

# Analysis of Local Content in Public Procurement of the Republic of Kazakhstan

<sup>1</sup>\*YESMAGAMBETOV Daulet, Doctoral Student, d.yessmagambetov@apa.kz,

<sup>1</sup>KUSSAINOVA Larissa, Cand. of Econ. Sci., Professor, l.kussainova@apa.kz,

<sup>2</sup>PERSHKO Larysa, Dr. of Econ. Sci., Professor, larisa\_pershko@ukr.net,

<sup>1</sup>Academy of Public Administration under the President of the Republic of Kazakhstan, Kazakhstan, Astana, Abay Avenue, 33a,

<sup>2</sup>Institute of Ecology, Economics and Law, Ukraine, Kyiv, Turgenevskaya Street, 11,

\*corresponding author.

**Abstract.** In the context of the annual deficit of the state budget of the Republic of Kazakhstan, the issue of the effectiveness of public procurement is becoming more and more urgent. One of the indicators of the effectiveness of public procurement is the share of local content in them. The purpose of this work is to review the current situation on ensuring the local content development in public procurement and identify problem areas. Missing in open access statistical data on local content in public procurement received from the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan were used for the analysis. According to the results of the analysis, it was revealed that most of the public procurement is covered by imported manufacturers, and the greatest impact on the share of local content in public procurement is provided by the procurement of works that are carried out mainly at the level of local executive bodies. In addition, there is a large gap in the indicators of local content between regions. As a result, possible causes of the problem and directions for its further study are suggested.

**Keywords:** local content, public procurement, regulated procurement, domestic producers.

## Introduction

The strategy «Kazakhstan – 2050» aims to improve the budget policy in terms of increasing the efficiency of public spending [1]. According to research by the Organization for Economic Co-operation and Development (OECD), 43% of Kazakhstan's total public spending is on public procurement, which is more than the OECD average [2].

The effectiveness of public procurement depends on many factors, including administrative costs and corruption. However, in this article, as an indicator of the effectiveness of public procurement, the degree of support for domestic producers is considered, which is reflected in the share of local content (SLC).

Local content is an indicator in cost and percentage terms of the share of local goods, services and labor resources used in the implementation of activities by state bodies, quasi-public sector and enterprises on the territory of the Republic of Kazakhstan.

Recently, the concept of «local content» has been replaced in the legislation with «in-country value» without changing its essence. This is due to the possible emergence of a conflict between the local content development policy and international treaties within the framework of Kazakhstan's participation in the World Trade Organization and the Eurasian Economic Union.

According to the Government Program for the

Development of Domestic Value and Export-oriented Industries [3], 44.6% of intermediate goods, 31.6% of consumer goods and 23.8% of means of production were imported into the country in 2021. At the same time, the total volume of imports of manufacturing products in 2021 amounted to 38.3 billion US dollars and is represented by a wide range of goods consisting of 4729 items.

Foreign researchers Grossman, Beghin, Sumner, Belderbos, Sleuwaegen, etc. [4-6] attribute local content requirements to protectionism policy instruments along with customs duties, various fees and national quality standards. However, unlike traditional instruments of protectionism, LCR is aimed at increasing the competitiveness of local goods by reducing imported ones.

The requirements of local content also attract the attention of local researchers, which is confirmed by the works of Temirbekova A.B., Temirbek E.B., Gimranova L.R., Pritvorova T.P., Gimranova G.I., Zhuparova A.S. and others [7-9]. However, due to the lack of publicly available statistical information on local content, there is a gap in domestic science in this area.

## Description of materials and methods of analysis

In accordance with the Decree of the President

of the Republic of Kazakhstan [10], the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan is endowed with the function of collecting and processing information about local content in regulated procurement. In this connection, the information received from this Ministry was used for the analysis.

The main indicators for calculating the local content of goods are: the cost of the goods; the share of local content in the goods indicated in the certificate ST-KZ; the total cost of the contract.

When calculating the local content of work (service), along with the above indicators, the following data are also used:

- the total cost of goods purchased by the supplier or subcontractor under the contract;
- the total cost of subcontracting contracts concluded within the framework of the contract execution;
- the share of the remuneration fund of Kazakhstani personnel in the total remuneration fund of employees of the supplier or subcontractor;
- the total cost of the contract for the purchase of work (services).

### Discussion of the results

Figure 1 shows statistics on local content in the procurement of subsoil users, national companies and government agencies.

