

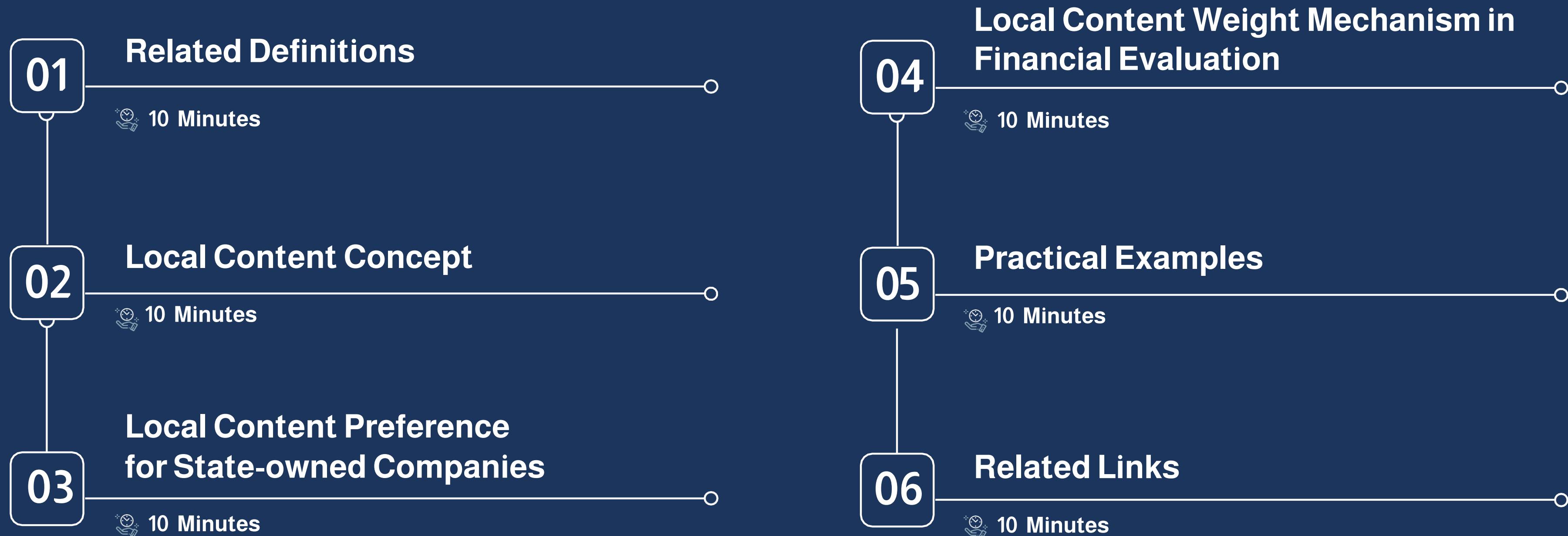


Unit 5

Local Content Weight Mechanism in Financial Evaluation (State-owned Companies)



Workshop Agenda





01

Related Definitions

Definitions

General Definitions



Company

State-Owned Companies - or any its agencies - 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 labor, including goods, services, assets, technology, and other.

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.

Company's Regulations

Internal Business and Procurement Regulations.

Mandatory List

A list of national products and services issued and regularly updated by the LCGPA.

Definitions

General Definitions



Small and Medium Enterprises (SMEs)

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

Target 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 a contractor that indicates the targeted local content percentage to be reached during the execution of the contract, and the contractor is obligated to deliver within 60 days from the awarding date.

Local Content Certificate

Local Content Percentage - approved by LCGPA - for the bidder's facility upon bid submission.

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.



02

Local Content Concept

Local Content Concept

Definition and Components of Local Content



What is Local Content?

» It is the total expenditure in Saudi Arabia through the participation of Saudi components in the labor, 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.....

Labor



- 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.



