



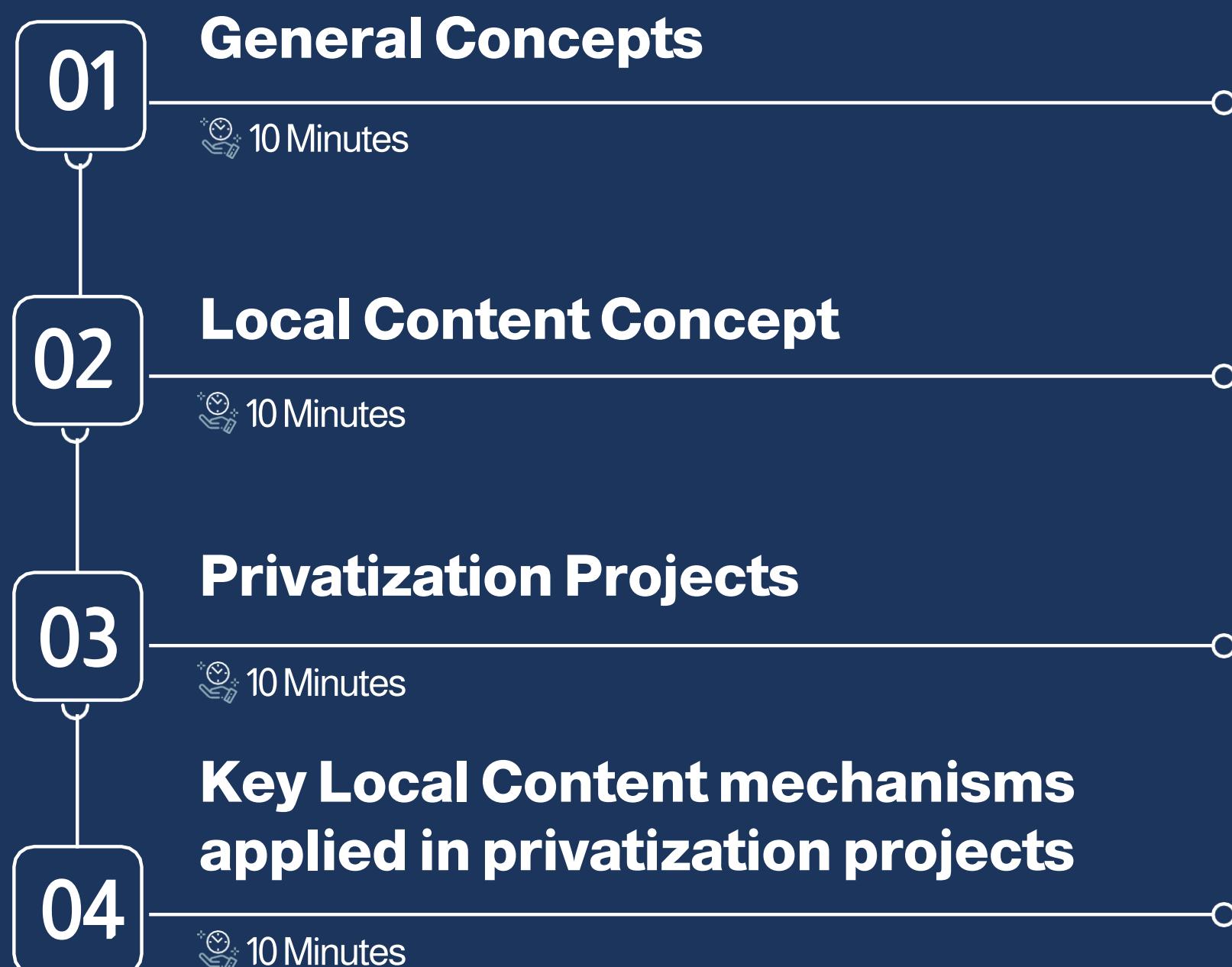
هيئة المحتوى المحلي
والمشتريات الحكومية
Local Content & Government
Procurement Authority

Unit 8

Privatization Projects



Workshop Agenda





01

General Concepts

Terms and Definitions

General Definitions



Contracting Authority

The entity/ entities responsible for studying and preparing privatization projects, with the authority to tender and award projects, conclude contracts, or exercise any other powers or tasks in accordance with the law, and the regulations governing the exercise of their powers and tasks.

LCGPA

Local Content and Government Procurement Authority.

Law

Privatization Law.

Regulations

Regulations on Preference for Local Content and Local SMEs and Companies Listed on the Capital Market in Business and Procurement Transactions.

Implementing Regulations

The Executive Regulations of the Privatization Law.

Local Content

Total spending in the Kingdom through national elements, including goods, services, assets, technology, and other.

Terms and Definitions

General Definitions



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.

Targeted Local Content Percentage

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

Progressive Plan for Local Content

A mandatory plan prepared and submitted by a contractor that indicates the Targeted Local Content score to be reached during the execution of the contract, and the contractor is obligated to deliver within 60 days from the date of award, unless the contract states otherwise.

Privatization Project

A Public-Private Partnership (PPP) project, or an asset transfer project, or a combination of both, according to the context.

Local Content Certificate (baseline)

A certificate issued by the LCGPA that specifies the facility's approved Local Content score.

Privatization Plan

A sector-specific plan outlining the objectives of privatization projects within the sector, a list of privatization projects in the sector, and the implementation timeline.



02

Local Content Concept

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 other.

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 utilized in the production of goods or services.

..... 04

Technology & other



- Research, development and training for the Saudi Workforce.



