lowest bid, after adjusting the bid value by adding 10% to the foreign product, in accordance with regulations.

National Product Price Preference

Case study (Divisible Bid)



Tender

Tendering Authority:	A 80% state-owned enterprise
Tender Type:	Supply Tender.
Breaking Down the Tender:	Tender is divisible.
Applicable provisions and mechanisms:	Mandatory list provisions. National Product Price Preference Mechanism
Tender Value:	4 million.

A state-owned enterprise has issued a tender for the procurement of office supplies:

Bidders Tender Items

Paper Shredder

Enterprise 1

80,000 SAR

National Product

Enterprise 2

53,000 SAR

National Product

Staplers

150,000 SAR

Foreign Product

160,000 SAR

National Product



National Product Price Preference



Case study (Divisible Bid)

Bidders were evaluated on each tender item:

Evaluation of the first item
(paper Shredder)

All bidders submitted offers for all items,
and the national product share was
calculated.

Bidders	Tender Items	Enterprise 1	Enterprise 2
	Paper Shredder	80,000 SAR	53,000 SAR

Contract awarding has been made as per the company's internal regulations.



National Product Price Preference



Case study (Divisible Bid)

Bidders were evaluated on each tender item, with a price preference given to national products:

Evaluation in the second item

Staplers

Due to the fact that not all products offered by bidders are of national origin, an increase of 10% will be added to the price of a foreign product.

Bidders	Tender Items	Enterprise 1	Enterprise 2
	Staplers	150,000 SAR Foreign Product	160,000 SAR National Product

The price after adding 10%.

165,000 SAR

160,000 SAR

The tender evaluation committee of the state-owned enterprises assessed the bidders by comparing the bid price of Bidder No. (1) to that of Bidder No. (2). The contract was awarded to Bidder 2 (Enterprise 2), which submitted the lowest bid.

