



CPO Outlook

2023

KPMG Caucasus and Central Asia

Foreword



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We are pleased to deliver the results of the CPO Outlook survey in Kazakhstan. It should be noted that this survey is the first of its kind in Kazakhstan and Central Asia.

The key topic of our survey covers the crisis events of 2020-2022 and impact thereof on logistics and supply chain management. By publishing this survey we would like to launch a new tradition and conduct such survey every year to highlight the latest trends and challenges in procurement and supply chain management. In future, we are planning to expand the geography and conduct similar surveys in other countries of Central Asia and Caspian region to promote development of the partnership relations in the region.

We would like to extend our sincere gratitude to all procurement professionals who participated in this survey and are looking forward to further fruitful cooperation.

CPO Outlook

KPMG CPO Outlook 2023 offers an overview of opinions on the current state of procurement function and prospects for its evolving.

43 procurement professionals and executives from 30 companies took part in the CPO Outlook. To get a complete picture, we have invited specialists from various industries to participate in the survey: mining and metallurgy, oil and gas, retail trade, energy production, public utilities, transport and logistics, and production of consumer goods.

The executives were asked to answer questions regarding the current state of procurement function, crisis events of 2020-2022, HR management, ESG (Environmental, Social and Corporate Governance) and public procurements.

The survey was conducted in Kazakhstan in June-August 2022.

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Brief overview: results

01

Digital transformation and automation of the procurement process remains a priority. At the same time, the current situation pressures the procurement departments to pay more attention to the operational issues in order to improve work efficiency and reduce costs. Requirements planning, logistics and supplier management remain the key areas for improvement.

02

The COVID-19 pandemic and the military conflict in Ukraine has had a significant negative impact on the companies participating in the survey. The respondents have noted the following consequences of these events: an aggravated shortage of materials/goods, increased costs of logistics and decreased stability of suppliers and supply chains.

03

The low level of management reporting continues to be a serious challenge for businesses. Most participants of the survey are dissatisfied with the quality and completeness of management reporting. More than one-third of the participants of the survey have noted that the companies under consideration do not keep management reporting.

04

Category management remains one of the most popular practices to improve efficiency and reduce costs. Nearly 70% of the participants of the survey have mentioned that their company uses category management.

05

Most companies are opting for traditional methods to overcome the consequences of the crisis, increasing the level of stocks and stepping up efforts to find alternative sources of supply.

06

At the same time, the participants of the survey are planning to increase the visibility of supply chains, which will allow tracing the entire path of the manufactured goods from the manufacturing plant to the internal customer's warehouse.

07

The companies are also expanding involvement of the local suppliers, curtailing the supply chains and considering the possibility to produce necessary materials in-house.

08

In times of crisis, CPOs do not plan to cut jobs, they are looking for new ways to optimise the workload and develop professional skills of the procurement function specialists.

09

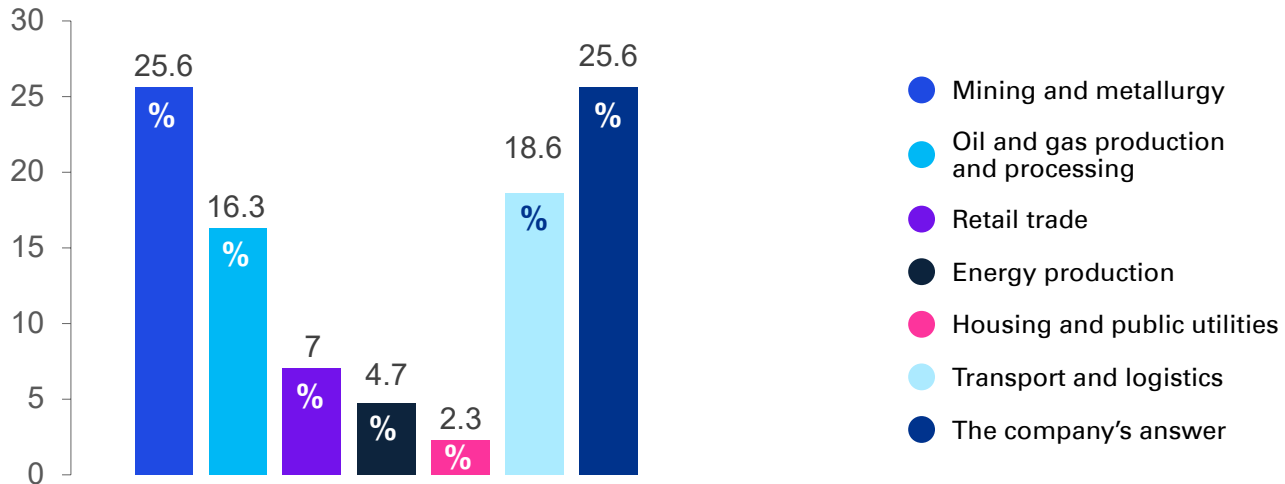
Only a quarter of the participants of the survey are the state-owned companies of Kazakhstan. According to the respondents, the most critical issues are as follows: unethical actions and collusion in public procurement, lack of standardized and streamlined conditions for competitive bidding.

10

The majority of the participants of the survey believe that the most important skills for the procurement specialists are: ability to use the category management tools, prompt search for suppliers and digital analytics.

Participants

Specify the industry in which your company is operating



Looking at the detailed statistics by the industries, the following observations can be made:



A quarter of the respondents are working in mining and metallurgical industry



are engaged in transport and logistics



of the respondents are working in oil and gas sector



of the respondents are employed in such sectors as: energy production (4.7%), housing and public utilities (2.3%) and retail trade (7%)



of those falling in the category "Myanswer" are those working in air companies, educational institutions and the sector of medicine.

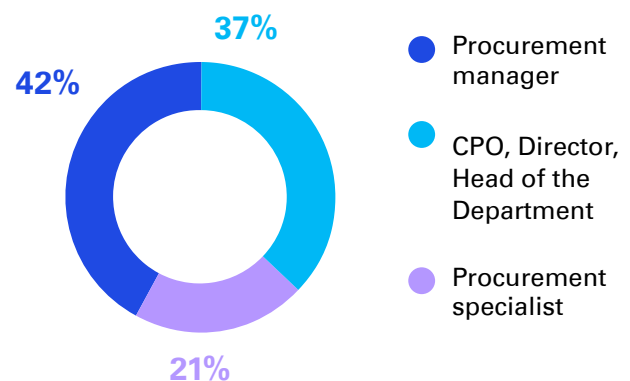
The largest number of employees (42%) among the respondents hold position of a procurement / logistics / supply manager.

The second largest group -37% of the respondents -comprises the CPO/Directors/Heads of procurement departments.

The lead procurement specialists make the smallest number of the respondents -21%.



Indicate your position



01

**Current state of the
procurement function**

Current state of the procurement function

As the importance of the procurement function keeps growing, the role of leaders in line of business in making strategic decisions in the company is growing as well. Today, the influence of the leaders in this line of business extends far beyond the traditional issues of making decisions on procurement of materials and services. Procurement is transformed from a service and support function into a key function, from which the achievement of the strategic goals and the company's performance in general depends in many respects. In the current situation of high market volatility and general geopolitical instability, the skills of requirements planning, forecasting demand, developing and implementing action plans for various market scenarios, and ability to establish sustainable supply chains and reduce costs, become a critical advantage that determines the success of the company.

Even a superficial analysis of the answers received allows categorising the problems faced by the leaders of the procurement function into three main groups: (1) requirements planning problem that the public sector companies are facing most often, (2) logistics problems, which are largely related to the recent shock events, and (3) problems associated with the procurement procedures, including cooperation with the suppliers.

In addition, the respondents have noted the lack of the systems for more accurate requirements planning for business, non-adaptation of SWF Samruk-Kazyna procurement system to the logistics of manufacturing enterprises, problems with logistics, and a low level of automation. We will dwell on each of the identified problems in more detail in the subsequent sections of our outlook.

What areas for improvement of the current state can you identify in supply chain management?

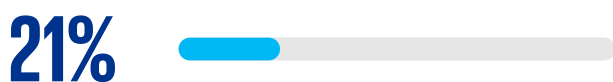
Inaccurate requirements planning



Inefficient warehouse logistics



Lengthy procurement procedures



Shortage of containers



Poor contract management/cooperation with suppliers



Constant shortage of materials



Complex transport logistics, frequent delays in deliveries



The company's answer



According to the participants of the survey, the initiatives to improve efficiency and reduce costs are the most important ones for their companies, while the digital transformation initiative rounds out the top three priorities. Currently, development of risk management and adherence to ESG principles are not among the priorities of the company leaders.

Rank the initiatives below in order of priority for your company (where 1 is the highest priority and 5 is the lowest priority)



01

Enhancement of operational efficiency

02

Cost reduction

03

Digital transformation

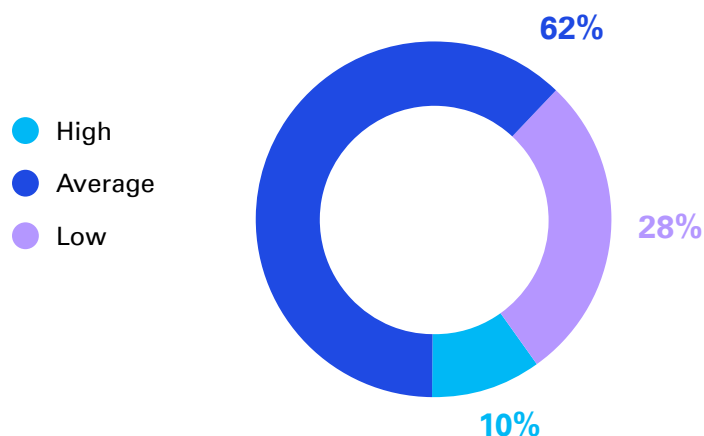
04

Development of risk management

05

Adherence to ESG (environment, social and corporate governance) principles

How do you assess a level of process automation in your company?

