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Saudi Arabia's Local Content & Government Procurement Authority (LCGPA) aims to enhance local economic growth by increasing domestic expenditure through strategic government procurement. The organization's mission is to promote knowledge-based policies and tools, ensuring that local content development is prioritized across all sectors, particularly healthcare, in alignment with Saudi Vision 2030. LCGPA Pharma Director Ashraf Al Grain introduces its mechanisms for supporting local content, some of its key achievements thus far, and its long-term vision.

Please begin by introducing the Local Content & Government Procurement Authority. What was the rationale behind creating such an organization and what is the current scope and mission of the office?

The mission of the Local Content & Government Procurement Authority (LCGPA) is to develop and monitor the implementation of knowledge-based policies and tools, and to enhance awareness and participation in local content development across all sectors, with a particular focus on healthcare. We see many opportunities in local content that are currently underutilized, particularly in the high government procurement expenses across various sectors. The role of local content is to increase the value of these expenses within the kingdom – why spend outside when we can invest locally?

It is therefore a great honor for us to be a major contributor to Saudi Vision 2030. This has given us clear goals and a destination to strive towards. The Vision helps us understand where we are heading as a kingdom and ensures we have a clear plan to reach our objectives.

Our aim is to simplify the local content process, increasing expenditure within Saudi Arabia by improving government procurement and directing national purchasing power towards local implementation. This includes purchasing direct goods locally whenever possible, which adds value to our economy. Our approach ensures that we maximize the economic value of our expenses within the kingdom.

What mechanisms are in place to make the organization’s vision of nurturing local potential and capitalizing the national purchasing power real and actionable?

We have several mechanisms in place to support local content. These mechanisms are tailored to different categories, such as goods, services, and projects, because a single approach wouldn’t work for all. For goods and services, we use a price preference mechanism. According to the procurement law, we apply a 10 percent price preference which means that if a local product is within 10 percent of the lowest price offered, it is considered the lowest price. This encourages purchasing from local manufacturers.

Another supportive mechanism is the mandatory list. This is a list of products that must be sourced locally if they are on the list. Currently, there are more than 1000 items on this list that we consider strategically important and must be manufactured locally. This list covers all sectors, not just healthcare.

For investment projects, we have a minimum threshold mechanism. Contractors bidding on a project must show that a certain percentage of their project budget will be spent locally. We also have a local content scoring system that evaluates bids based on how much they will spend locally. Even if a bid is higher in terms of price, it can still win if it promises higher local content spending. This ensures that the overall expenditure benefits the local economy more.

Lastly, we have the Economic Participation Program targeting international companies. The Program encourages multinational companies to increase their activities in Saudi Arabia, such as clinical studies or research and development. By doing so, these companies can differentiate themselves and be more competitive in tenders and procurements.

Overall, the major ambitions of the tools are to leverage localization and knowledge transfer. These policies attract investors and manufacturers to localize production and transfer their knowledge within Saudi Arabia. These mechanisms offer incentives such as securing government procurement for several years, helping investors reach profitability more quickly.

Are there specific areas or activities prioritized under the Local Content & Government Procurement Authority's policy mandate for participating companies?

The Local Content and Government Procurement Authority (LCGPA) focuses on developing local content across various fields and sectors, as well as all its components at the national economy level. It is achieved through the design of local content policies, mechanisms, and establishing opportunities for national spending to be directed towards local content components, and local products and factories as well.

Today, local content is a national agenda that all target groups contribute to its development and empowerment. In addition, it is a key strategic indicator within national strategies, as we aim to enhance the local capabilities of the Kingdom of Saudi Arabia through local content tools.

In addition to stimulating the economic eco-system from all sectors and members of society by developing local content and achieving its goals in line with Saudi Vision 2030, and promoting public awareness about local content mechanisms, elements, and initiatives, which provide jobs, empower the local product, and encourage innovation and industry.