In 2019, the gap in the volume of purchases between the subjects is clearly noticeable. In 2020, the total volume of purchases for all subjects decreased, while the volume of purchases of state bodies became larger in comparison with the volume of purchases of state-owned companies. In 2021, the volume of purchases of all subjects is growing. Over the same period, the gap between subjects is narrowing, and between state bodies and state-owned companies is barely noticeable at all.

The local content in the procurement of subsoil

users and state-owned companies is growing annually, while the latter are consistently leading in this indicator. The dynamics of local content in government procurement does not have any stable trend, but by 2021 it is increasing by almost 5 percentage points. Nevertheless, the indicators of state bodies remain the worst among the analyzed subjects.

In this regard, the problems of the development of local content were studied on the example of public procurement.

According to Figure 2, government agencies acquire more and more services and works from year to year, while the demand for goods does not have stable dynamics. At the same time, the most government agencies procure works that take up more than half of the total volume of public procurement in 2020 and 2021.

However, when it comes to local content, the picture is reversed. Thus, the share of local content in goods and services in the analyzed period is steadily growing, while the demand for services is satisfied by domestic supply more than other items.

The lowest level of local content is observed in the purchases of goods, which account for only 13% of total purchases in 2021. Against this background, the purchases of works look less optimistic, the local content in which is constantly decreasing and reaches 41.7% by the end of 2021, which is 6.2 percentage points lower than in 2019. At the same time, in 2021, 4 times more works were purchased than goods.

Most of the public procurement is carried out at the level of local executive bodies (LEBs). At the same time, every year the share of purchases of LEB increases and by the end of 2021 amounted to about 85%.

The share of procurement by central government bodies, although small, has a constant positive trend in local content, the share of which increased by 18 percentage points over three years and in 2021 amounted to 51%.