Local Content

Local Content Certificate



About the Certificate



It is the local content percentage at the facility for the targeted fiscal year under assessment, calculated based on the facility'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 Certificate



Definition of the Certificate at Contract Level



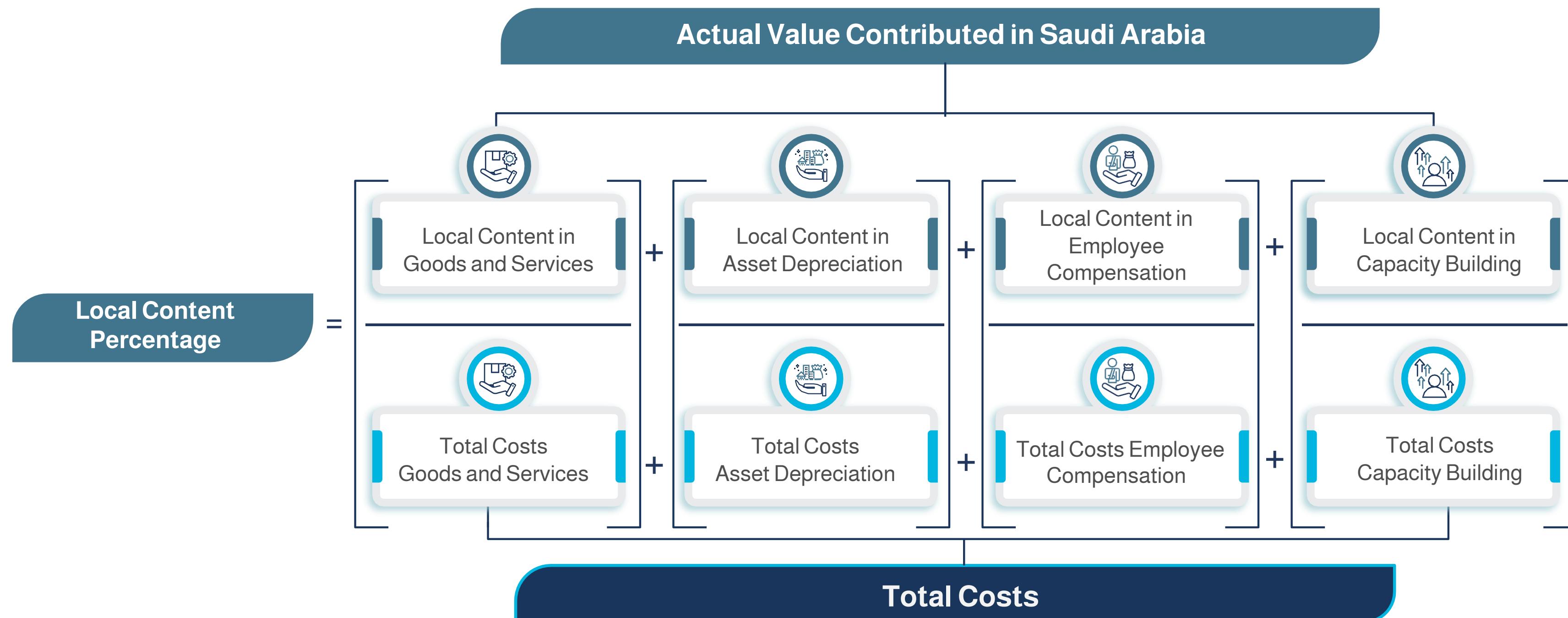
It is the Local Content percentage derived from the contractor's relevant expenditures related to the execution of the contract and contributing to Local Content, based on the entity's financial statements; this allows for understanding the current Local Content status at the contract level.



Local Content



Local Content Score Calculation Formula





03

Privatization Projects



Privatization Projects



Introduction



In 2021, the Local Content and Government Procurement Authority approved the Executive Regulations of the Privatization Law.

Privatization projects include Public-Private Partnerships (PPPs), the transfer of asset ownership, or a combination thereof. The regulations also included the complementary roles between both the Local Content and Government Procurement Authority (LCGPA) and The National Center for Privatization (NCP) in developing Local Content requirements for privatization projects, in coordination with the relevant entities. In addition to ensuring the commitment of the implementing entities to apply those requirements.



Privatization Projects

Definition of Privatization Projects

What are privatization projects?

- » Public-Private Partnership (PPP) projects, or an asset transfer projects, or a combination of both, according to the context.



Privatization Projects Objectives

 **Boosting the National Economy's Efficiency:**
This involves supporting government entities in achieving their strategic objectives, rationalizing public expenditure, and increasing state revenues.

 **Encouraging Local and Foreign Private Sectors:**
This aims to increase the private sector's share in the gross domestic product, driving national economic growth.

 **Improving Service Quality:**
This involves enhancing the comprehensiveness and quality of services, ensuring their timely and cost-effective delivery.

 **Enhancing the Effectiveness of National Capabilities:** This involves creating diverse and efficient employment opportunities, ensuring optimal utilization of national capacities.



Privatization Projects

Definition of Privatization Projects



How to achieve the Objectives:



Asset Transfer:

A contractual arrangement pertaining to infrastructure or public services, resulting in the transfer of ownership of any assets from a government entity to the private party.