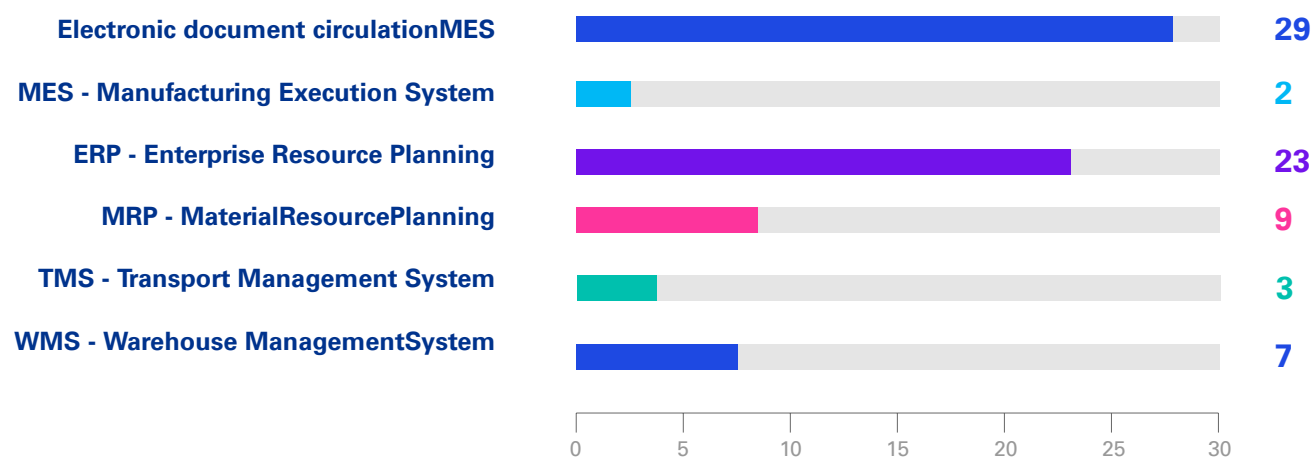


Digital transformation of the procurement function is a key factor to increase efficiency. From a business perspective, digital transformation can be described as the use of digital technologies to manage the company's core processes and create the innovative products and services. Digitalisation triggers the large-scale and deep transformations in many aspects of business, providing new opportunities to create additional value but at the same time being a source of new risks.

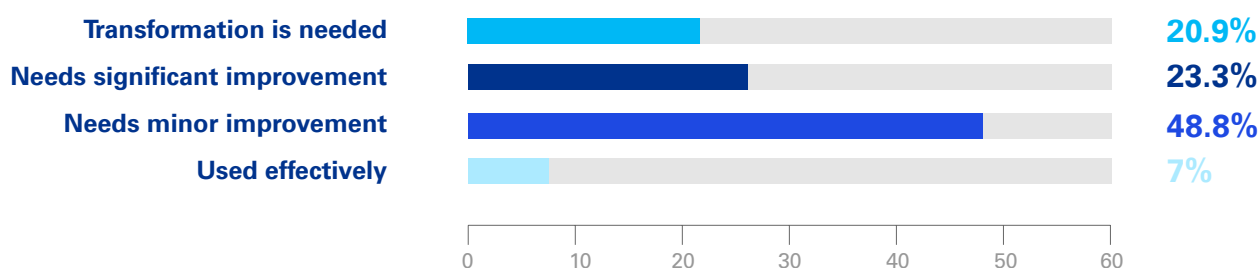
Introduction of Enterprise Resource Planning (ERP) system can improve performance of the companies by sytematising and synchronising data, automating basic processes and operations, such as requirements planning, supplier selection, contracting, fulfilment of purchase orders and payment procedures.

The ERP system allows improving the logistics management, reduce operating costs by streamlining business processes, simplifying the reporting, facilitating the work with suppliers, and monitoring all company deliveries.

What classes of systems have been implemented in your company?



How effective is the Source-to-Pay process (from material requirements planning to write-off materials used in production) in your company?



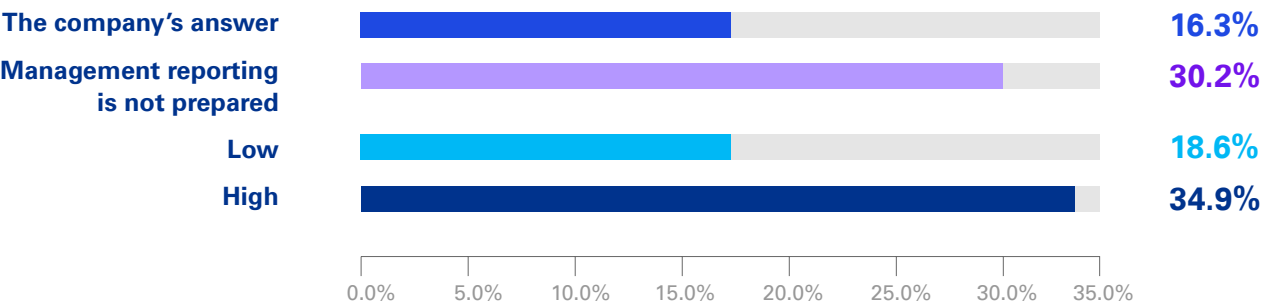
According to the results of our survey, more than half of the executives who have taken part in the survey, believe that the Source-to-Pay process in their companies operates rather efficiently and requires only a minor improvement (55.8%). At the same time, almost equal number of the respondents who have taken part in the survey believe that the Source-to-Pay process in their companies requires significant improvement (23.3%) or transformation (20.9%). In this regard, it is noted that automation of the procurement process and normalisation of the enterprise reference information can significantly increase the efficiency and transparency of each stage of procurement.

Current state of the procurement function

According to the results of the survey, only 35.9% of the heads of procurement functions are satisfied with the quality and completeness of management reporting. Business strategy is one of the main sections of management reporting. Following the results of assessment of the impact of crisis events on the supply chain, a prompt review of strategies for new realities is required, of course, for those companies that are

already using this tool. At the same time, 30.2% of the respondents have noted that their companies lack management reporting in the area of procurement, while 18.6% of the respondents have mentioned a low level of reports. 16.3% of the participants have indicated an average level of quality of reports, while highlighting the possibility of additional refinement.

What is the level of satisfaction of the management with the quality, completeness, timeliness of management reporting in the area of procurement?



Based on the results of our survey, we can note that most of the leaders of the supply functions are not satisfied with the level of maturity of the requirements planning processes, logistics and work with suppliers

in their companies. Many of these problems stem from the low level of automation, which prevents from data accumulation and preparation of the reports necessary to make the coordinated and timely management decisions.



Source-to-Pay process configures the entire procurement process as a single outline. It starts with the requirements planning process, progresses through approval of a purchase order, dispatch of the order to vendors, and payment upon receipt of the materials.

To date, one of the most popular and sought-after practices to improve efficiency and have savings from the ongoing procurements is category management. In the course of a survey on the use of category management in the companies, we have obtained the following results: category management is used (69.8%), is not used (16.3%), implementation is planned (7%), implementation is not considered (7%).

Does you company use category management?

7%

Implementation is not considered

16.3%

Category management is not used

69.8%

Category management is used

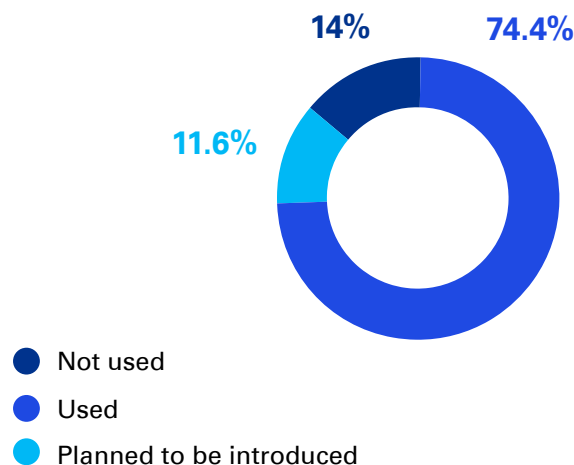
7%

Implementation of category management is planned

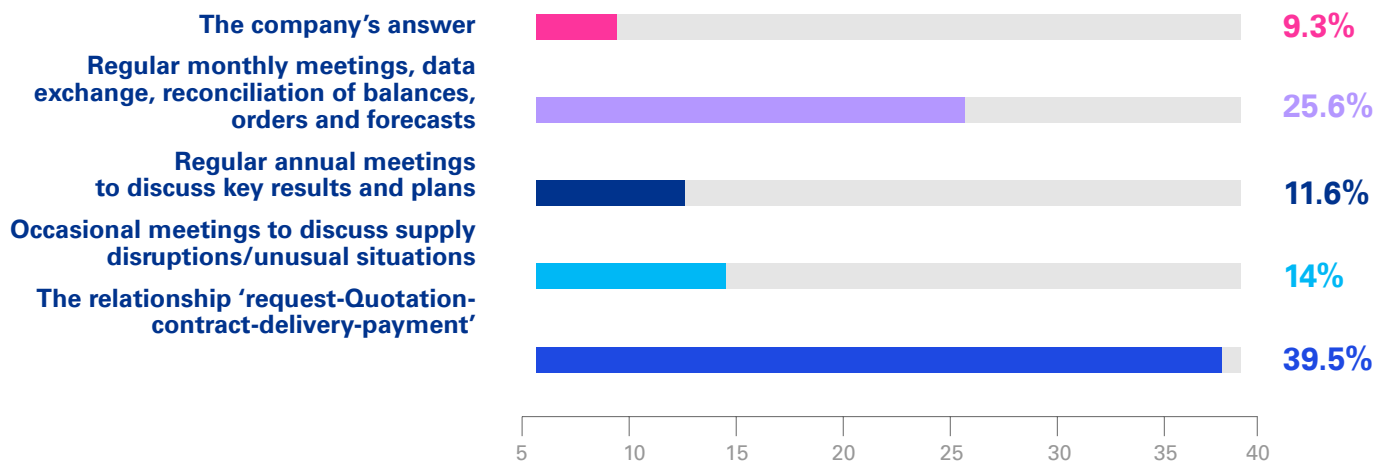
Although, the survey has found that the vast majority of the respondents confirmed the use of procurement category management in the company, many procurement function employees either did not distinguish or did not fully use it in their practice.