Local Content

Local Content Certificate



About the Certificate

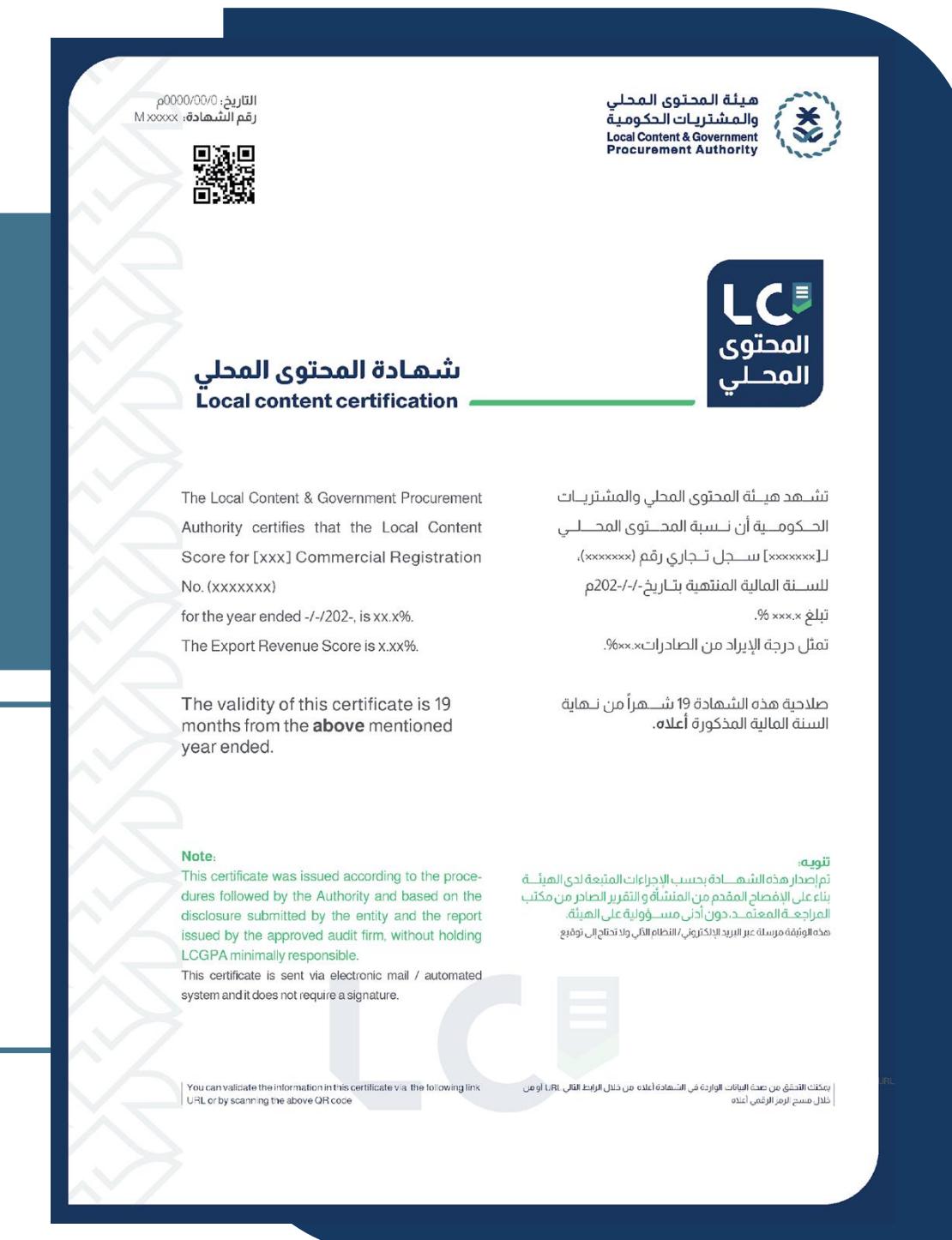


It is the local content score at the entity for the targeted fiscal year under assessment, calculated based on the entity's financial statements, which enables it to determine its current local content status.

