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Insights

Updated Version of Saudi Economic Participation Policy Issued for Public Consultation

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DGA Group has been tracking the Economic Participation Policy since it was introduced. See our previous analysis here.

Key Takeaways

- On 5 April, the Saudi Local Content and Government Procurement Authority (LCGPA) published an updated draft of its Economic Participation Policy (EPP) for public consultation. The consultation window is open until 22 April. The public consultation provides an important indication for what to expect, as well as an opportunity for companies that are likely to have EPP obligations under the revised version of the policy to contribute comments.

- The current version of the EPP, originally issued in 2022, requires bidders on contracts with an import value above SAR 100 million to commit to re-investing 35% of that import value in the local economy.

- Companies must propose projects that fall within one of the eligible categories of economic participation. LCGPA then assigns these projects multipliers based on their perceived value to the local economy, with higher multipliers for activities such as export promotion and research and development than for activities such as subcontracting.

- The EPP, which drew inspiration from the offset policies applied for many years in the defense sector, reflects the long-term policy direction in the Kingdom to use government procurement to drive localization by foreign companies. It was first applied in the pharmaceutical sector, before being rolled out more broadly across government procurement.

- The updated draft issued for consultation contains several significant changes to the current policy — most notably, a reduction in the topline economic participation (EP) obligation from 35% to 25%, the introduction of tiered obligations based on total tender size or cumulative tender value, an expanded multiplier range, and a formal appeals process.

- These changes suggest a meaningful effort to reflect private sector feedback and give companies greater flexibility in meeting EP requirements. At the same time, the LCGPA has introduced stricter reporting requirements and other changes that suggest it intends to apply the new policy more rigorously moving forward.

- The new version of the policy is unlikely to enter effect until late 2026 or early 2027, following policy finalization and a 120-day grace period. In the meantime, companies may be required to commit to obligations under the current, less flexible version of the policy, necessitating a carefully calibrated approach to policy engagement and compliance.

This article aims to explain the background of the EPP, how it is currently being applied in government procurement, and how the updated draft policy differs from the existing version. We also outline key considerations for companies moving forward.

Background and context on EPP

EPP indicative of a long-term policy direction

EPP is one of a growing number of local content mechanisms that the LCGPA is tasked with implementing to maximize the positive economic impact of government procurement spending (see past articles here and here). At its core, the EPP requires companies bidding on large government contracts to reinvest a portion of contract value into the Saudi economy. The policy draws inspiration from the experiences of other countries and earlier offset-style requirements, particularly in the defense sector, but is now applied more broadly across sectors through government procurement. This reflects a longer-term policy direction, supported by the establishment of the LCGPA in 2019, to leverage government procurement to increase local investment by multinational companies.

The government is aware of the trade-offs posed by aggressive localization and has tasked the Government Expenditure and Projects Efficiency Authority (EXPRO) to act as a counter-balance to avoid excessive procurement costs and curb inefficiencies. Saudi decision-makers generally take a long-term view, pointing to the experience of countries like Brazil that may have struggled initially to implement their localization agendas but cite long-term economic benefits. It is important to note that large state-owned enterprises are also expected to contribute to localization. While they are not subject to specific LCGPA tools such as EPP, they are required to report to LCGPA on progress towards localization, and many have launched their own localization programs such as Aramco's *iktva*, Sabic's *Nusaned*, and PIF's *MUSAHAMA*.

Key elements of the current version of EPP

Under the current version of the policy, the EPP applies to government contracts in which the value of imported goods and services exceeds SAR 100 million. Bidders must commit to investing at least 35% of that value in local "economic participation." The policy defines a set of eligible activities, including local manufacturing, subcontracting, technology and knowledge transfer, research and development, and export promotion.

These investments are weighted through a system of multipliers, ranging from 0.5 to 3, depending on the perceived economic value of each activity, with highly sought-after investments like research and development and export promotion receiving higher multipliers. In practice, this means companies can meet the required EP ratio while investing less than 35% in absolute terms if they focus on higher-multiplier activities.

A central feature of the EPP is its focus on driving new investment into the Kingdom. The policy requires that investments go beyond what companies are already doing in the Kingdom (the "additionality" principle) and that they would not have taken place but for the tender in question (the "causality" principle). At the same time, the policy states that investments should be financially sustainable (the "sustainability" principle), and ideally net revenue-generating, rather than one-off or purely compliance-driven initiatives.