Does your company employ inventory management practices (control of all supply, storage and goods availability processes to ensure that they are readily available at the minimum cost of storage)?

Regarding inventory management practices, in terms of controls of all processes of supply, storage and maintenance of the company's inventory, we've got the following survey results: 74.4% of the respondents use such practices, 14% of the respondents do not use such practices, 11.6% of the respondents are planning to use such practices, and 0% - do not consider to introduce such practices.



How would you rate your company's relationship with key suppliers?



The survey results relating to the supplier relationship are as follows: the relationship 'request-CP-contract-supply-payment' (39.5%), occasional meetings to discuss supply disruptions/unusual situations (14%), regular annual meetings to discuss key results and plans (11.6%), regular monthly meetings, data exchange, reconciliation of balances, orders and forecasts (25.6%). The remaining respondents (9.3%) gave their own answers and believe that relationships with key suppliers depend on the category of product being purchased and on supplier behaviour.

Under uncertainty, close supplier relationships constitute one of the instruments to improve business resilience to adapt to challenges. Timely data exchange between a supplier and a customer enables to reduce delivery times, avoid delays or draft a plan to mitigate the impacts of force majeure events.

02

**Crisis events
in 2020-2022**

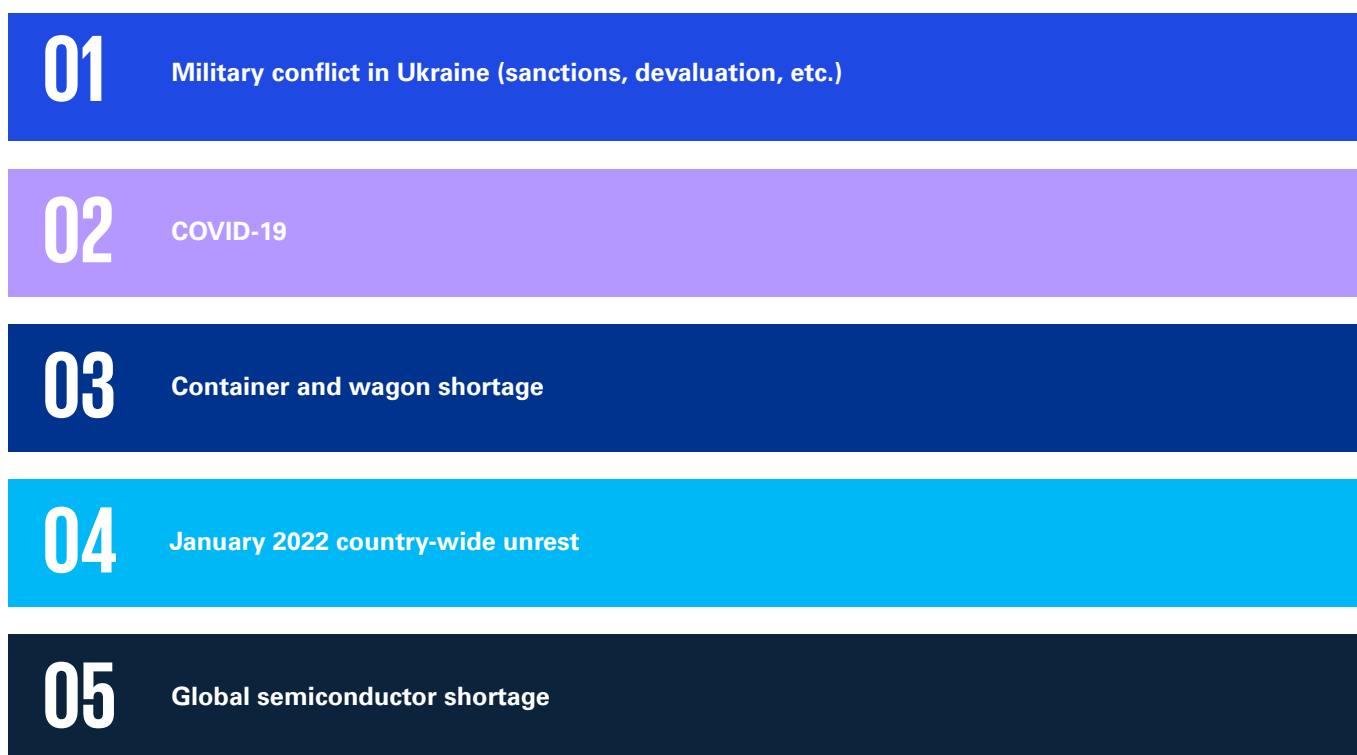
Crisis events in 2020-2022

The period from 2019 through the present bristles with black swan events, and the frequency of their occurrence has increased. Business has no choice but to adapt and learn how to overcome the next crisis. The size of crises also adds to the complexity, forcing us to rethink less effective solutions used before and to invent the new ones. It should be noted that Kazakhstan does not

have a large domestic market, and therefore is particularly sensitive to foreign markets volatility.

This section reviews the major crisis events that have affected supply chain management in Kazakhstan, the level of their impact, the expected impact and mitigation measures.

The main crisis events ranked by their impact on business according to the respondents.

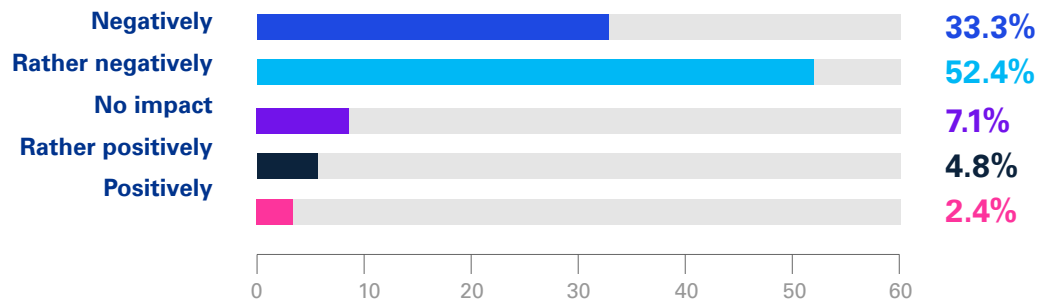


The armed conflict in Ukraine, as well as sanctions, counter-sanctions and subsequent correction of the US dollar exchange rate were the most significant crisis events that had an impact on supply chains in Kazakhstan.

Another crisis event, next to the military conflict in Ukraine, in terms of its level of impact and implications, is COVID-19 pandemic. The COVID-19 shock and its aftermath forced supply chain managers to rethink their approaches to supply planning, inventory management and logistics.

Despite the fact that the acute crisis has passed, supply chains will still be rebuilt, experiencing the 'bullwhip effect,' changes in logistical itineraries, etc.

In which way the crisis events in 2020-2022 (COVID-19, sanctions) impacted your company (procurement function)?



Kazakhstan, whose largest trading partner is Russia, and being also a member of the Customs Union, was forced seeking ways to avoid secondary sanctions. The situation with payment transactions in Kazakhstan's banks relating to goods going Russia also adds to the complexity, as Kazakhstan banks seek to avoid unwanted scrutiny from OFAC (Office of Foreign Assets Control) and FinCEN (Financial Crimes Enforcement Network being part of the U.S. Department of the Treasury), bodies responsible for the oversight of the sanctions regime, in particular, against Russia.