Public-Private Partnership (PPP):

This is a contractual arrangement related to infrastructure or public services, establishing a relationship between the government and a private party. It must include the following elements:

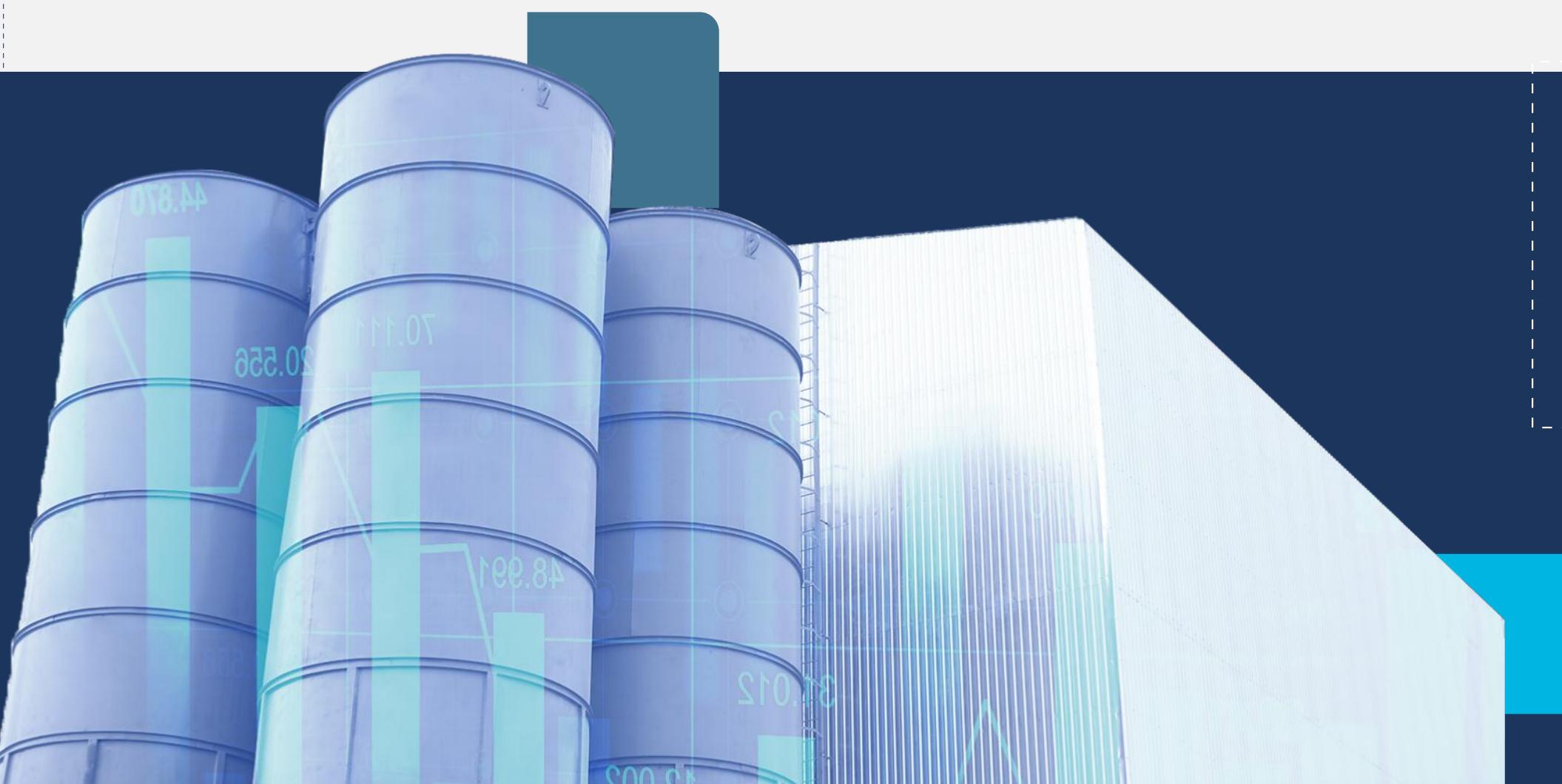
1. A minimum term of five years.
2. The private party undertaking two or more of the following tasks: asset design, construction, management, operation, maintenance, or financing.
3. Risk allocation between the government and the private entity.
4. The financial consideration due to, or owed by, the private party under this contractual arrangement is primarily based on their performance in fulfilling assigned obligations.

The ultimate Goal:



Developing the Economy:

This refers to contributing to the Kingdom's economic and social development, and elevating the quality of services and infrastructure.



Privatization Projects

LCGPA's Enablers for Monitoring Privatization Projects



01

LCGPA's Governing
Regulations

Paragraphs (10) and (13) of Article (4) of the **Regulations of the Local Content and Government Procurement Authority**, approved by **Council of Ministers Resolution No. (551)** on 15/09/1442H, stipulate that the LCGPA's functions include monitoring the implementation of local content requirements by Government Entities and State-Owned Companies, in line with governing provisions. It also involves contributing to the development of local content requirements for privatization projects, in coordination with relevant authorities, to ensure compliance with these requirements and prepare for necessary actions.

02

Executive Regulations of
the Privatization Law

Article (152) of the **Implementing Regulations of the Privatization Law** stipulated that the Contracting Authority, in conjunction with LCGPA, shall monitor and follow up on the Private Party's fulfillment of its contractual obligations related to Local Content throughout the term of the contract. In addition to what was stipulated in Article (149) of the **Amended Implementing Regulations of the Privatization Law**, the Local Content and Government Procurement Authority shares responsibility with the Contracting Authority in determining Local Content requirements in privatization projects.



Privatization Projects

LCGPA's Role in Privatization Projects



Determining Local Content Requirements

LCGPA collaborates with the Executive Entities to set the required targeted Local Content mechanisms for privatization projects, thereby supporting the National Economy.