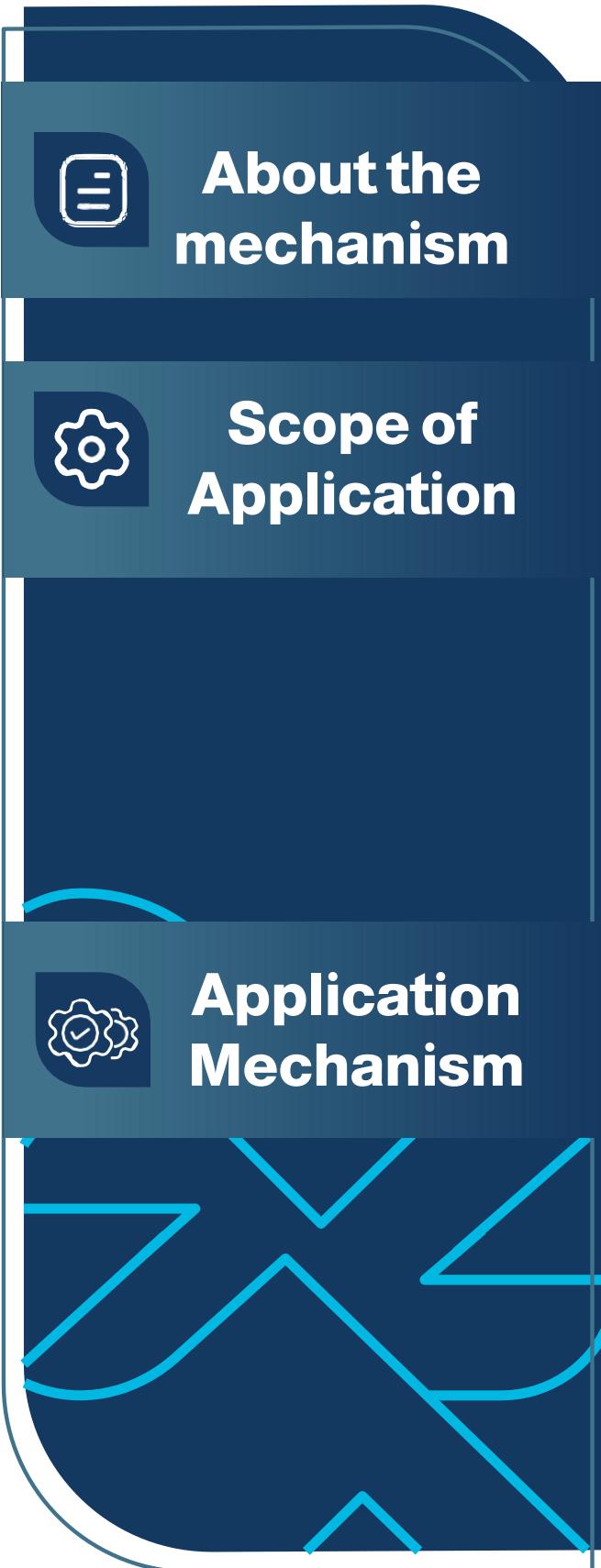
06

Local Content Weight Mechanism in Financial Evaluation

Local Content Weight Mechanism in Financial Evaluation



About the Mechanism



During the financial evaluation, a minimum weight of 30% is allocated to local content, in compliance with the company's internal regulations.

This applies to all contracts with an estimated value of **50 million Saudi riyals or more, except for supply contracts.**

*The value is subject to change according to what is agreed between the Authority and the Expenditure Efficiency Authority

This evaluation mechanism allocates a weight of at least 30% to local content, encompassing the following:

Local Content Certificate (baseline).

Targeted Local Content Percentage.

Guiding equation =
$$\frac{\text{The lowest price of a technically qualified bid (in SAR)}}{\text{Bid price for the bidder to be Evaluated (in SAR)}} \times 70\% + [\text{targeted local content percentage} \times 50\%] + (\text{local content certificate (baseline)} \times 50\%) \times 30\%$$

* The percentages may vary as per the company's internal regulations

The company may award the contract to the highest-rated bidder, notwithstanding a price difference exceeding 10%, as per its internal regulations.

Local Content Weight Mechanism in Financial Evaluation

Case study



Tender

Tendering Authority:
60% state-owned enterprises

Tender Type:
Business and services (equal to 50 million and more).

Tender Documents:
The tender documents stipulated the application of a local content weight mechanism in the financial evaluation, with a 30% weight for local content and 70% for the financial proposal.

Applicable provisions and mechanisms:
Local Content Weight Mechanism in Financial Evaluation.

Mandatory list provisions

Tender Value:

420,000,000 SAR, for four years.

Four bidders participated in the tender:

Bidder No. (1)

Local Content Certificate (Baseline) for the enterprise. 20%

Targeted Local Content Percentage. 30%

Bidder No. (2)

Local Content Certificate (Baseline) for the enterprise. 25%

Targeted Local Content Percentage. 40%

Bidder No. (3)

Local Content Certificate (Baseline) for the enterprise. 16%

Targeted Local Content Percentage. Not submitted

Bidder No. (4)

Local Content Certificate (Baseline) for the enterprise. Not submitted

Targeted Local Content Percentage. 30%

Proposal Submission Phase

Technical

A Local Content Certificate is a mandatory requirement. Failure to provide it will result in the disqualification of the bidder.
A bidder is required to submit a Targeted Local Content Percentage.