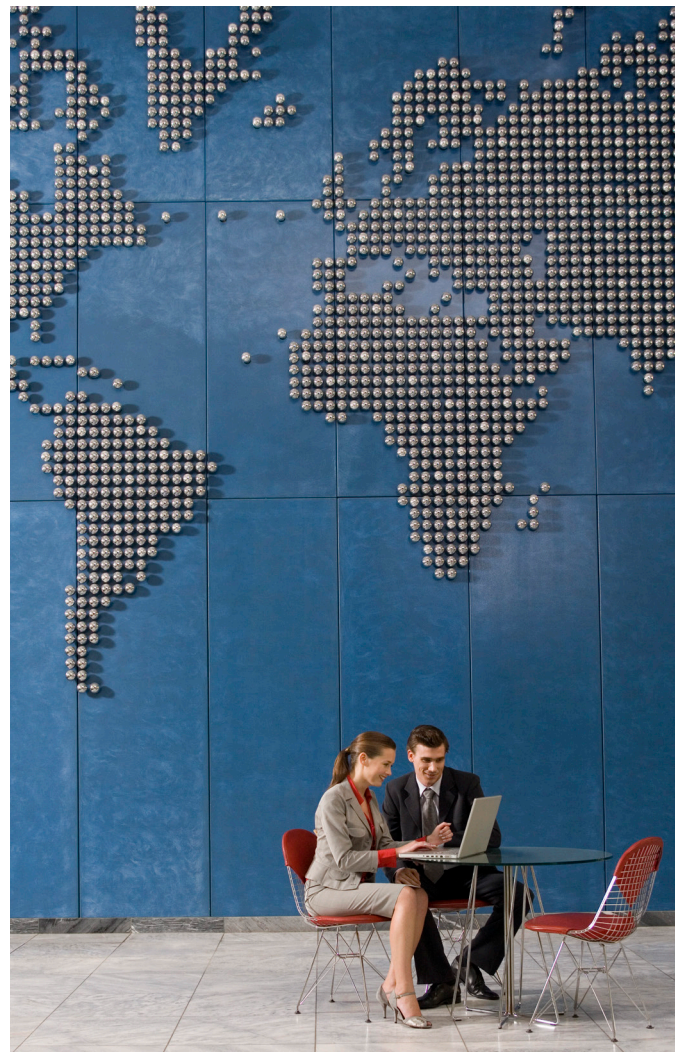
In their efforts to find alternative logistical itineraries, businesses in Kazakhstan are turning to routes through the Baltic states, the countries of the Caspian Sea region.

Container and rail fitting platform shortage, delays in delivery of cargo mainly from China seems to be normal, as the loading priority was given to transit cargoes going to Europe via Kazakhstan, while cargoes going to Kazakhstan were handled on a second-priority basis. Difficulties related to return of empty containers to China, penalties for the delay of empty containers and the corresponding container shortage in China, were also observed.

January 2022 country-wide unrest also had an impact on supply chain management. Lack of internet access, as well as general uncertainty, led to delays in payment, need to sign new contracts, tracking shipment challenges. Once the acute phase of the crisis was resolved, business returned to normal operations.

Kazakhstan's supply chain management was least affected by the global shortage of semiconductor supply also resulting from COVID-19 pandemics. The most severely affected industry has been the automotive sector worldwide, thus increasing the corresponding wait time for new cars.

Despite the popular belief of negative impact of crisis events on supply chain management, it should be noted that 14.2% of the respondents had not perceived the impact of COVID-19 pandemics and of other events on their business or even observed a positive effect. Like any crisis, COVID-19 raised opportunities for growth and acceleration of digitalisation.

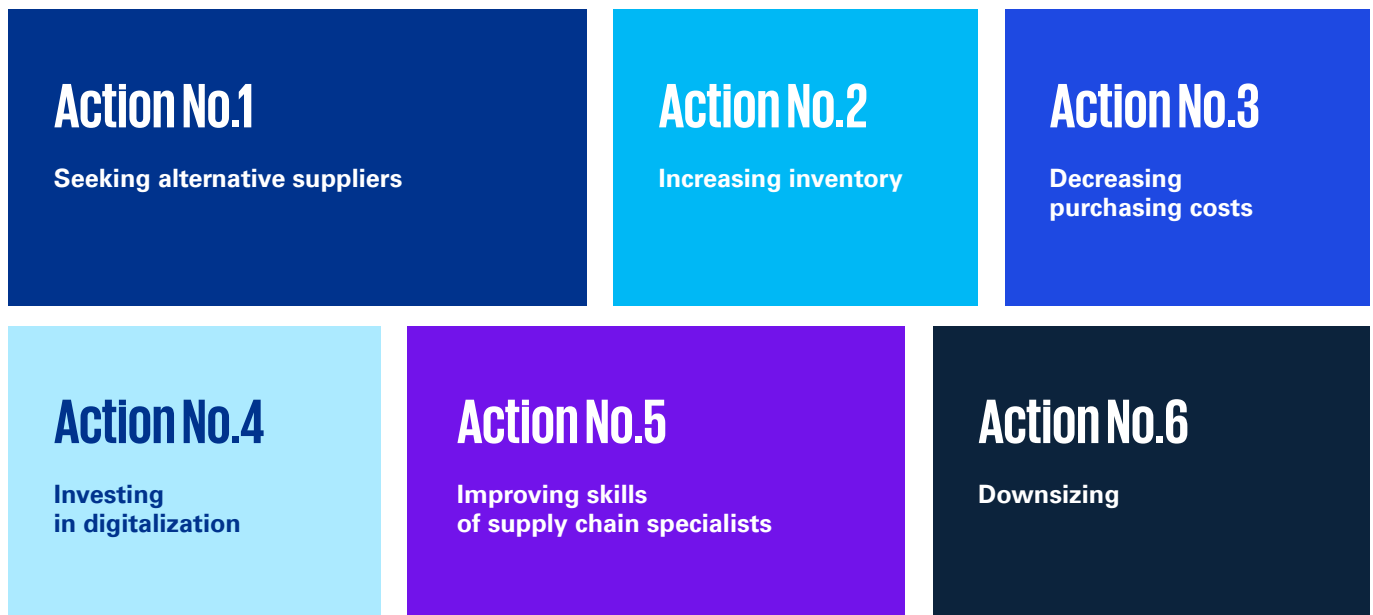


The main action taken by business to minimise the impact of the crisis events was the search for alternative suppliers. Due to increase of the US dollar exchange rate, exit of large Western companies from the Russian market and supply chains breaks, business started to look for suppliers that can offer more flexible payment terms (lower prepayment, longer payment terms), access to manufacturers originated from countries not being listed in the sanctions list, the ability to arrange delivery despite the extended time.

Earlier publications of KPMG (<https://bit.ly/3PGX1u1>) highlighted the change in inventory management strategy. This trend is confirmed by the fact that 'increase in inventory' has become the second most popular risk management measure. As part of the anti-crisis measures and increased uncertainty, business is trying to

accumulate as much inventory as possible. Lean Management and Just-in-time principles, which assume that a minimum amount of inventory must be stored and accurate requirements planning in the current conditions must be ensured are changed for the maximum possible stock.

Actions implemented by the respondents to combat the impact of COVID-19 and other crises are listed in decreasing order of importance (where 1 is the most important action and 6 is the least important action).



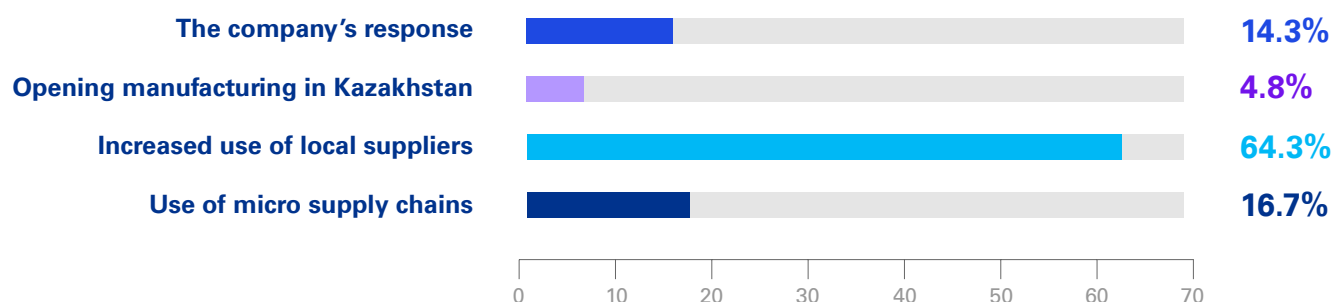
The traditional response to the crisis is to reduce purchasing costs. Due to the difficulty of forecasting, investment programs, capital-intensive projects and business expansion plans are curtailed. As a result, the cost of purchasing materials is reduced or more affordable counterparts are sought.

Digitalisation, accelerated by the pandemic, has become Action No.4 in response to the crisis events. Many software products have appeared on the market to adapt to the new reality.

Companies are investing in a warehouse digital twin, supply chain simulation to determine optimal routes and possible warehouse management bottlenecks, etc.

Downsizing remains the least popular measure. Most of the companies participating in this survey consider staff as an 'internal reserve pool' of the business and assess downsizing as the most extreme measure. At the same time, improving skills of supply chain specialists remains among the lowest business priorities in Kazakhstan.

Have your company been using micro supply chains (finite and agile 'mini operating models' with flexible supplier contracts and relationships, and manufacturing closer to the point of sale)/ switch to local suppliers?



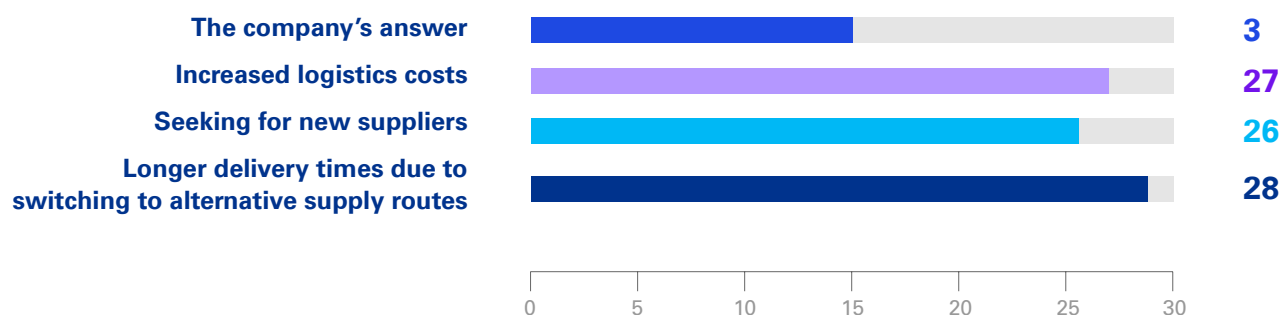
One way for businesses to adapt to uncertainty, which is the new reality, could be micro supply chains. Micro supply chains are finite and agile 'mini operating models' with flexible supplier contracts and relationships, and manufacturing closer to the point of sale. The advantages of these mini models include high flexibility, decentralisation and the ability to change production and delivery, vary volumes and quickly launch new products. Founded on the principle of decentralisation, micro supply chains create maximum value being closer to customers, which in times of crisis gives companies the opportunity to benefit from independent operation. In addition, micro

supply chains are less dependent on global developments other than the pandemic, such as fluctuations in interest rates and currency rates, changes in tax regimes, customs duties and tariff quotas, and inflation rate. According to the survey, only 16.7% of the respondents use micro supply chains.