Certificate Validity

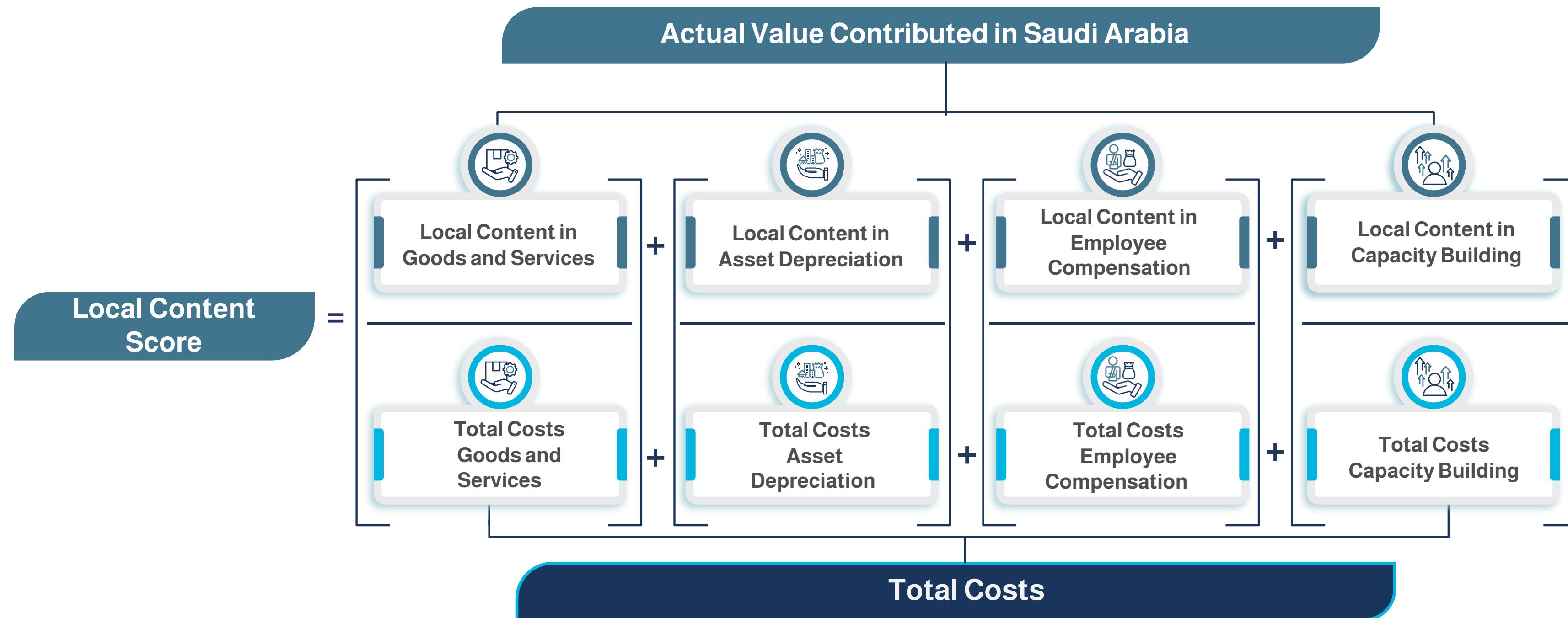


The Local Content Certificate is valid for a period of 19 months from the date of the financial statements under assessment.



Local Content

Local Content Score Calculation Formula





03

Local Content Preference for State-owned Companies



Local Content Preference for State-owned Companies



Objectives and Application

Objective

Developing Local Content and Local SMEs through fully state-owned companies' businesses and procurement.

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

1 Company contracts with any entities within the same group, emphasizing the importance of adhering to the following:

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 bid 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 bid evaluation process, as stipulated in the relevant provisions.

2 Companies' contract for businesses performed outside the Kingdom.

The term "contracts within the same group" refers to contracts concluded between an entity and its subsidiary or between two subsidiaries 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 Companies

Special Requirements



1

Companies 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 and 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 to international standards where no national standards exist.