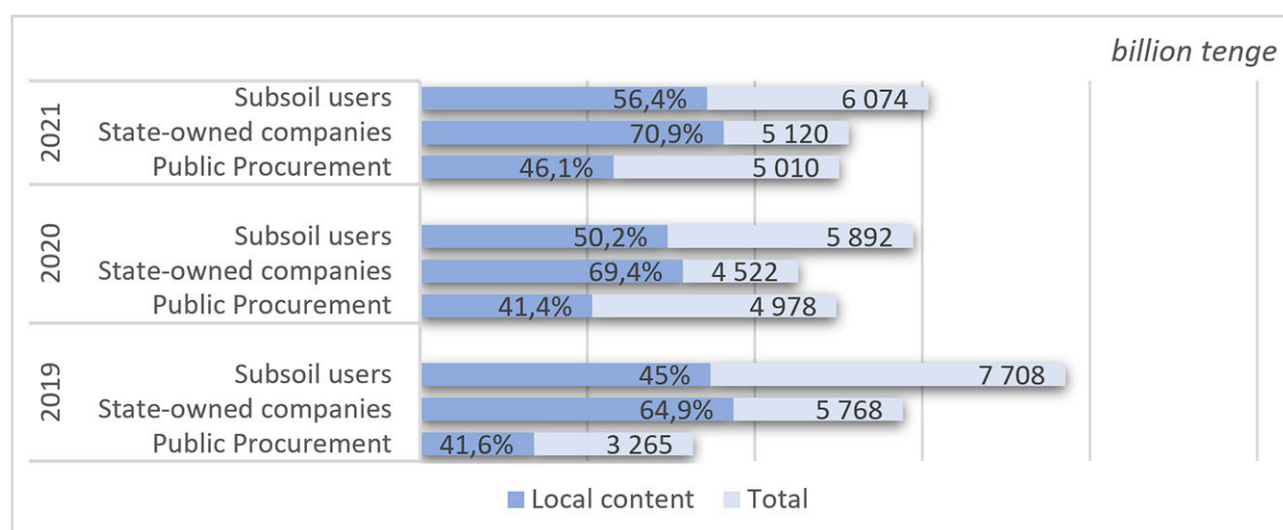


Figure 1 – Local content in regulated procurements by entities of procurement

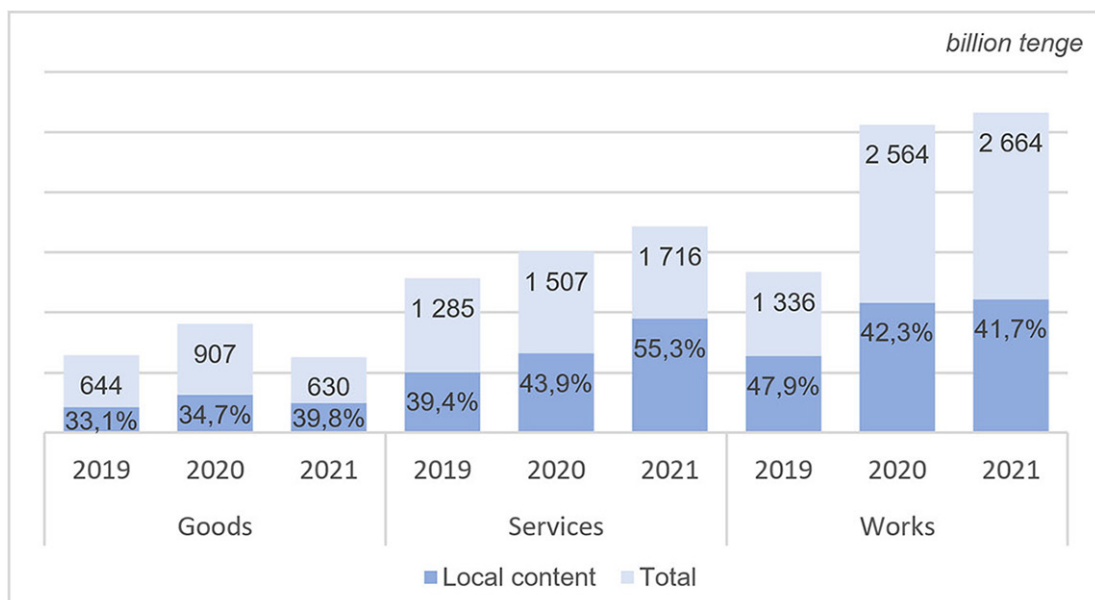


Figure 2 – Local content in public procurement by the subject of procurement

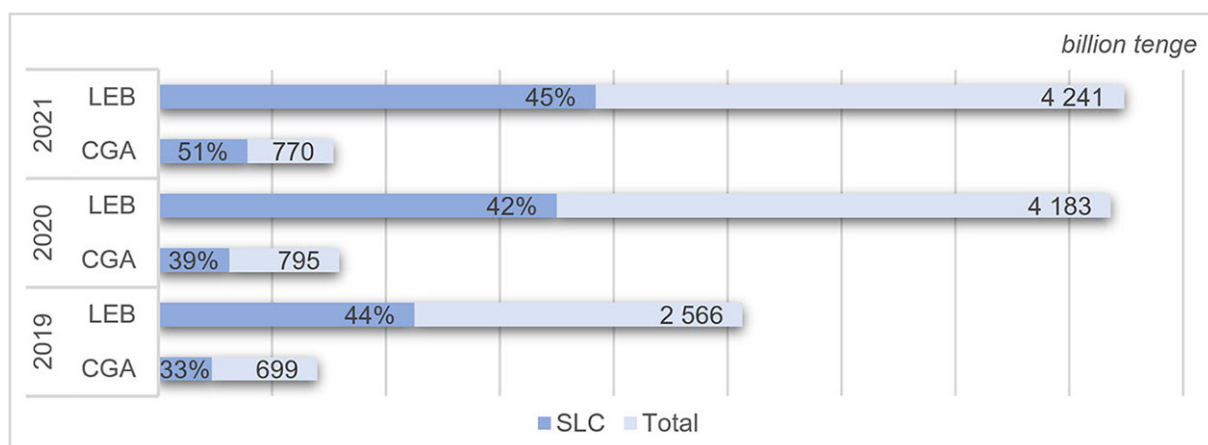


Figure 3 – Local content in public procurement by levels of government

The share of local content in the purchases of LEB shows unstable dynamics and has not changed in three years, having risen by only 1 percentage point.

A comparison of 2021 purchases between levels of government shows that CGA are in greater demand for services that make up 63% of their total purchases. At the same time, the volume of purchases of services in the CGA is comparable to the volume of purchases of goods in LEB, which do not even reach 11% of their total purchases. Most of the expenses of the LEB are related to the procurement of works with a share of more than 60% in the total volume of purchases.

At the same time, the SLC in the procurement of LEB works is only 41%, while the same indicator of the CGA is 60%. This is presumably due to the variety of purchased works at different levels of government.

However, the comparison of SLC in procurement of works by region also shows big differences (Figure 5).