Furthermore, it should be noted that 64.3% of the respondents increase their use of local suppliers, but only 4.8% of the respondents decided to open their own manufacturing as a risk management option.

As noted earlier, Russia is the largest trading partner of Kazakhstan, while Belarus, despite a small volume of mutual trade (the share of exports to Belarus was only 0.2% of Kazakhstan's total exports), was one of the main logistics routes from Europe to Kazakhstan. When the sanctions were imposed, sending cargo through Russian ports became impossible, therefore logistics companies showed a substantive interest in the Trans-Caspian International Transport Route, which involved transportation of goods across the Caspian Sea, Azerbaijan, Georgia, Turkey and then to Europe. It should be noted that this route is longer, which cannot but affect the cost of logistics, as well as delivery time. According to the survey (see Figure No.15), business in Kazakhstan has faced all of the mentioned negative effects.

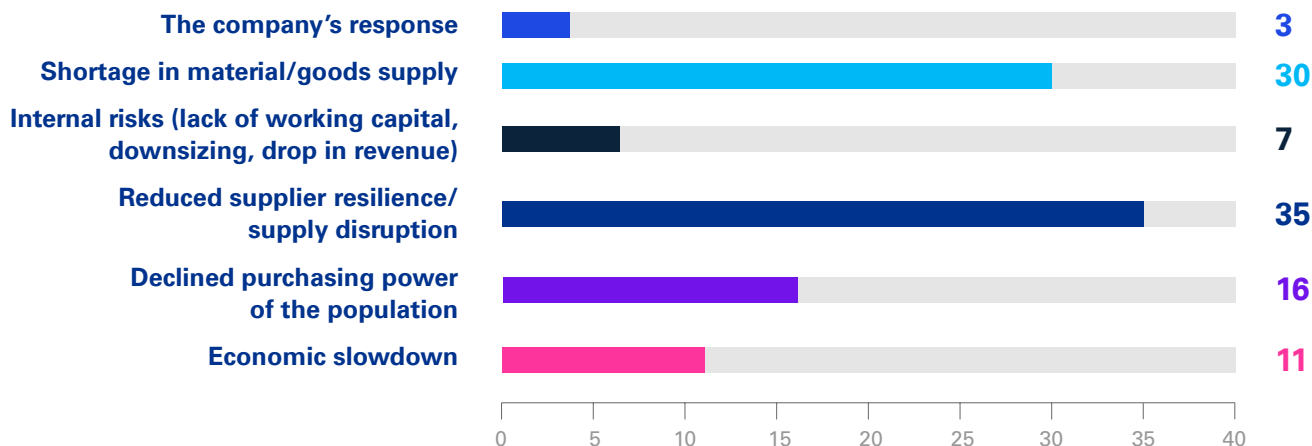
How sanctions imposed on Russia and Belarus have affected logistics of your company?





“Reduced supplier resilience/ continuity in supplies” and “shortage in material/goods supply are the most dangerous risks among the top risks observed during the current uncertainty. Potential response to the issues may include developing closer relationships with suppliers to identify critical supplies and implement measures to adapt better in the crisis and mitigate potential risk. Concerns related to shortage in material supply are reflected in a tendency to increase safety stock.

What risks associated with war crisis in Ukraine/sanctions/devaluation does your business face?



According to the survey, 61% of the respondents are planning to improve, while 34% of the respondents have already improved visibility across their supply chain. Definitely, crises have revealed the importance of supply chains resilience, and the increased supplier visibility enables to identify areas for improvement within any tier of any supply chain.

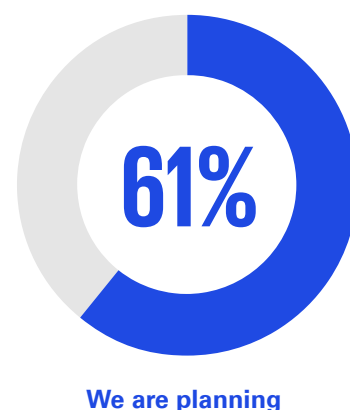
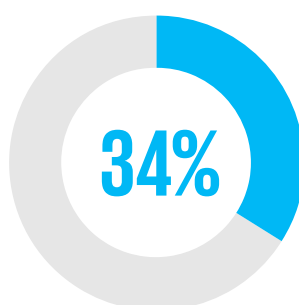
The best-performing companies have information about the entire supply chain and therefore, can make informed decisions to make changes therein, based on the facts and information rather than on guesswork or assumptions. Examples include decisions on relocation of operations from China to other countries within several months, after the country was put on lockdown. However, such decisions that require substantial capital investment may be taken promptly only due to that companies have the data about places of manufacture of the products and are able to select a new logistics route. In addition, during the COVID-19 pandemic, preferences of consumers changed: they want to know more about where food products they consume come from, and are willing to support local suppliers in the first place, during tough times.

Where data about the entire supply chain is available, planning accuracy is improved. For example, due to that natural disasters occur more frequently and get more severe, it is necessary to consider the place of location of a factory when selecting a supplier, and how continuity of supplies may be affected.

ESG (Environment, Social, Governance) requirements and recommendations on the product's origin and transportation mode should also be considered. To get a good rating and inform consumers, businesses need to have reliable data about the entire supply chain.



We have visibility into the entire supply chain: from a manufacturing plant and to an end supplier



Due to the cyclical fluctuations of economic development, when the growth of the economy gives way to slowdown, business has to adapt and use tools to mitigate negative effects. Despite the fact that Kazakhstan has not experienced crisis of such magnitude and severity in its modern history, and responses to mitigate its negative impacts are still being developed, the following practices are available to effectively manage supply chains in crisis times:

01

A risk-based approach to supplier relationship management

As a response to crisis events, the Procurement Function would set up a Coordination Committee responsible for identifying and managing supply chain risk, to ensure an open and consistent exchange of reliable information with stakeholders. The Committee would redistribute, where possible, flows within global and regional supply chains, using alternative methods of transportation and compromise solutions, based on the analysis of needs, costs, and services required and scenario analysis of risk inherent in all technically feasible options. In assessing risk, companies identify materials critical for business to continue, increase levels of safety stock, and, if possible, expand supplier base and extend payment terms.

02

Increasing Supply Chain Visibility

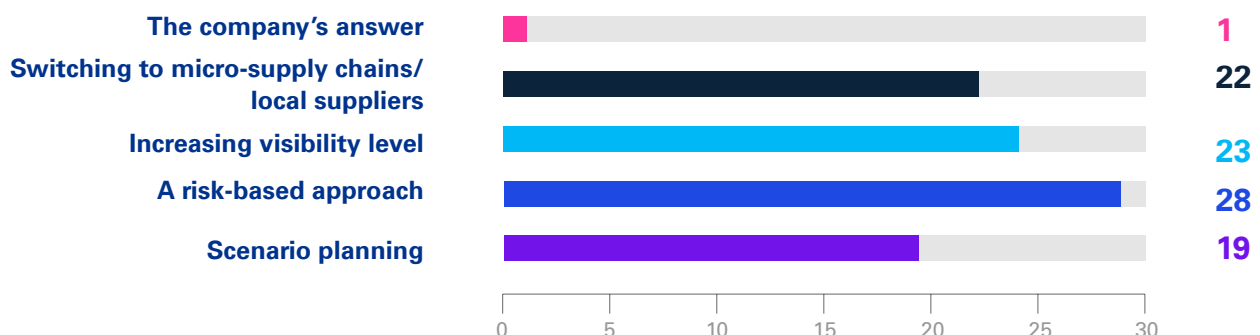
Developing closer relationship with the participants of the supply chain becomes one of the preventive measures. The objective of the Chief Procurement Officer is to identify additional levels of risk: specifically, it is recommended to forward requests to suppliers (starting from tier-1 and tier -2 suppliers and other lower level suppliers, down through the chain) located outside the crisis-hit regions to determine their dependence on suppliers at the top of the chain.