5

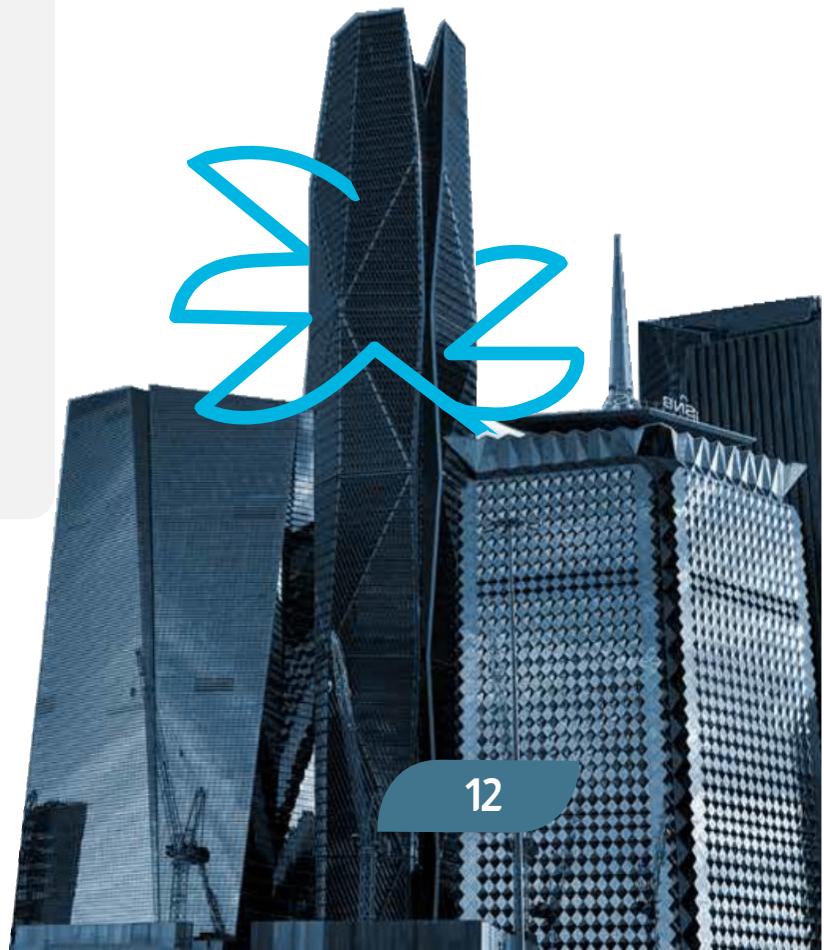
Where applicable, companies shall apply the Mandatory List when executing their business and procurement transactions.

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 regulations for exclusion from the Mandatory List. Under specific conditions outlined in its internal bylaws, companies may still procure national products included in the Mandatory List if the price difference between the national product and the foreign one does not exceed 10%, after inviting at least three local manufacturers to bid on or fulfill the required procurement.

6

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





Local Content Preference for State-owned Companies



Implementation Phases

First Phase

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

The aforementioned companies

State-owned companies (100%).

18 December

2022

Second Phase

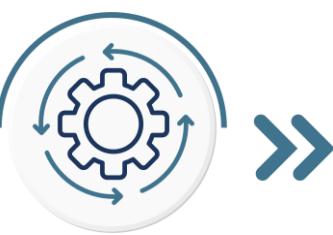
Subsequent to the completion of the first phase, the second phase commenced on December 18, 2024, as outlined below:

Applying preference to all state-owned companies (or any of its government agencies) or those in which the State holds more than (50%) of the capital.

19 December

2024

Companies in which the ownership percentage of the State, or any of its agencies, exceeds 50% of their capital, after the effective date of the Preference Policy, are obligated to commence applying the Preference Policy within 90 days from the date such ownership increase occurs.