Financial

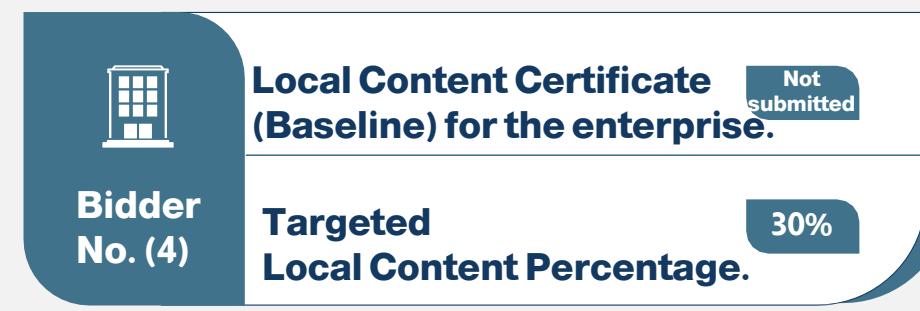
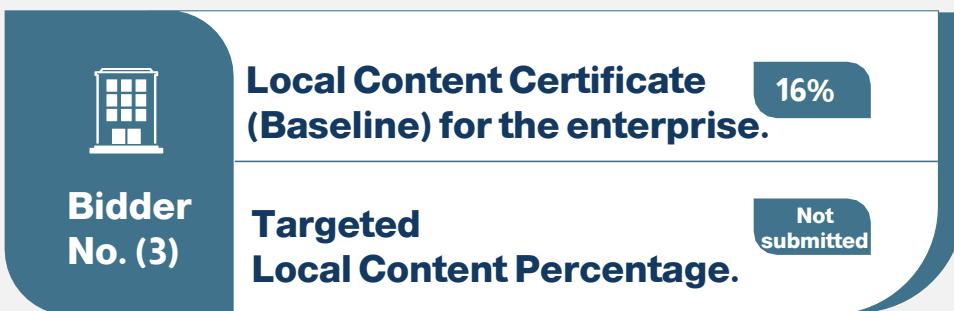
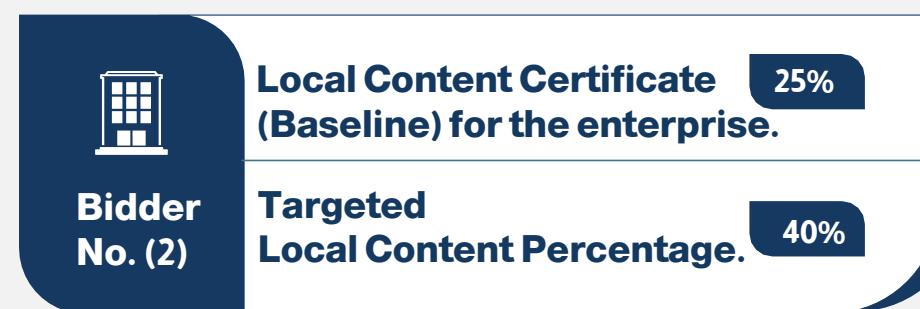
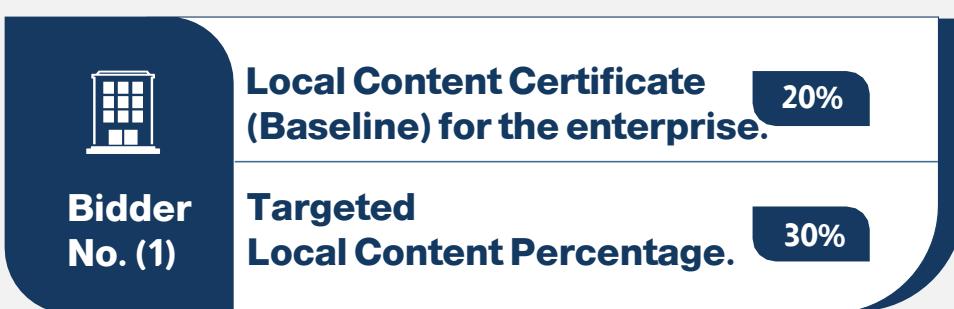
A benchmark formula, assigning a 30% weight to local content and 70% to the financial proposal.

Local Content Weight Mechanism in Financial Evaluation

Case Study



Bids' Evaluation (Technical)



Enterprise Local Content Certificate (baseline).

When applying the local content weight mechanism, local content and targeted local content percentage certificates are mandatory requirements for the technical evaluation.

Targeted Local Content Percentage.

The tender documents stipulated the application of a local content weight mechanism in the financial evaluation, with a 30% weight for local content and 70% for the financial proposal. Bidder No. (3) was disqualified for failing to meet the targeted local content percentage, and Bidder No. (4) was disqualified for failing to submit the baseline local content certificate.

Local Content Weight Mechanism in Financial Evaluation

Case Study



Bids' Evaluation (Financial)

Bidders	Local Content Certificate (baseline)	Targeted Percentage	Financial Proposal
Bidder No. (1)	20%	30%	450,000,000
Bidder No. (2)	25%	40%	455,000,000
Bidder No. (3)	Technically disqualified; due to failure to meet the targeted percentage.		
Bidder No. (4)	Technically disqualified; for not submitting a baseline local content certificate.		