03

Scenario planning

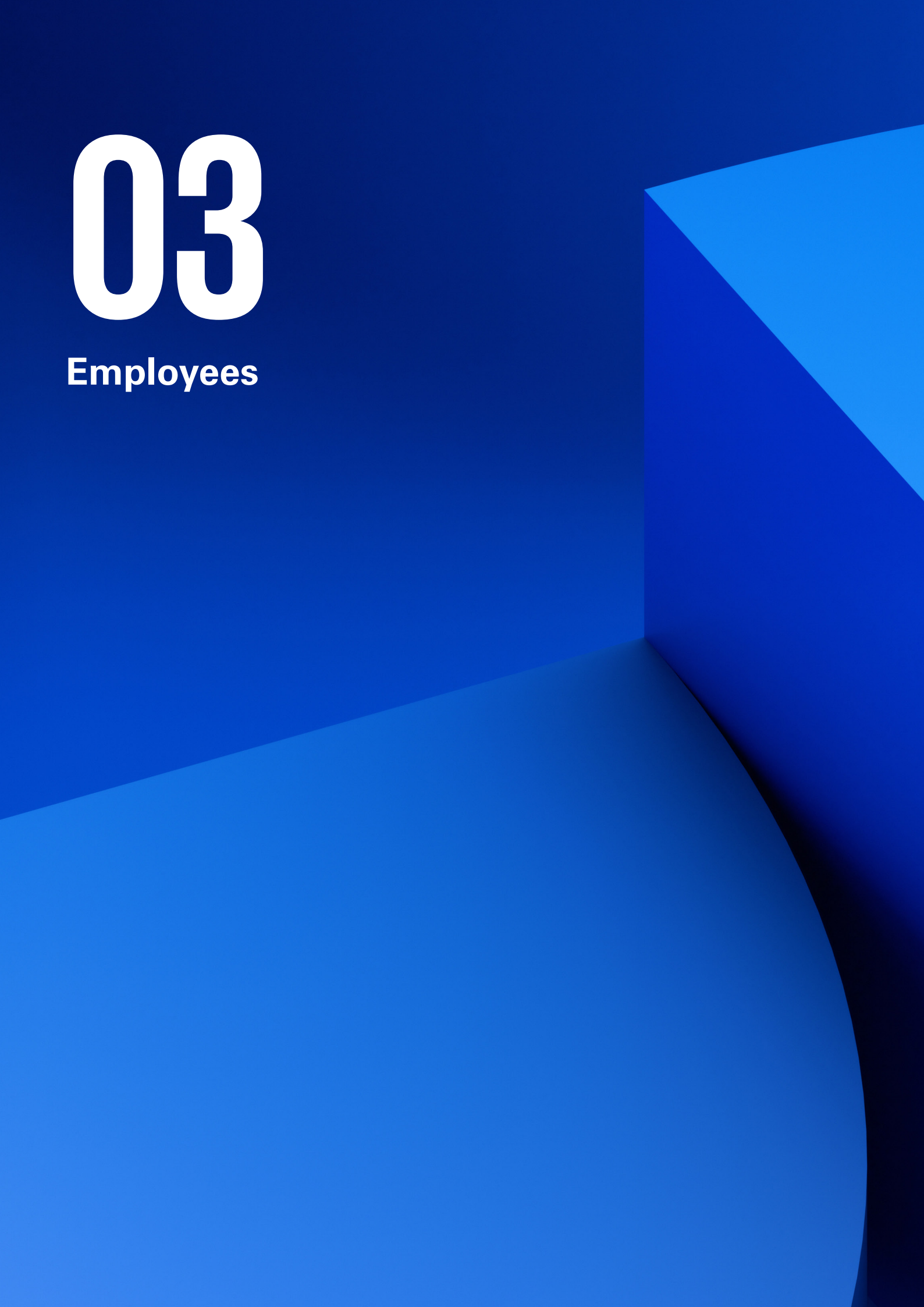
Bysimulating various scenarios, companies can build a full picture of what may happen and come up with the compromise solutions on issues that may arise from breach of contracts with customers: for example, what types of inventories should be stored in the warehouse and what inventory levels should be maintained; how to ensure a reasonable balance ratio between cost of inventory and the costs of keeping the stock on hand. To find a middle ground between obviously conflicting objectives, companies may promptly activate simulation models running real-time data on inventories, customer demand and supplier capacity. Such scenarios can help not merely prepare a forecast, but find an appropriate solution as well. By reviewing past events and formulating hypotheses concerning future threats, companies can identify strategic/business -critical and operational/targeted supplies that may be at risk from major crises, and, more importantly, they can understand when internal risk management capacity is clearly insufficient.

What tools, in your opinion, can help minimize negative effects of unforeseen events on your company supply chain?



03

Employees



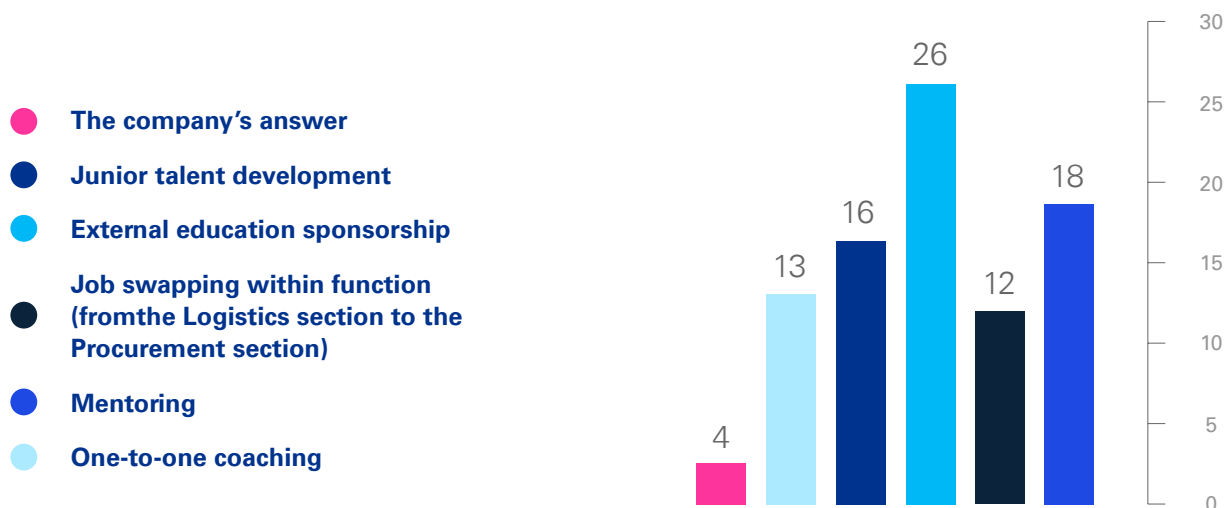
Recent events such as the COVID-19 pandemic and the conflict in Ukraine, that have had a negative impact on supply chains worldwide, resulted in significantly increased workload on the procurement function staff, and forced companies to re-examine how they would develop and retain staff.

What methods does your company use to optimise workload among employees?



Answering the question about the methods of optimising workloads among employees, most of the CPOs identified standardisation of policies and work processes (76.2 %) and staff training (training employees to think, act and react differently) (52.4%) as the most commonly used approaches. CPOs also referred to other approaches including engagement of specialists from other departments, outsourcing, the use of new digitalisation tools, improvement of the company organisational structure and achieving appropriate balance within the staffing structure.

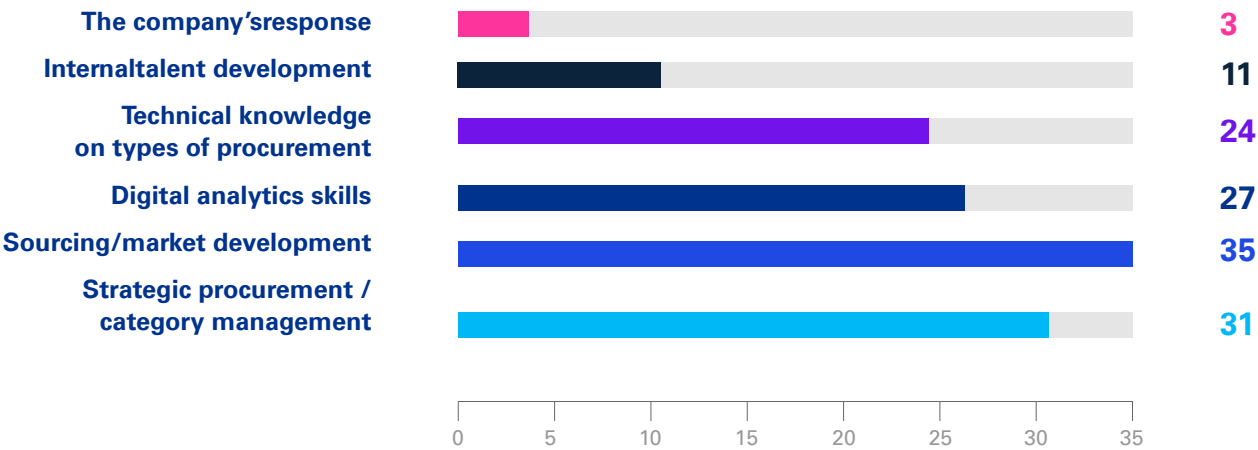
Which of the approaches does your company leverage to develop staff?



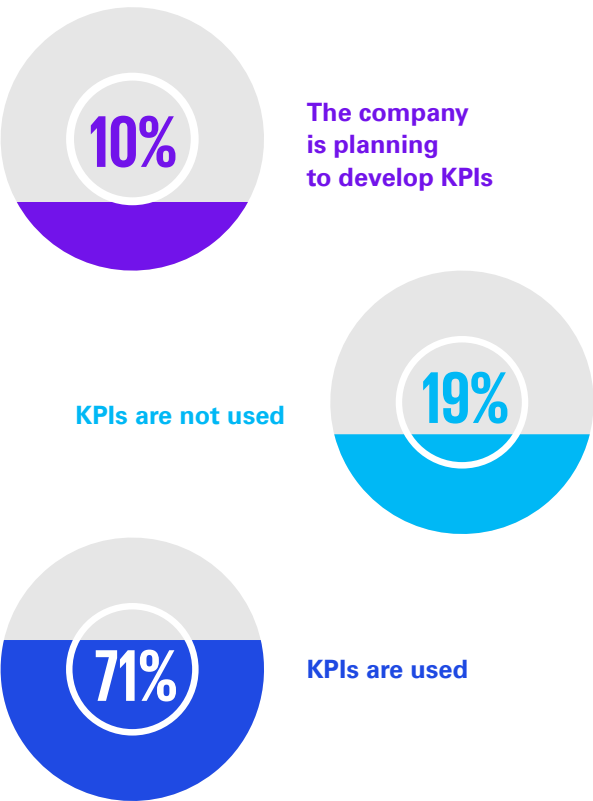
Responding to the question about staff development, most of the respondents highlighted education provided by external education providers (61.9%) and mentoring (42.9%). Regarding other measures, the respondents highlighted junior talent development (38.1%), one-to-one coaching (31%) and job rotation within the company (28.6%).