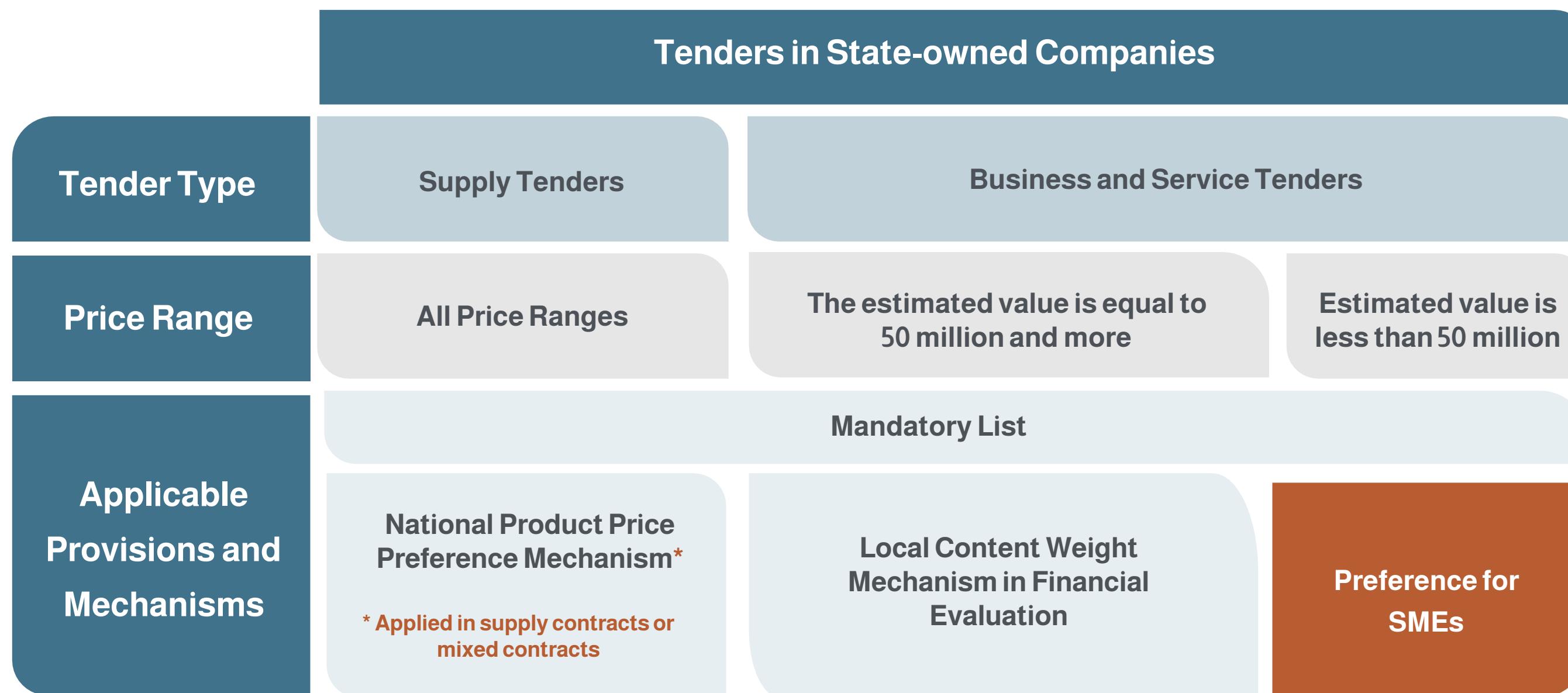


Local Content Preference for State-owned Companies



Overview of Local Content Mechanisms

Given the local content controls for state-owned companies, three mechanisms for local content development have been identified:



Local Content Mechanisms.

Preference for SMEs.

04

Local Content Weight Mechanism in Financial Evaluation

Local Content Weight Mechanism in Financial Evaluation



About the Mechanism



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

Applies to all contracts with an estimated value of fifty million Saudi Riyals or more, except for supply contracts.

Mechanism Application in Technical Evaluation:

Local Content Certificate.

Targeted Local Content Percentage.

Should neither be submitted, the bidder shall be disqualified.

The price variance between the highest-ranked bidder's offer (based on final evaluation) and the lowest offer from any technically qualified bidder must not be more than 10%.

Local Content Weight Mechanism in Financial Evaluation



About the Mechanism

Mechanism Application

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

Cases in which companies may consider the percentage of local content in a private sector facility as 0%:

- **First Case: Newly Established Local Enterprise:**

This case is applicable to newly established local enterprises. A local enterprise is considered recently founded if the duration between its incorporation date and the date its local content score is deemed as zero percent is less than (19) calendar months.

- **Second Case: Foreign Enterprises:**

This case applies to all enterprises that are not registered in the kingdom of Saudi Arabia. The enterprise is considered Foreign if it is not registered in the kingdom.

Application Mechanism in Financial Evaluation:

$$\text{Guiding equation} = \frac{\text{Lowest technically qualified bid (in SAR)}}{\text{Bid price for the bidder to be evaluated (in SAR)}} \times 70\% + [(\text{Targeted Local Content Percentage} \times X\%) + (\text{Local Content Certificate} \times Y\%)] \times 30\%$$