Partnership with the Private Sector.

LCGPA seeks to include requirements that enhance Local Content in these projects.



Oversight and Regulation

LCGPA monitors and evaluates compliance with Local Content standards in projects to ensure the achievement of the embedded objectives.



04

Key Local Content Mechanisms applied in Privatization Projects

Key Local Content Mechanisms applied in Privatization Projects



Mandatory List





Key Local Content Mechanisms applied in Privatization Projects



Mandatory List

Contractor Responsibilities



The contractor shall comply with the instructions regarding the delivery of products included in the Mandatory List, issued by LCGPA, by providing the origin of the product, whether it is national or foreign.

The Contractor is obligated to prove the National Origin of the Product upon its delivery to the Government Entity during Project execution.

Contracting Authority Responsibilities



To ensure this, the Contracting Authority shall monitor the contractor's compliance with the Mandatory List during execution of the contract, and shall not receive any supplied products in violation of the Mandatory List; excluding products for which the Contractor has obtained an exception.

Other Local Content mechanisms can be applied where applicable to the Project and in coordination with the Executive Entity.



Key Local Content Mechanisms applied in Privatization Projects

Methods for Proving National Product Origin



National Product Definition



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

Methods for Proving National Product Origin

01



A (SABER) certificate issued by the Saudi Standards, Metrology and Quality Organization (SASO), clarifying that the product's origin is national.

02



A written declaration from the manufacturer or service provider according to the template prepared for that purpose, and available on LCGPA's website.

03



Country of Origin (COO) marking, provided that the marking is permanent in a way that is difficult to remove, which can be engraving, weaving, printing, or pressing according to the nature of the product, with the criterion being that it leaves a trace upon removal.

04



The "Made in Saudi" certificate issued by the Made in Saudi program.

05



The "Saudi Tech" logo issued under the "Made in Saudi" Program.

06



A valid commercial registration (CR) or a self-employment document, for services included in the mandatory list.

07



The product must meet the requirements of the rules of origin, for national products manufactured outside free zones, in accordance with the unified rules for granting preference to national products in government procurements in GCC countries and the national rules of origin, based on a certificate issued by a competent authority.

08



A certificate or product registration license issued by a competent authority in the Kingdom of Saudi Arabia, such as a product registration certificate from the Saudi Food and Drug Authority (SFDA), the Digital Government Authority (DGA), the Communications and Information Technology Commission (CITC), or other relevant competent authorities.



Key Local Content Mechanisms applied in Privatization Projects



Minimum Local Content Requirements Mechanism



A Minimum Local Content that the Contractor must achieve by the end of the Contract.

Application: This Minimum Threshold may be applied to more than one phase of the Project, such as:

- Construction and Building Phase: Defining a Minimum Threshold to be achieved during this Phase.
- Operation and Maintenance Phase: Defining a Minimum Threshold to be achieved during this Phase.

Frequency of Application: The Minimum Threshold mechanism can be applied periodically during the Operation and Maintenance phase, such as :

- Achievement of the target annually or periodically as specified in the Contract.
- Increasing the Targeted Percentage: the Contract may include Targeted Local Content percentages that increase gradually throughout the Project's duration.

- Contractor's Obligation: Upon commencing contract execution, the Contractor is obligated to submit a Gradual Plan for achieving the Targeted Local Content Percentage.
- Plan Content: The plan shall include clarification of the planned Local Content Percentage to be reached during the stages or years of Project execution.
- Submission Deadline: The plan must be submitted within a period not exceeding 60 days from the Contract date, unless the Contract stipulates otherwise.

Other Local Content mechanisms can be applied where applicable to the Project and in coordination with the Contracting Authority.

Key Local Content Mechanisms applied in Privatization Projects



Minimum Local Content Requirements Mechanism

Sample Local Content Gradual Plan Template

Inputs

- » Project Name
- » Contractor Name
- » Contract Start Date: March 2024
- » Contract Duration: Four Years
- » End of Contract: March 2025

- Contract Award Date: March 2021
- Contract Duration: Four Years
- Local Content Certificate (baseline)
- Targeted Percentage

Targeted Local Content Percentage

Year 1

Targeted Local Content Percentage

Year 2

Targeted Local Content Percentage

Year 3

05

LCGPA's Role Throughout the Stages of Privatization Projects



LCGPA's Role Throughout the Stages of Privatization Projects

LCGPA's Roles



Key Stages of the LCGPA's Roles



Pre-Contract Signing Phase of the Privatization Project:

- Determining Local Content Requirements.
- Coordinating with executive entities to incorporate Local Content requirements.

Post-Contract Signing Phase of the Privatization Project:

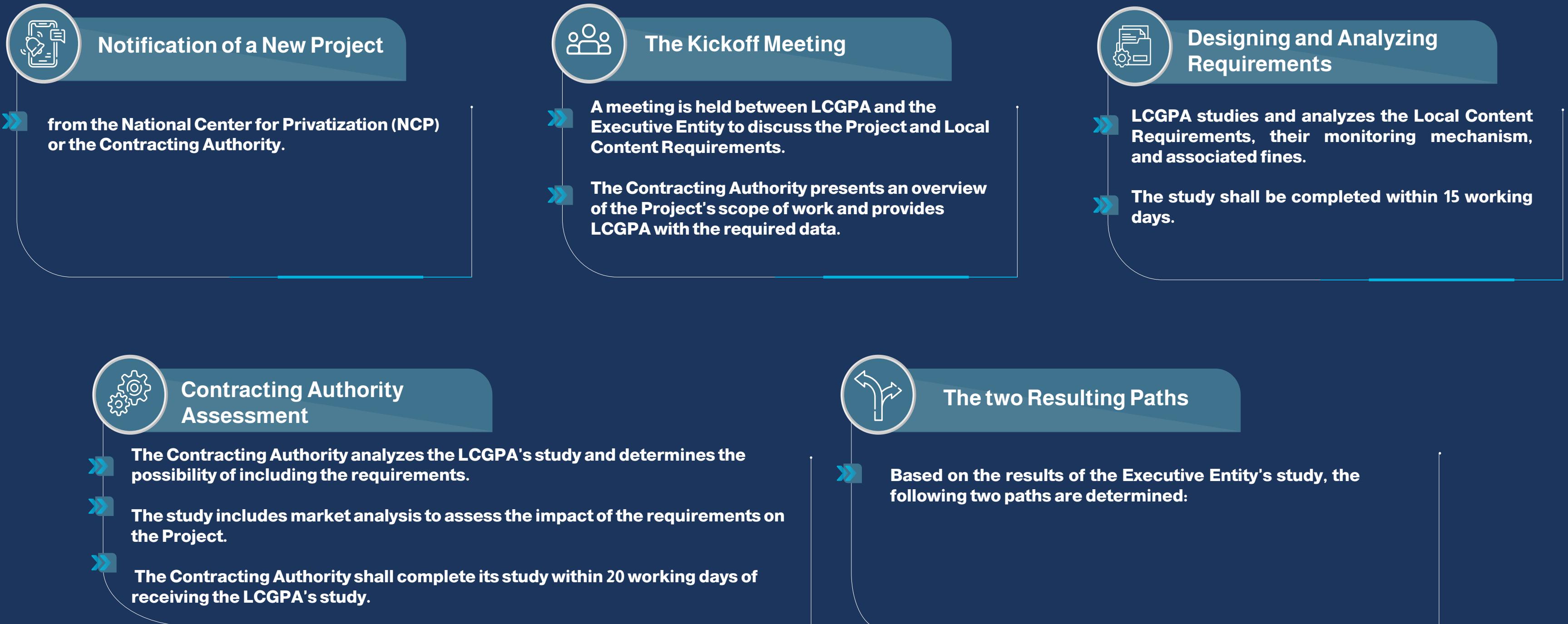
- Monitoring Local Content Compliance.
- Collaborating with Contracting Authority to monitor the contractor's fulfillment of their Local Content contractual obligations throughout the contract's duration.



06

Pre-Contract Signing Phase of the Privatization Project

Pre-Contract Signing Phase of the Privatization Project



Pre-Contract Signing Phase of the Privatization Project

Upon agreement between LCGPA and the Executive Entity



The First Path: Upon agreement between LCGPA and the Contracting Authority

01



Agreement on Local Content Requirements



Should LCGPA and the Contracting Authority agree to include Local Content Requirements in the Project, The final tender documents shall be drafted by the Contracting Authority.

02



Drafting Terms and Conditions



The terms and conditions specific to Local Content are drafted by LCGPA , and shall include:

- **Local Content Requirements:** Obligations for Bidders.
- **Local Content Templates:** That Bidders are required to use in their bids.
- **Compliance Monitoring Mechanism:** The Method for monitoring Bidders' compliance with Local Content.
- **Fines:** Method for calculating fines in case of non-compliance with Local Content Requirements during Project execution.

03



Review of the Draft



Draft tender documents are shared with LCGPA after the terms and conditions have been included by the Contracting Authority. LCGPA reviews the final tender documents to ensure the Executive Entity has correctly included the requirements.

04



Preparation for Tendering



The Contracting Authority obtains final approval from LCGPA on the correct inclusion in the draft tender documents before tendering the Project.

Pre-Contract Signing Phase of the Privatization Project

Upon agreement between LCGPA and the Executive Entity



05



Bid Preference Mechanism



The First Path: Upon agreement between LCGPA and the Contracting Authority

1. Construction and Building Phase or its equivalent:

- **Mandatory Percentage:** Bidders are required to comply with the specified Local Content percentage.
- **Disqualification:** Should the Bidder submit a percentage less than required, they will be disqualified.
- **Higher Percentage:** Should the Bidder provide a percentage higher than required, this percentage will serve as a benchmark, and consequently, Penalties will be imposed.



2. Operation and Maintenance Phase:

- **Preferential Percentage:** The Local Content percentage is used as a preferential standard.
- **Points Deduction:** Offering a lower percentage results in a deduction of points.
- **Additional Points:** Offering a higher percentage is awarded bonus points (up to 5 points).
- **Application of Penalties:** The same assessment method adopted in the Construction and Building Phase is applied.

If the Submitted Local Content Percentage is above the minimum requirement.



Pre-Contract Signing Phase of the Privatization Project

Upon agreement between LCGPA and the Contracting Authority



The Second Path: Upon Non-agreement between LCGPA and the Contracting Authority

01



Reviewing the Study of Targeted Local Content Requirements for the Project and Submitting the Findings.

• Study Results:

Should the study on Local Content Requirements targeted by the Project indicate the unsuitability of including Local Content Requirements, the Contracting Authority shall provide LCGPA with the study results and request the LCGPA's opinion.

• Request for Study:

The Contracting Authority requests that LCGPA assess the appropriateness of including stipulations in privatization project tender documents, requiring bidders to submit their Local Content development proposals when executing the privatization project. These proposals should be considered a key preferential criterion in bid evaluation, and the outcomes incorporated into the document..