Thus, the largest volume of public procurement of works falls on the LEB of Almaty and amounts to 339.1 billion tenge, which is 4.3 times more than the West Kazakhstan region, which purchased the least amount of work. At the same time, the West Kazakhstan region also shows the lowest indicator of SLC – 17%, while in the North Kazakhstan region this indicator is 77%. Perhaps this is due to the quality of reporting information or the level of communication between customers, contractors and domestic producers.

### Conclusion

As a result of the statistical analysis of local content in public procurement, the following was found:

1. Among regulated purchases, the smallest share of local content in public procurement (46.1% in 2021).
2. Public procurement of works takes up most of

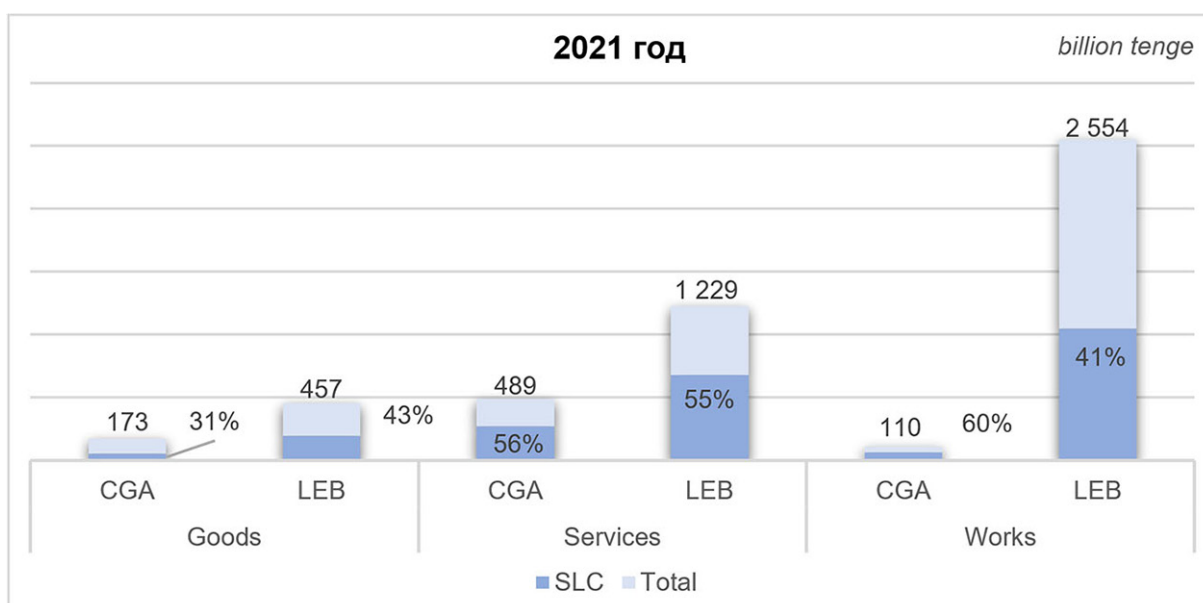


Figure 4 – Local content in public procurement of CGA and LEB in the context of the subject of procurement