With Vision 2030 and the health transformation in mind, what priority areas have a greater impact on economic participation? Which areas are you prioritizing in terms of benefits?

We don't specifically target certain areas because investment decisions are ultimately up to the companies. They choose where to invest based on their expected returns, whether monetary or value-wise. Our role is to evaluate these investments and, if they offer significant value for Saudi Arabia, we include them in our economic participation framework. It is important that we maintain a flexible approach, considering each case individually and looking at the overall potential of partnerships with the private sector. Companies bring various activities that add value to the kingdom, and we assess these to see how we can support them.

Moving forward, what specific objectives are you aiming for in terms of increasing local content?

Our objectives are dynamic and guided by KPIs that evolve each year. There are overarching governmental KPIs related to the kingdom’s goals, and then there are sector specific KPIs that we focus on to achieve these broader targets. For example, over the past two years, we’ve signed around 26 localization agreements and 7 economic participation agreements since the start of the method’s activation in medical sectors. Increasing the number of items on the mandatory list is a key objective for us because it directly impacts local content. In the healthcare sector, we have included about 623 pharmaceutical and medical device items on this list from approximately 90 manufacturers.

Reaching over 600 products on the mandatory list is a significant achievement for the LCGPA. It shows our commitment to supporting local manufacturers, giving them a fair chance to compete. Interestingly, many products on the mandatory list are already competitively priced, sometimes even cheaper than imported alternatives. This indicates that our local industry can compete effectively, but we still need protection mechanisms to ensure their sustained growth.

Your CEO, Abdulrahman Al Samari, mentioned that the guiding principle should appeal to investors by focusing on value added to the economy rather than company nationality. What are the most important changes international companies need to comply with regarding local content requirements?

I want to point out that we don’t focus on the nationality of the companies. Our target is the product and the technology transfer. If a company, regardless of its nationality, comes and transfers knowledge and products into Saudi Arabia, this process is considered localization. Such companies deserve the incentives meant for any local manufacturer.

We have signed around 17 localization agreements in 2023, many of which are with multinational companies. We treat these multinational companies based on their projects, not their origin. This approach is central to our localization and knowledge transfer mechanism, which primarily targets multinational and non-Saudi companies since they often bring valuable knowledge and technology into the country.

Therefore, the emphasis is on the project's value and the benefits of transferring knowledge and technology. Companies that engage in these activities receive support from various entities, not just local content. We view them as investors focused on localization and technology transfer, without differentiating based on their nationality.

In 2020, the price preference percentage granted to locally produced medicines in Saudi Arabia over their foreign counterparts was raised from 10 to 30 percent to mitigate the financial and economic impact of COVID. What price preference percentage is in place today and how effective are measures like this in protecting local industry?

During COVID, we observed that a 10 percent price preference was insufficient for some products due to high competition and significant demand, which caused price challenges. To address this, we increased the price preference to 30 percent for certain products to better support local industries. Currently, the price preference has reverted to 10 percent. However, we are considering new mechanisms with different parameters and conditions to support challenging products that don't quite fit into the mandatory list but still need more than a 10 percent preference. We recognize the ongoing challenges and are actively working to adapt and support the local industry effectively.

Looking ahead, what are the key initiatives or ambitions you have for the Local Content Office in the next few years? What do you hope to achieve in the future?

For LCGPA, we have a clear vision centered on sustainability. One of our core values is ensuring that any business established in Saudi Arabia is sustainable. We don't just want to attract investors temporarily, but instead we aim to build incentives and mechanisms that ensure long-term profitability and stability. Our mechanisms are designed with this in mind. We have supportive, protective, and attractive policies to help businesses thrive in the kingdom. By continuing to develop and optimize these mechanisms, we aim to maximize local content efforts and achieve Saudi Vision 2030's goals and beyond.

On the near future, we hope to enrich and support the kingdom's vision by adding significant value through local content initiatives. We want to create an environment where businesses can grow sustainably, contributing to the broader economic and developmental goals of Saudi Arabia.

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