02



Approval Procedures and Documents

• LCGPA's Opinion:

Upon receipt of the LCGPA's opinion with approval or after fifteen (15) working days have passed, whichever is sooner, the Executive Entity shall incorporate the findings and justifications in the tender document and the Contract.

• Defining the Requirements:

The Contracting Authority, in collaboration with LCGPA, defines the requirements for Local Content proposals and includes the preference criteria in the tender documents.

03



Non-agreement and Submitting Suggestions

• Coordination with NCP:

In case of non-agreement regarding Local Content Requirements, LCGPA shall coordinate with NCP to escalate its proposals to the competent authority (the Council of Ministers).

• Direction to the Executive Entity:

The competent authority (the Council of Ministers) can direct the Implementing Regulations to reconsider the Document based on LCGPA's proposals or the study results.



Bid Preference Mechanism in Privatization Projects: Project Details

Practical Example



Tender Information		Bidders' Information		
Tendering Authority: One of the Contracting Authority		A privatization project contract for a duration of 30 years was tendered, divided into 5 years for the construction and building phase and 25 years for the operation and maintenance phase.		
Tender Type: A Privatization Contract Including Two Phases: Construction and Building, and Operation and Maintenance.		Bidder No. 1 40% 50%		
Applicable Provisions and Mechanisms: Minimum Local Content Requirements Mechanism.		Bidder No. 2 25% 45%		
Tender Value: - SAR 600million. - 30Year divided into 5 years for the construction and building phase and 25 years for the operation and maintenance phase		Bidder No. 3 35% 10% every 10 years		
Local Content Percentage Upon completion of the Construction and Building Phase				
Local Content Percentage During the Operation and Maintenance Phase				

Bid Preference Mechanism in Privatization Projects: Project Details



Practical Example

• Bid Submission Mechanism


Local Content
Percentage at the end of
the Construction and
Building Phase.


Local Content Percentage
Operation and
Maintenance Phase.

Bid Evaluation Mechanism

A privatization project contract for a duration of 30 Years divided into 5 years for the construction and building phase, and 25 year for the operation and maintenance phase.

Targeted Local Content Percentage:
Construction and Building Phase: Minimum 35%.
Operation and Maintenance Phase:

- Annually: 45%.
- Increase: 10% every 10 years.

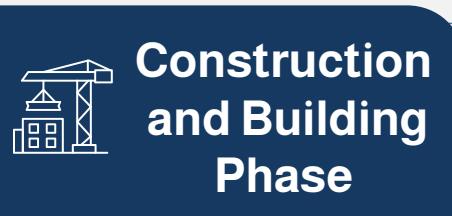


Bid Preference Mechanism in Privatization Projects: Project Details

Practical Example



Bid Evaluation Mechanism (Financial)



Construction and Building Phase

* Minimum Required: 35%. • Disqualification: of Bidder No. 2 for submitting a percentage of 25%, which is less than the required 35%.



Operation and Maintenance Phase

- Targeted Percentage: Bidder No. 1: 50%
Bidder No. 3: 45%
- Annual Increase: Bidder No. 1: 1%.
Bidder No. 3: 10% every 10 years.



Advantage: Submitted percentages exceeding the minimum required by 5% at the Construction and Building Phase, and 5% at the Operation and Maintenance Phase.

Preference: Preference points are granted due to his submission of percentages higher than required.



Match: Submitted percentages match the requirements in the tender documents.

Should Bidder No. 1 win: The Targeted Percentages will be adjusted to the percentages he offered, and penalties will be based on these adjusted percentages.

Local Content Percentage in Construction and Building Phase	Local Content Percentage During the Operation and Maintenance Phase	Annual/Decadal Increase	The Result
---	---	-------------------------	------------

Bidder No. 1	Bidder No. 2	Bidder No. 3
40%	25%	35%
50%	45%	45%
1%	10% every 10 years	10% every 10 years
Preference Points	Disqualification	Match



Bid Preference Mechanism in Privatization Projects: Project Details

Practical Example



Notes:

- Focus is placed on submitting the Targeted Percentage in the Construction and Building Phase as a basic condition for bidding.
- Bidder No.1 is granted Preference Points because of his submission of percentages higher than required.
- In case Bidder No.1 wins, the Targeted Percentages in the Contract will be adjusted based on what was submitted, and the Penalties will be based on these adjusted percentages.