How EPP has been applied in practice

The EPP is applied through the government procurement process, as a pre-requisite to tender eligibility. At the bid stage, companies are required to commit to meeting EPP requirements, most often by signing a simple undertaking letter, and in some cases also submitting a more detailed preliminary EPP proposal. Requirements can vary by tender, making it important for companies to review tender documentation closely.

If a company is selected as the preferred bidder, it must then develop and submit a detailed EPP plan to the LCGPA, prior to final award. This EPP plan should outline proposed projects, expected outcomes, and implementation timelines. In practice, this stage involves iterative negotiation with the LCGPA over the details of which projects should count towards EPP requirements, how they should be categorized, and how much EP credit they should receive. Additionally, we are aware of other government authorities seeking to negotiate tailored approaches to EPP implementation for their projects — for example, cascading EPP requirements to sub-contractors rather than imposing the obligation on the general contractor.

Once agreed, companies are required to post a performance bond, which serves as the primary enforcement mechanism to support delivery of EPP commitments over the implementation period. In principle, companies that do not follow through on EPP commitments could be blacklisted from competing in future tenders, although the policy has not been in place long enough for any company to exceed the 5-year fulfillment period for EP commitments.

Key changes observed in the updated EPP draft

The updated draft version of the EPP issued for public consultation contains a more significant set of changes than anticipated, while preserving the policy's underlying objective of driving local investment through government procurement. The revisions therefore amount to a recalibration rather than a rollback. While the draft expands the scope of EPP, it reduces the burden on individual contracts and gives companies greater flexibility in how they meet their obligations.

Below, we outline several key changes observed in the updated draft of the policy and the implications for investors. We have included in the Appendix a more detailed side-by-side comparison of the existing and updated versions of the policy.

- **Amended applicability thresholds:** The existing version of the policy applies to contracts in which the value of imported goods and services exceeds SAR 100 million (single threshold approach). The updated draft introduces two thresholds: the EPP applies to (i) individual (direct) tenders with an import value of SAR 75 million or more ("competition threshold"); and (ii) foreign companies whose contracts, over two consecutive calendar years, cumulatively reach or exceed SAR 100 million ("cumulative threshold"). Each company will need to assess the extent to which the new thresholds would alter its overall EPP applicability, depending on the size and overall scale of its government tender business.

- **Lowering of topline EPP obligation and introduction of tiers:** The current version of the policy applies a fixed EP obligation of 35% of the imported contract value. The new draft introduces varying obligation levels depending on the EP threshold: 25% EP obligation for the first tier (SAR 75-300 million for competition threshold, SAR 100-300 million for cumulative threshold); 20% for the second tier (SAR 300-500 million for both thresholds); and 15% for the third tier (over SAR 500 million under both thresholds). This will be a welcome change for most companies in that it reduces the maximum EP obligation percentage from 35% to 25% and provides a break for companies with a large tender volume.

- **Same set of EP categories but greater flexibility:** The existing version of the policy contains 7 eligible EP categories: localization, subcontracting, technology transfer, knowledge transfer, investment, export promotion, and research and development. The updated version maintains these same 7 categories and largely the same definitions. However, it notably allows companies to propose investments which fall outside of the approved categories for consideration by LCGPA, introducing flexibility for companies with investment projects that do not fall clearly into one of the existing categories.

- **Improved multipliers:** In the existing version of the policy, multipliers range from 0.5-3, with an additional optional "bonus multiplier" of 0.5-1 (although we have never heard of the bonus multiplier being offered in practice). The updated version increases the multiplier range to 1-4, with an optional bonus multiplier of 1-2, bringing the overall maximum multiplier to 5-6. The maximum multiplier has been increased for all seven EP categories, and the minimum multiplier has been increased for 4 out of 7. However, the updated draft policy still does not appear to contain any further clarity around how multipliers are assigned within the allowable range for each category, a potential area of improvement to note in consultation feedback.

- **Provisions granting exemption flexibility:** One of the most notable provisions of the updated draft is Article 10, which allows LCGPA to exempt companies from EPP obligations and offer an "alternative track" based on an evaluation of the expected impact of proposed EPP projects, rather than their actual expenditure. This applies to contracts above SAR 500 million and can also be applied to smaller contracts where LCGPA deems the outputs to be sufficient. While this flexibility is likely to be welcomed by most companies, there is some risk of inconsistent application of this provision in the absence of clear criteria for what qualifies companies for the alternative track.

- **Introduction of proactive and surplus credits:** The updated policy introduces the concept of a proactive credit, where companies can start EP activities and receive credits prior to contract commencement, with the approval of the LCGPA. The credits can then be counted towards obligations under future tenders. It also explicitly allows companies to carry forward surplus credit to future tenders, provided they notify the LCGPA.