Guiding equation =
$$\frac{\text{The lowest price of a technically qualified bid (in SAR)}}{\text{Bid price for the bidder to be Evaluated (in SAR)}} \times 70\% + [\text{targeted local content percentage} \times 50\%] + [\text{local content certificate (baseline)} \times 50\%] \times 30\%$$

* The percentages may vary as per the company's internal regulations

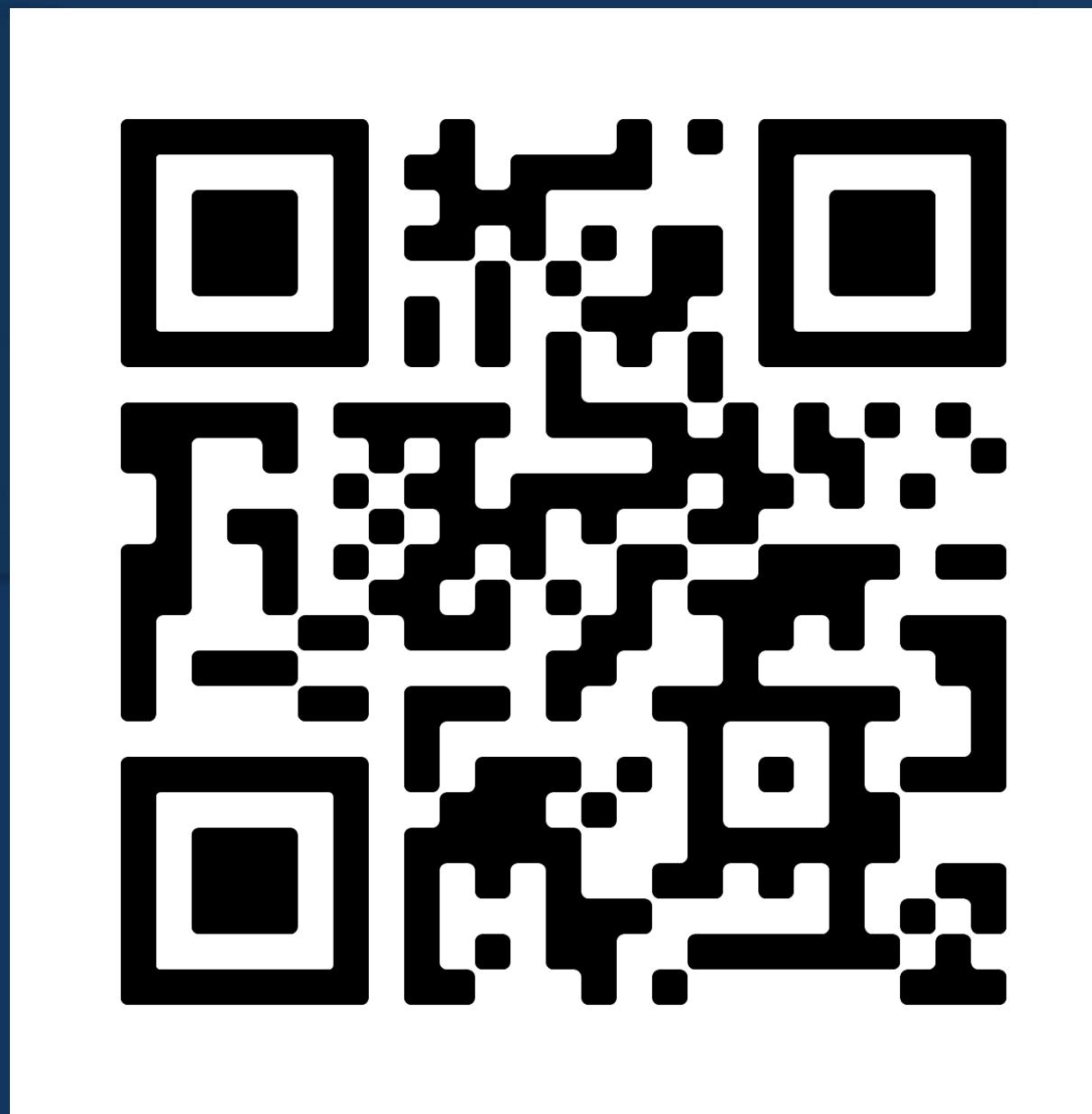
Bidders	Calculation method	The result
Bidder No. (1)	$\left(\frac{450,000,000 \text{ SAR}}{450,000,000 \text{ SAR}} \right) 70\% + [(50\% \times 20\%) + (50\% \times 30\%) \times 50\%] \times 30\%$	78%
Bidder No. (1)	$\left(\frac{450,000,000 \text{ SAR}}{455,000,000 \text{ SAR}} \right) 70\% + [(50\% \times 25\%) + (50\% \times 40\%) \times 50\%] \times 30\%$	80% Winner

The tender has been awarded to Bidder No. (2), who submitted the highest-rated financial proposal, given that the price difference did not exceed 10%.



Short Test

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