07

Post-Contract Signing Phase of the Privatization Project

Post-Contract Signing Phase of the Privatization Project



01 | Sharing of Documents

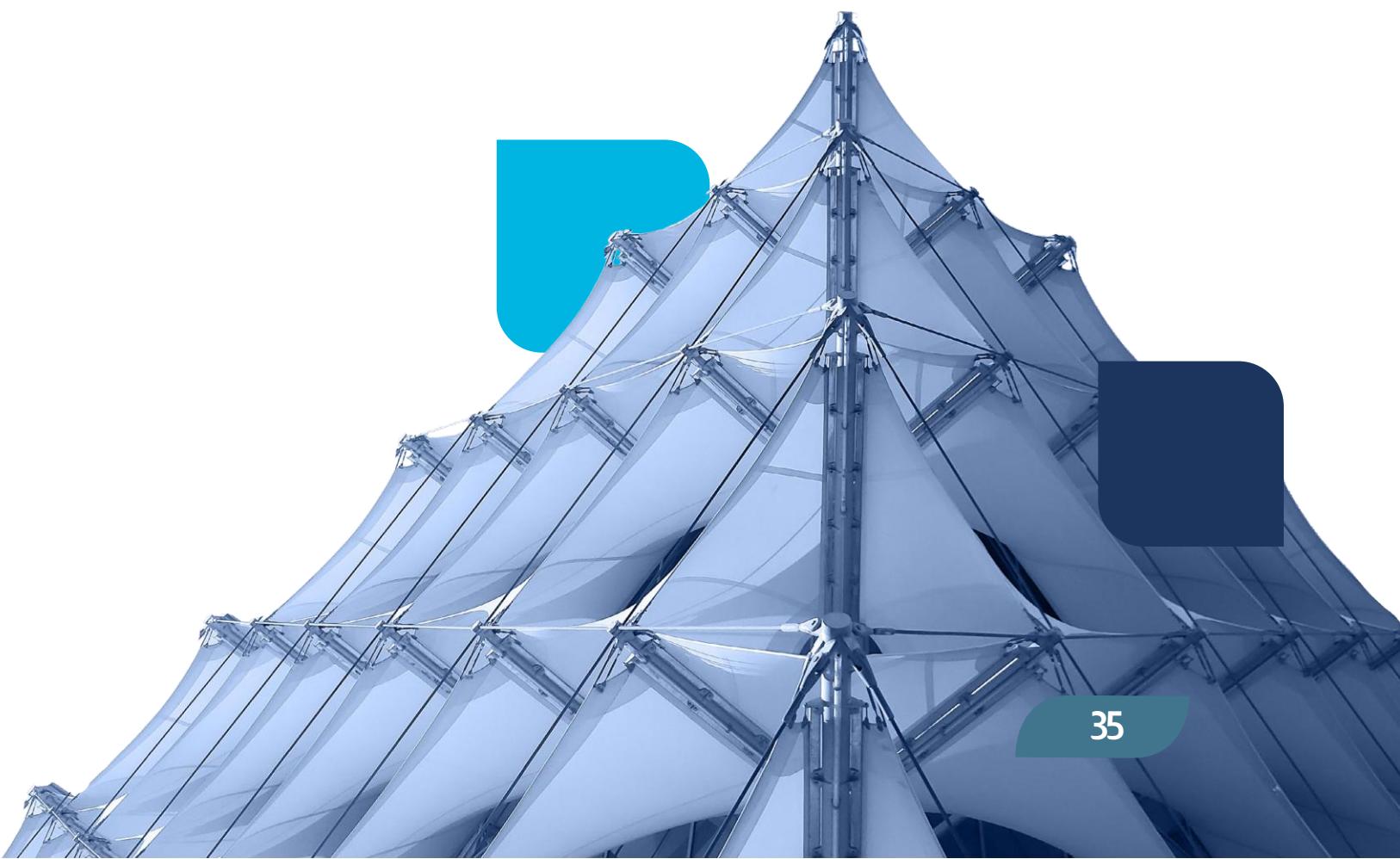
It is the responsibility of the Contracting Authority to share all official Project Documents after contract signing, and they are reviewed by LCGPA to ensure their conformity with what was agreed upon in the pre-signing phase.

02 | Project Kickoff Meeting

The Contracting Authority undertakes to coordinate a meeting with all parties involved in the Project to discuss the requirements and, in collaboration with LCGPA, clarifies the requirements for the Contractors.

03 | Workshops and Continuous Support

- **Holding Workshops:** LCGPA holds Workshops to explain Local Content mechanisms and requirements.
- LCGPA provides continuous support to the Contracting Authority and the Contractors throughout the Project duration.
- Clarification of the required templates from the Contractor according to the Contract.





Post-Contract Signing Phase of the Privatization Project



04

Monitoring Local Content Requirements

The Contracting Authority undertakes to follow up with the Contractors to achieve the Local Content targets and to monitor the receipt of the Required Reports according to the embedded mechanisms.

- **Reports:**
Monitoring the Contractor's execution of all Contract clauses related to Local Content through the reports.
- **Types of Reports:**
Reports at the Contract Level or Entity Level, as applicable, according to the signed Contract.
- **Submission Period:**
Submission of Reports within seven months from the end of the period covered by the Report, unless the Contract stipulates otherwise.
- **Audit of Local Content Percentage:**
The Local Content Percentage in the Reports is audited by an accredited Local Content Auditor, and the Contractor undertakes to submit the audited Reports from the Local Content Auditor accredited by LCGPA so that a Certificate can be issued. Local Content, Audited by LCGPA.



• Processing Complaints:

The Contracting Authority undertakes, in case of complaints received by LCGPA regarding Local Content, to provide LCGPA with all relevant documents, data, and information required to examine the related complaint, or to report in case of violations or observations.



05

Audit Steps

1. Submission of the report to the Local Content Auditor accredited by LCGPA.
2. Review by the Office and sharing of the results.
3. Submission of the report to LCGPA.
4. Audit by LCGPA and issuing the Local Content Certificate.

LCGPA has qualified several Audit Offices for the verification of the Local Content Percentage. The list of accredited audit offices can be viewed through the following link [\(The link\)](#).



Post-Contract Signing Phase of the Privatization Project



06 | Audit Levels

- **The Levels:** Local Content auditing is conducted in accordance with the provisions of the Privatization Contract, and possible scenarios include a two-level audit.

■ **The First Level:** At the level of The Project Company

■ **The Second Level:** At the level of main subcontractors.

1 The main Subcontractor undertakes to submit his Local Content Score Measurement Template (Level Two).

2 The template is audited by one of Approved Local Content Auditor and shared with the Subcontractor after the audit.

3 The audited template is submitted to LCGPA after ensuring that all feedback from the Local Content Auditor have been addressed.