- **Stronger reporting requirements:** Compared to the existing version of the policy, the updated draft contains stricter reporting requirements. Companies must report on EP fulfilment on a quarterly basis, and in the event of delayed fulfilment of obligations, they must submit a remediation plan to the LCGPA. The updated draft also requires companies to pay a 2% administrative fee to cover the cost of auditing, management and follow-up; note that this fee will be counted towards a company's EP obligation. Meanwhile, the performance bond has been reduced from 15% to 10% of contract value.

- **Formal appeals process:** Finally, the updated draft provides greater clarity on the process of filing grievances with the EPP committee within LCGPA. Committee decisions can be appealed to the LCGPA Board of Directors.

Considerations for investors

- **Review the draft policy and engage in the consultation process.** Companies with significant government business in the Kingdom should carefully review the updated draft EPP and consider submitting feedback during the consultation window. This is a near-term opportunity to shape key elements of the policy. Engagement in the public consultation will also enable companies to shape the subsequent implementation guidelines that we understand are being developed by LCGPA and will clarify in more detail how the EPP is applied in practice.

- **Develop a plan for EPP compliance.** While the current version of the EPP was gradually expanded across government procurement, we expect the updated version to be applied on government procurement broadly from the start. Companies with significant potential EPP exposure should immediately start developing an EPP compliance plan, based on their government tender pipeline and the expected quantum of EP obligation as per the thresholds in the policy. This plan should ideally consist of commercially viable investments that support the Company's broader commercial strategy in the Kingdom. Ad-hoc or purely compliance-driven commitments are less likely to be received favorably than well-structured, credible projects that demonstrate long-term value creation.

- **Identify opportunities for financial value creation.** While the EPP requires meaningful investment, it should not be loss-making. As companies develop their EPP plans, they should think creatively about opportunities to lower costs and boost revenues through localization. This could include reducing transportation costs by localizing supply chains, benefitting from price preferences for locally manufactured goods, investing in local startups with significant growth potential, and a range of other options that support a company's profitability while generating local value.

- **Plan for dual-track compliance in the near term.** Over the coming months, companies will likely need to manage compliance with the current version of the policy and preparations for the revised framework. This may create challenges, particularly for those already in active discussions with the LCGPA, where there may be a question of whether to proceed under the current rules or wait for the updated policy to come into effect. Companies should seek clarity on how commitments made now will be treated under the updated version of the policy.

- **Leverage relationships with procuring authorities.** Project sponsors can be important allies in navigating EPP compliance. Where EPP requirements appear in a tender, companies should consider engaging the procuring authority to clarify expectations for the EP proposal at the bid stage and to understand any prior engagement with the LCGPA on that tender. This can help inform both the tender response and the approach to subsequent engagement with the LCGPA post-award.

- **Set the right tone for negotiations. Tone matters in EPP discussions.** Companies should show a sincere willingness to invest, localize, and build capabilities in the Kingdom, positioning themselves as strategic partners to the Kingdom, rather than mere vendors. This will set the stage for more constructive discussions with the LCGPA and potentially greater policy flexibility. Visible, public commitments to localization may be especially welcomed in the months ahead.

Appendix

	Current Policy	Draft Policy	Key Change	Flexibility	Investor Obligation
Scope / Coverage	Applies to contracts ⩾ SAR 100mn (single threshold)	Dual thresholds: SAR 75mn per tender and SAR 100mn cumulative	Expanded coverage and differentiated thresholds	↓	Potential ↑
Obligation Level	Flat 35% requirement	Tiered: 25%, 20%, 15%	Lower, tiered obligation	↑	↓
Eligible Activities	7 fixed categories	Same categories, with option for additional activities subject to approval	Categories unchanged, but greater flexibility	Slight ↑	Neutral
Multipliers (Valuation Factors)	Range of 0.5–3 with additional 0.5-1 bonus multiplier	Expanded multiplier range to 1-4 with additional 1-2 bonus multiplier	Higher multiplier ranges	↑	↓
Fulfilment Period	Fixed 5 years + 1-year grace	Timeline set on a project-by-project basis, subject to LCGPA approval	More flexible timelines	↑	Neutral

Cont.