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



05

Practical Examples

Local Content Weight Mechanism in Financial Evaluation



Case Study

Tender Information

 **Tendering Authority:**
60% State-owned Companies

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

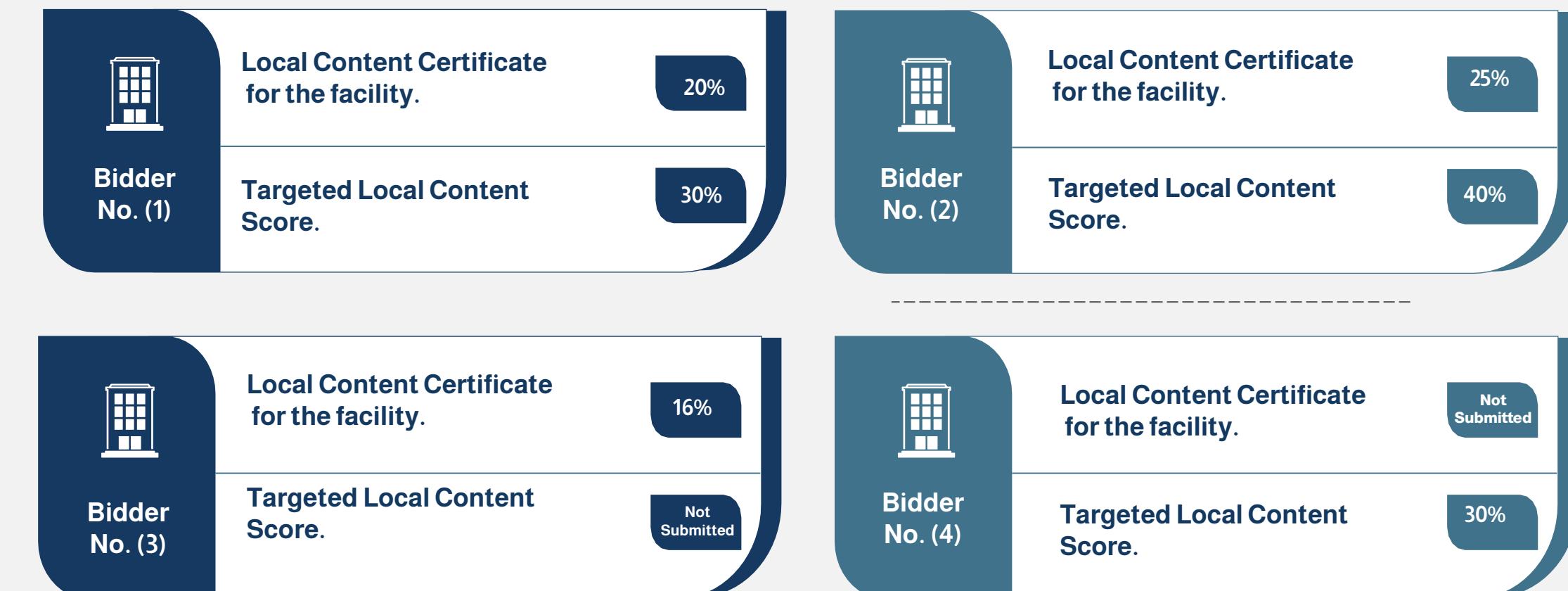
 **Tender Documents:**
The tender documents stipulated the application of Local Content Weight Mechanism in financial evaluation, specifying a percentage of 30% for the Local Content Weight and 70% for the financial proposal. It also stipulated the weighting for the Targeted Local Content Percentage and the Local Content Certificate.

 **Applicable Provisions and Mechanisms:**
Local Content Weight Mechanism in Financial Evaluation.
Mandatory List Provisions.
National Product Price Preference Mechanism

 **Tender Value:**
SAR 420,000,000, and for four years.

* (Indirectly through the contractor) in the event that required products for supply
are not listed on the mandatory list

Bidder Information



Local Content Weight Mechanism in Financial Evaluation



Case Study

Bids' Evaluation (Technical)

Bidder	Local Content Certificate for the facility.	20%	Targeted Local Content Score.	30%
Bidder No. (2)	Local Content Certificate for the facility.	25%	Targeted Local Content Score.	40%
<hr/>				
Bidder No. (3)	Local Content Certificate for the facility.	16%	Targeted Local Content Score.	Not Submitted
Bidder No. (4)	Local Content Certificate for the facility.	Not Submitted	Targeted Local Content Score.	30%

When applying the local content weight mechanism, Local Content and Targeted Local Content Percentage certificates are mandatory requirements for the technical evaluation.

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 Local Content Certificate.

Local Content Weight Mechanism in Financial Evaluation

Case Study



Bids' Evaluation (Financial)

Bidders	Local Content Certificate	Targeted Percentage	Financial Proposal
Bidder No. (1)	20%	30%	450,000,000
Bidder No. (1)	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 Local Content Certificate.		