6 The template is reviewed by one of the accredited Offices and is shared with the Principal Contractor after completion of the audit.

5 The Principal Contractor undertakes to include the percentages of the main Subcontractors and the remaining inputs by submitting the specific Local Content Score Measurement Template (Level One).

4 Should LCGPA have no comments on the submitted template, the Local Content Certificate will be issued.

7 The Principal Contractor undertakes to send the audited template to LCGPA after ensuring that all feedback from the Local Content Auditor have been addressed.

8 Should LCGPA have no comments on the audited template, the Local Content Certificate will be issued.

Overall Performance for the Reporting Period

07 | Submission of Due Reports

The Contracting Authority undertakes to submit the audited Periodic and Final Reports, Mandatory List Reports, and other Required Reports for each contract as applicable, and to inform LCGPA about cases of Non-compliance and the action taken regarding them.

08 | Review of Reports

LCGPA undertakes to review the Reports submitted by the Contracting Authority, and if there are comments, the previous step is reverted to.



08

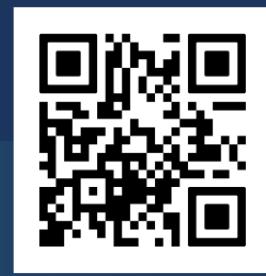
Related Links



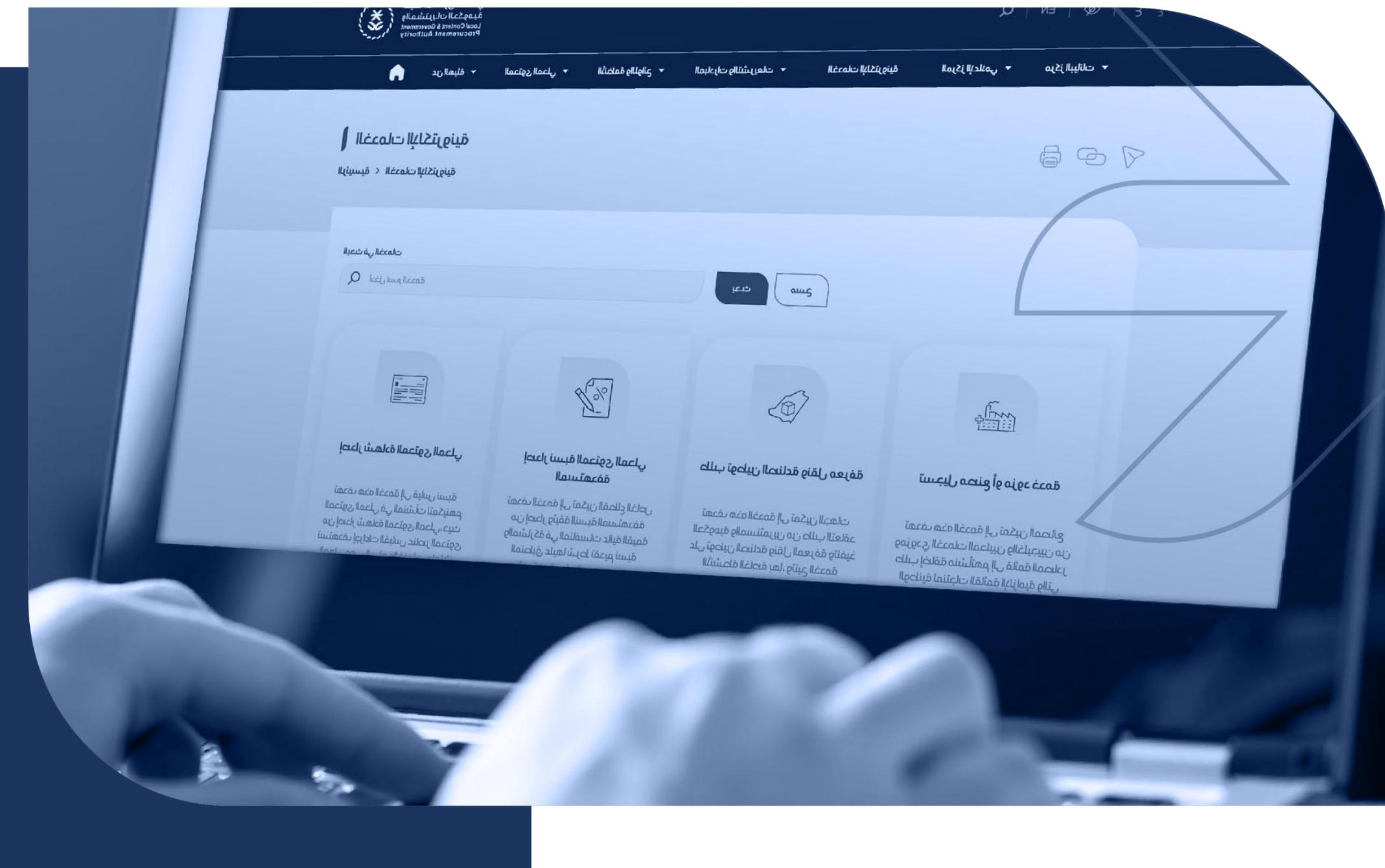
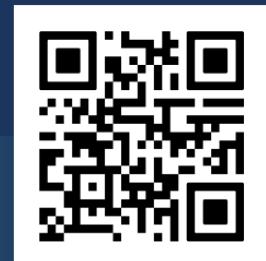
Related Links



The Law (Privatization Law)



E-Services





Thank you..

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Disclaimer

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