	Current Policy	Draft Policy	Key Change	Flexibility	Investor Obligation
Performance Bond	15% of obligation	Reduced to 10%	Lower bond requirement	↑	↓
Advance / Surplus Credits	Excess credits bankable (5 years)	Introduces advance + surplus credits with extension flexibility	Expanded credit mechanisms	↑	↓
Third-Party Participation	Allowed with approval	Clarified roles; obligor retains full responsibility	Clarification, not structural change	Neutral	Neutral
Reporting Requirements	Semi-annual reporting	Quarterly reporting, remediation plans, audits, 2% fee	Increased oversight	↓	↑ (compliance burden)
Enforcement / Penalties	Milestone-based deductions	More structured formulas and enforcement tools	More formalized enforcement	Slight ↓	Neutral
Exemptions	Discretionary exemptions possible	Alternative, output-based pathway available based on KPIs and impact	Greater formal discretion	↑	Potential ↓

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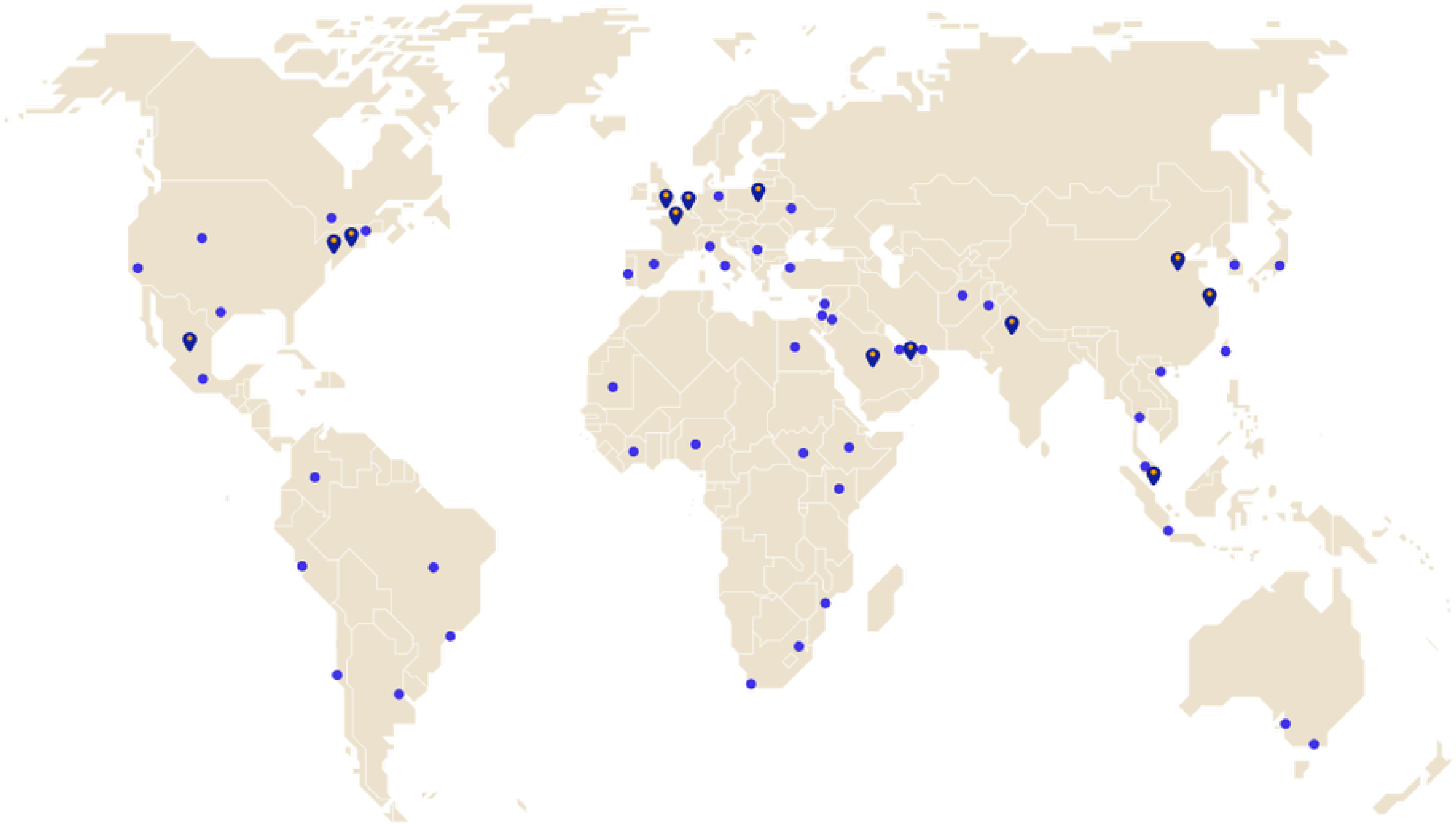

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