When asked “What skills do you think are critical for the procurement function staff?” most respondents acknowledged skills related to strategic procurement/category management (83.3%), sourcing/market development (73.8%) and digital analytics. The respondents also highlighted ‘technical’ procurement competencies (57.1%) and internal talent development (26.2%). They highlighted as well the importance of developing communication skills, for example, business partnering skills.

What skills do you think are critical for the procurement function staff?



Does your company use Key Performance Indicators (KPIs) to monitor and measure the performance of the procurement function staff?

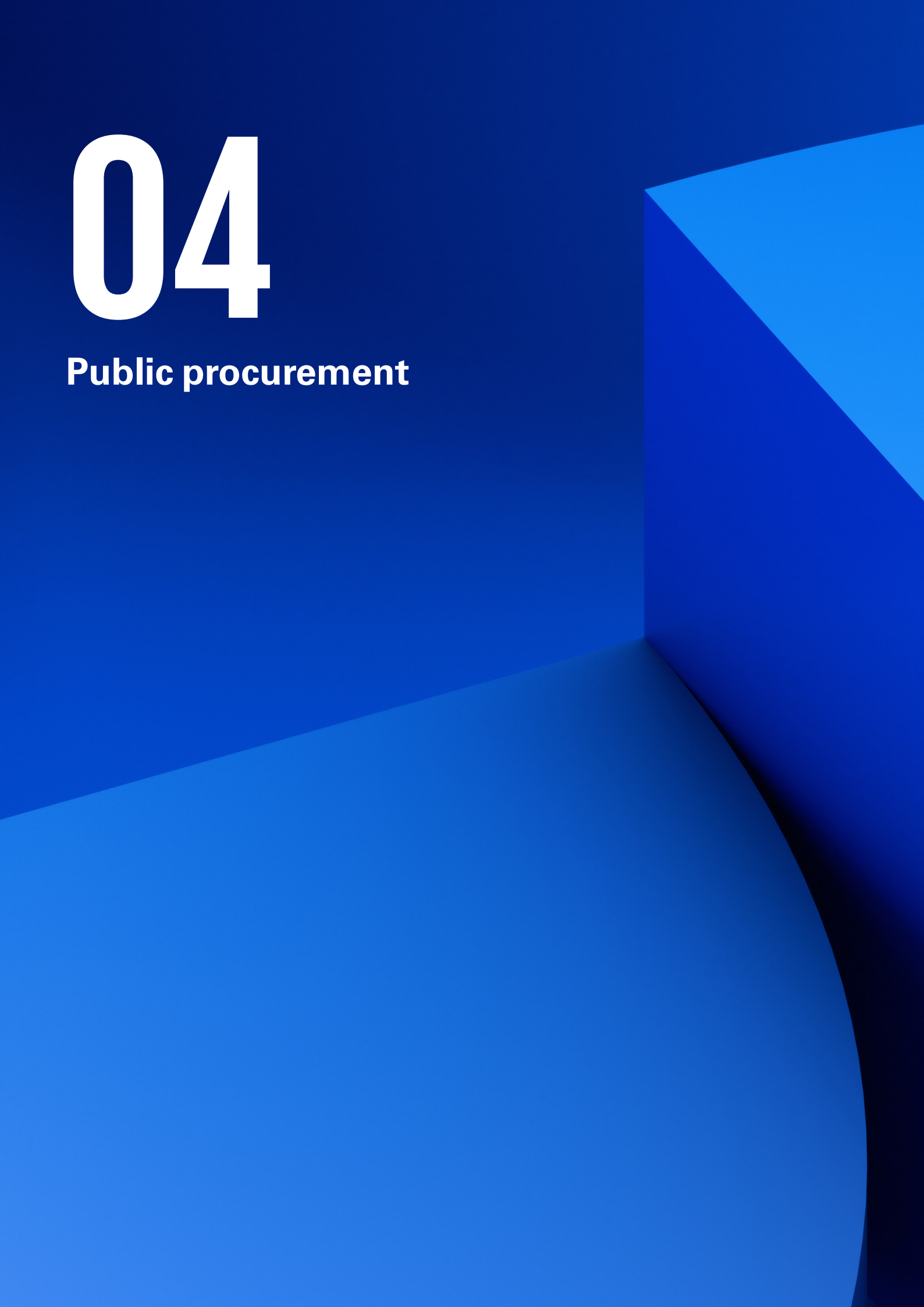


According to the survey, the vast majority of companies (71.4%) that took part in this survey, use the Key Performance Indicators (KPIs) to monitor and measure the performance of their procurement function staff. At the same time, 9.5% of the survey respondents representing the companies that do not use KPIs indicated that they are planning to implement this practice in future.

New challenges make high demands on the procurement function staff. Roles in supply chain management are changing dramatically and CPOs are fully aware of the need to meeting new requirements. According to the survey, the CPOs acknowledge that it is employees that are the core asset of the company and are looking for new ways to optimise employee workloads and develop employee professional competencies.

04

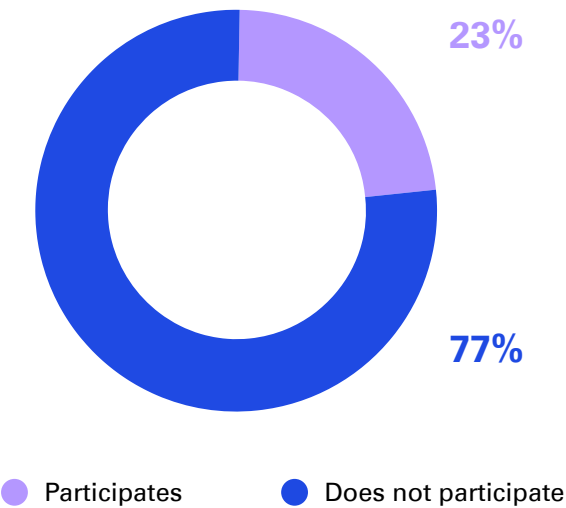
Public procurement



Over the past twenty years, the Government of the Republic of Kazakhstan (the RK) has been making a special effort to improve the Public Procurement System (PPS). According to the assessment of the RK PPS performed by the World Bank and Organisation for Economic Co-operation and Development (WB and OECD, 2019), public procurement activities are not being governed by a uniform legislative and regulatory framework, and this puts additional pressure on stakeholders. Significant proportion of expenditures accounted for by Sovereign Wealth Fund “Samruk-Kazyna” JSC are not covered by general PPS (WB and OECD, 2019).

Our survey found that only 23% of the respondents from large and medium-sized companies have been participating in public procurement. A low proportion of companies involved in public procurement may be due to the fact that a high proportion of the survey respondents represent private companies that have points of sale outside the public procurement portal. On the one hand, suppliers’ access to the public procurement market may be limited by prequalification criteria, conditional discounts, exemptions and preferences (incentives), and a complicated procedure of participation in public procurement. On the other hand, the lack of option for splitting contracts in public procurement and absence of eligibility criteria, based on technical characteristics on the ‘eligible/non-eligible’ basis not applicable to complex procurement, and requiring an optimal quality-price ratio, may create negative incentives for private companies (WB and OECD, 2019).

Does your company participate in public procurement?



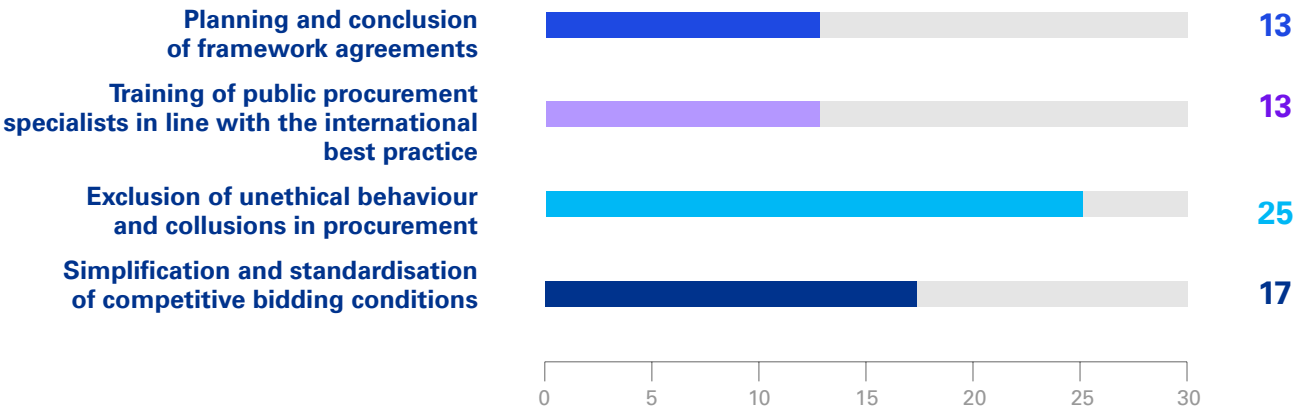
As regards to achieving greater efficiency through public procurement, 25 survey respondents highlighted exclusion of unethical behaviour in procurement and collusions. It should be noted that Kazakhstan has made significant anticorruption efforts. However, there is still a significant room for further improvement of the situation that requires taking active steps to identify corruption risks in public procurement. It is also required to align the procurement laws regarding preventive mechanisms and practice as well as anti-corruption and anti-fraud regulations with the international best practice. Apart from improving the existing legal framework, one of the recommended measures to improve the quality of procurement procedures is further involvement of civil society representatives, for example, to monitor public procurement processes (WB and OECD, 2019).