Guiding equation =
$$\left(\frac{\text{Lowest technically qualified bid (in SAR)}}{\text{Bid price for the bidder to be evaluated (in SAR)}} \times 70\% \right) + [(\text{Targeted Local Content Percentage} \times 50\%) + (\text{Local Content Certificate} \times 50\%)] \times 30\%$$

Vary as per the company's internal regulations

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

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



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Related Links



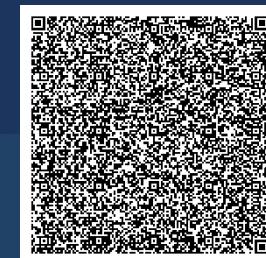
Related Links



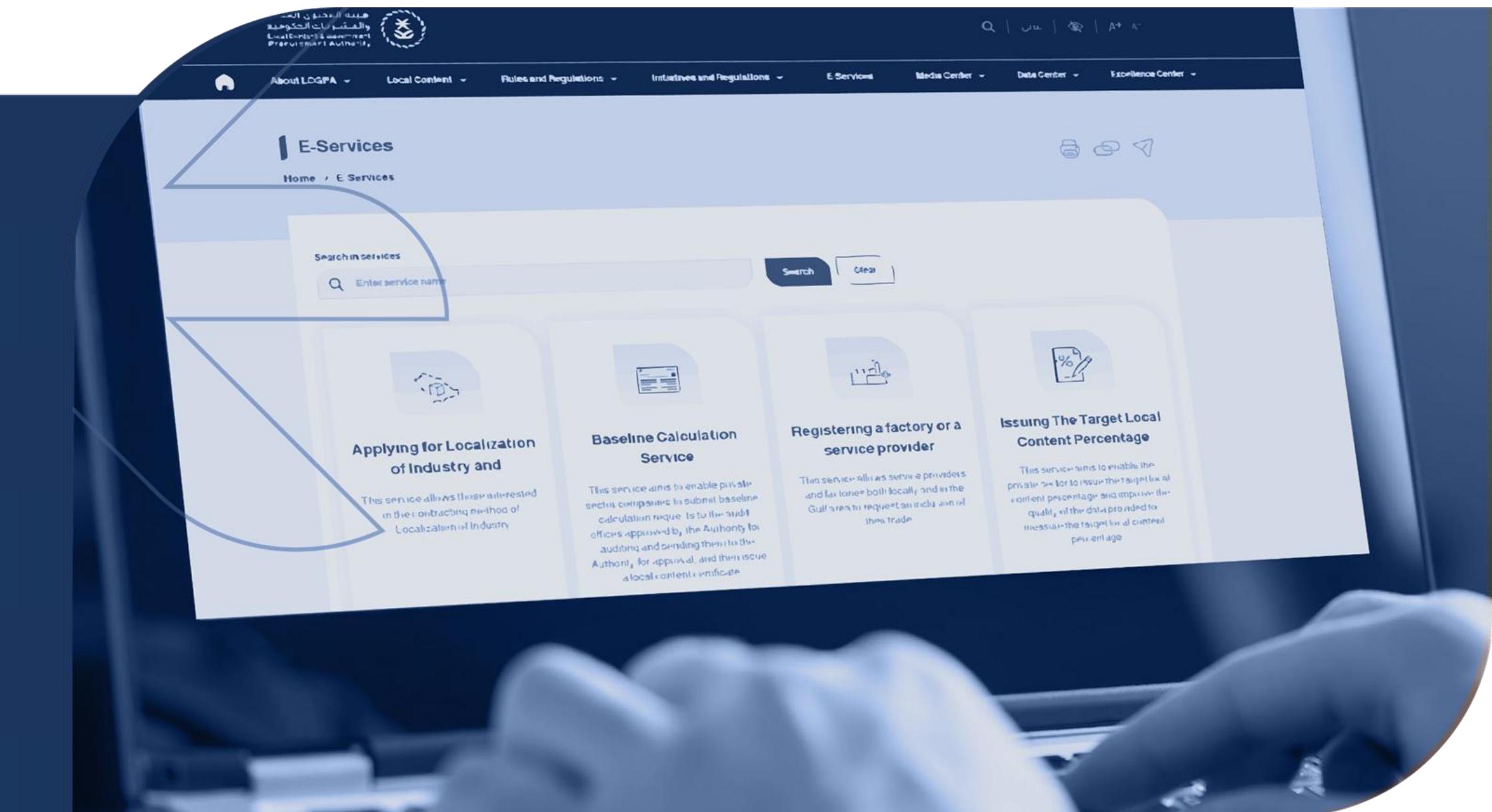
Templates for Periodic Reports and the Final Report