Other responses included simplification and standardisation of competitive bidding conditions (17 responses) as an opportunity to improve efficiency of public procurement. Such recommended measure was also recognised by global practice as an opportunity to drive SME development through specific provisions that facilitate their effective participation in tenders and streamline access of SMEs to business opportunities (WB and OECD, 2019).

At the same time, the respondents mentioned training of specialists in public procurement based on global best practice (13 responses), planning and conclusion of framework agreements (13 responses). As for professional competence of public procurement specialists, Kazakhstan is lagging behind most of the developed countries. Therefore, the establishment of advanced training and re-training centers and procurement capacity-building program would have a favourable impact on improvement of skills of the public procurement specialists and overall efficiency of public procurement transactions (WB and OECD, 2019). It should be noted that current procurements approaches/methods do not allow concluding the framework agreements, except for the approved list of GWS (fixed-line telephony services, petrol and diesel fuel). The expansion of the list of procured GWS through conclusion of framework agreements could improve efficiency and effectiveness of public procurement and achieve better value for money of GWS procured.

What ways of improving the efficiency of public procurement do you see?



In regard to the difficulties encountered by the public procurement participants, the respondents have noted a lengthy period of procurement procedures (13 responses). The length of procurement procedures depends on various factors such as complexity of procured GWS, assessment criteria, cost, strict compliance, professional expertise, etc.

Along with the lengthy period of procurement procedures, most of the respondents have also noted a low level of detail of information on procured GWS in tender packages (11 responses). The analysis of WB and OECD, based on the sample of 150 public procurement contracts, found that 50 percent of the bids were non-responsive to the bidding criteria due to unclear or insufficient information in the tender documents, restrictive requirements and specifications, poor capacity of bidders to prepare and submit a quality and responsive bid, or poor professional judgment of the tender committee in accepting non-responsive bids (WB and OECD, 2019). Generally, insufficient information or low level of detail in the tender documents or in bid applications are known to reduce competition.

In accordance with the best practice, an early engagement with potential market stakeholders ensures neutrality of the relevant technical specifications and adequacy of qualification requirements and evaluation criteria for the tender (WB and OECD, 2019).

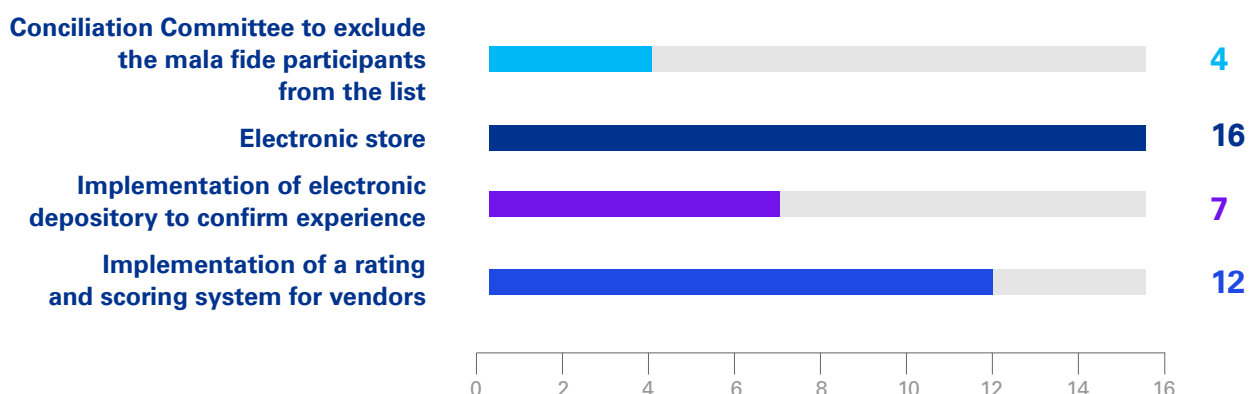
Other responses included unethical behaviour in procurements (7 responses), for which areas for improvement are proposed as part of improvement of efficiency of public procurement above, and lack of a structured strategic holistic approach to procurement planning, absence of any detailed guidance on the practical application of needs assessments, or how to link them with market research and analysis because of the current regulatory and legal framework (1 response). From the perspective of international practice, a proper policy/strategy for needs planning and assessment should be implemented to identify the best approach to market tenders and procurement methods, which would support the achievement of fair competition and value for money.

What difficulties have you encountered as a public procurement bidder?



As part of the most useful innovations in public procurement, the respondents have noted the use of a new competitive method of e-commerce, namely, electronic store in public procurement (16 responses). More than a year and a half has elapsed since the launch of the pilot project by the MF of the RK, and based on the project results, as at 24 January 2022, the state saved more than KZT 700 million of budget funds. The positive factor is undoubtedly digitalisation and automation of public procurement procedure that enable the customers to find and purchase high-quality goods at competitive prices, and suppliers to sell goods in the easiest and most convenient way, without submitting additional documents.

What novelty in public procurement in 2022 do you consider to be the most useful?



Conclusion – Recommendations



Digital transformation

Digital transformation and automation of the procurement process help entities to overcome uncertainty and get prepared for upcoming challenges by combining new robust technology with changes in business models and operational structures and thus to generate higher return on investment. Implementation of digital tools in procurement allows solving the problems of inadequate performance of entities through data synchronisation and classification, routine automation, possibility to improve business processes based on collected data and facilitates more efficient interaction along the entire value-adding chain.



Advanced SCM tools

Supply chain management is evolving and addresses emerging challenges. Advanced SCM tools comprise the following practices:

- Scenario forecasting
- Supply chain visibility management
- Risk-based approach to supply
- Analysis of management information on supply chains.



Supply chains and operating activity

Under conditions of global instability, improving supply chain resilience, cost reduction, search for alternative procurement sources and improving supplier relationship are becoming the overriding priority for procurement departments. Such situation requires revising the entire procurement paradigm that has existed over the last 20 years and searching for new approaches and solutions.



Talent development

The spread of technological innovations and automation of all supply chain elements have already made some roles in traditional procurement departments obsolete and caused an increasing demand for digital technology and analytics specialists. To keep pace with ever-accelerating development of technology in procurement, management should decide what specific skills will be required in the future and focus on building an efficient and sustainable talent pool.



Public procurement

Public procurement makes up the lion's share in the government spending and is a power driver for economic growth. Transparent and clear procurement procedures, involvement of a wide range of businesses may have a material effect on domestic production development, poverty and unemployment reduction in regions and government spending optimisation. Over recent years, certain measures have been taken in Kazakhstan to increase transparency of public procurement, prevent unethical behaviour and create a competitive environment. However, additional measures are required to streamline and standardise procurement procedures, implement digital technologies that would improve transparency of procurement procedures, reduce time required for procurement, increase competition and accuracy of requirements planning.

How can KPMG help?



Digitalisation of procurement and supply chain management

We will help to go through the uncertainty period by integrating new digitalisation tools with business models. We do not suggest digitalisation for the sake of digitalization; what we suggest is digitalisation for improving efficiency and creating conditions for growth. There is no all-purpose product that would fit any business. However, we are ready to help choose an IT solution, build and implement a target source-to-pay procurement process to ensure a long-term resilience to crisis.



Logistics management

Logistics has become one of the most important elements in a supply chain. In an uncertain time when well-established logistical itineraries close, building an efficient logistics requires perfect awareness of possible alternatives, necessary documents, time-frames, insurance cost and much more. We will assist with choosing the most efficient route, mode of transport and other essentials of efficient transportation.

Moreover, our team is experienced in implementation of warehouse logistics solutions: optimisation of warehouse operating and technological model, selection, design and support in implementation of WMS-class warehouse systems, and warehouse audit.



Inventory management

It is challenging to adapt an inventory management strategy, determine the optimum inventory to be held in the conditions of uncertainty when delivery time has increased manyfold and is unguaranteed. Large inventory stockpiling may not always be possible due to limited number of A-class warehouses, lack of working capital required for procurement. We will help adapt or develop a new inventory management strategy that would allow to maintain the high quality of services, determine the optimum volume of stock to be held, develop a methodology for inventory replenishment, and release working capital through the use of unclaimed inventory.



Procurement category management

Implementation of procurement categories has proved its efficiency in times of crisis. In developing the category-based strategies, various scenarios and total cost of ownership are considered, and proper way of dealing with risk management of strategic vendors is built up, i.e. a broad range of activities and analysis is carried out to adapt a procurement function to a "new reality" through application of advanced supply chain management practices.

Relevant publications

Beyond this challenge

Mid-and long-term measures

[Click to follow link](#)

About risk-based approach to inventory management in a post-Covid era

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What impact will COVID-19 have on logistics?

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COVID-19: Application of scenario forecasting

How can key performance indicators be forecast in a short time frame for efficient management?

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Vaccine logistics. Relevance of the issue.

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How to improve procurement efficiency

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Third Party Logistics and COVID-19

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COVID-19: Procurement transformation

Current situation of the pandemic helped companies identify weaknesses and areas for improvement in operations support

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Not just hype: Why is blockchain important for prosperity of Central Asia?

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