Targeted Percentage Templates



E-Services





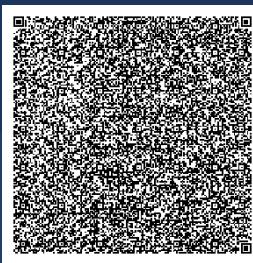
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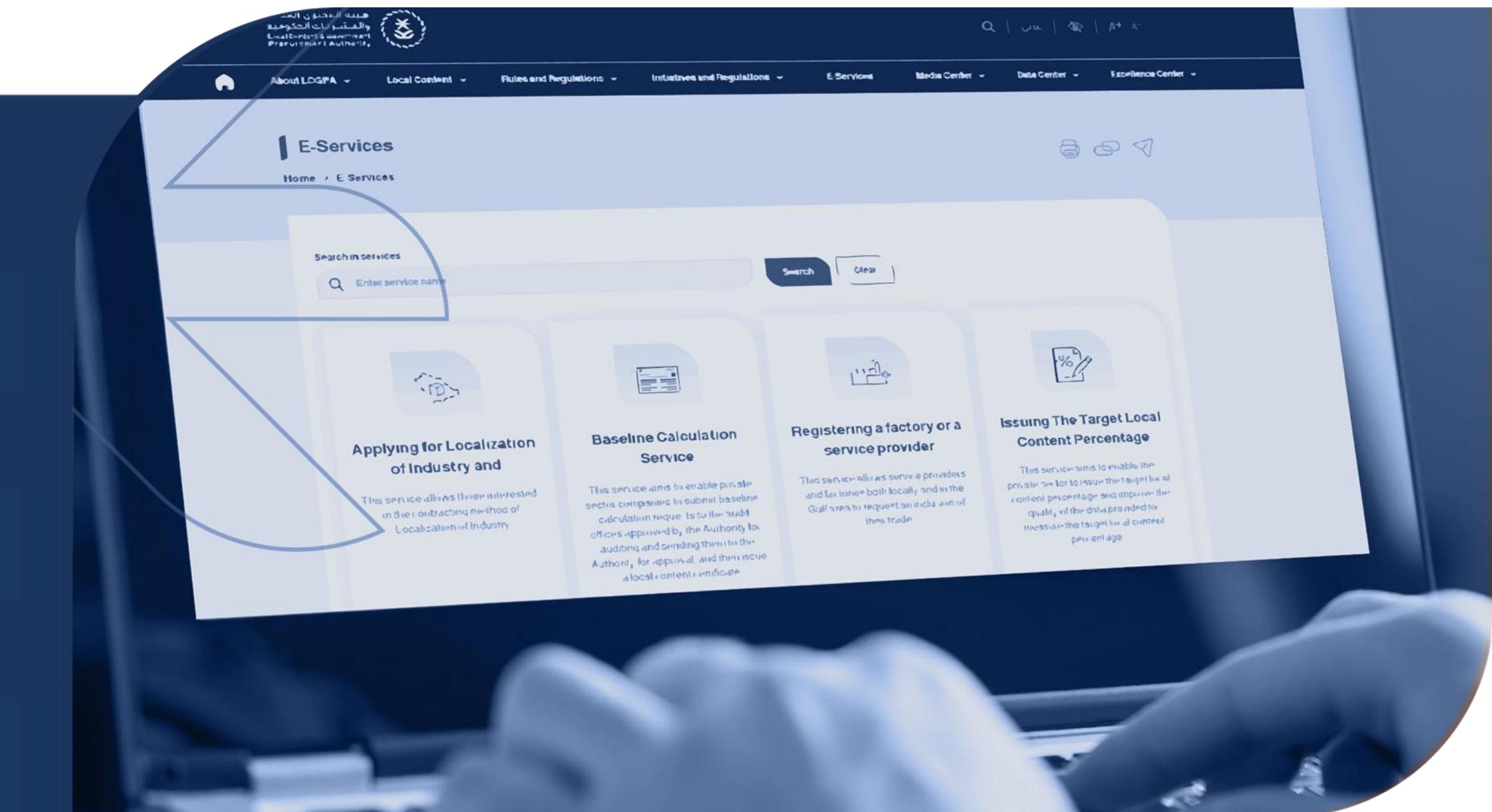
Search Page for Factory or Service Provider Listed on the Mandatory List



Document of Regulations for Exclusion from Mandatory List



E-Services





Thank you..

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