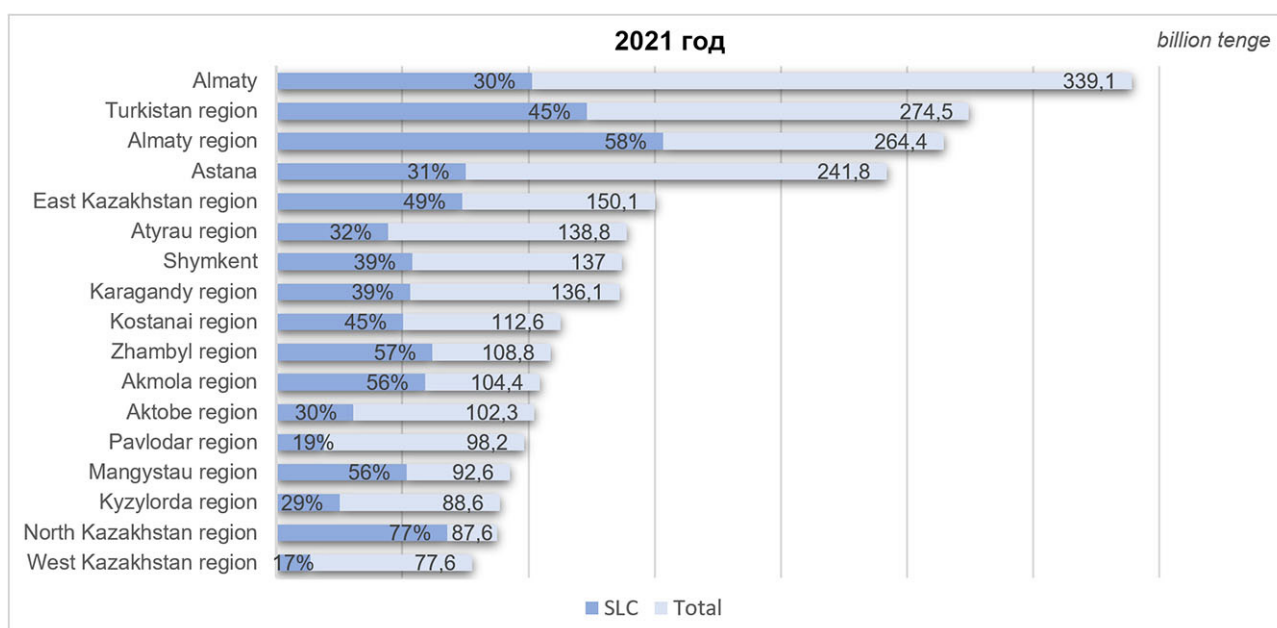


Figure 5 – Local content in public procurement of works in LEB level

the costs, while local content in them decreases annually (from 47.9% to 41.7%).

3. 85% of public procurement is carried out at the level of local executive bodies.

4. Almost the entire volume of public procurement of works falls on local executive bodies with a share of local content of 41%.

5. The share of local content in the procurement of works differs depending on the region. At the same time, the gap between the regions on this indicator reaches 60 percentage points (North Kazakhstan re-

gion – 77%, West Kazakhstan region – 17%).

Thus, more than half of government expenditures in the framework of procurement activities are implicitly directed to the development of the economy of foreign countries. The study of the problem should begin with public procurement of works at the level of local executive bodies. At the same time, it is necessary to analyze the processes of collecting statistical information and ways of communication between customers, contractors, and domestic producers to identify the causes of a large gap between regions.

REFERENCES

1. «Strategy Kazakhstan – 2050»: a new political course of the established state. 2012.
2. OECD. Public Procurement in Kazakhstan: Reforming the system in order to increase efficiency. 2019.
3. Postanovlenie Pravitel'stva Respubliki Kazahstan ot 30 iyunya 2022 goda No. 452 «Ob utverzhdenii Programmy razvitiya vnutristranovoj cennosti i eksportoorientirovannykh proizvodstv».
4. Gene M. Grossman. The Theory of Domestic Content Protection and Content Preference. The Quarterly Journal of Economics. – 1981, pp. 583-603.
5. John C. Beghin, Daniel A. Sumner. Domestic content requirements with bilateral monopoly. Oxford Economic Papers. – 1992, pp. 306-316.
6. René A. Belderbos, Leo Sleuwaegen. Local content requirements and vertical market structure. European Journal of Political Economy. – 1997, pp. 101-119.
7. Temirbekova A.B., Temirbek E.B. Podderzhka otechestvennykh tovaroproizvoditelej putyom razvitiya Kazahstanskogo sodержaniya. MNPК «Nauchnaya diskussiya postsovetskogo prostranstva: problemy i perspektivy. 2014.
8. Gimranova L.R., Pritvorova T.P., Gimranova G.I. Gosudarstvennaya podderzhka v razvitii Kazahstanskih tovaroproizvoditelej. Central Asian Economic Review. 2020;(2):37-47.
9. Zhuparova A.S. Razvitie Kazahstanskogo sodержaniya v usloviyah innovacionnogo razvitiya nacional'noj ekonomiki. Vestnik KazNU. Seriya ekonomicheskaya. No. 5 (99). 2013, pp. 57-61.
10. Ukaz Prezidenta Respubliki Kazahstan ot 27 yanvarya 2009 goda No. 733 «O nekotorykh voprosah kazahstanskogo sodержaniya pri zakupke tovarov, rabot i uslug, priobretaemykh organizatsiyami i gosudarstvennymi organami».
11. Letter of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan No. 04-3-25/19342 dated 06/16/2022

**Қазақстан Республикасының мемлекеттік сатып алуларындағы жергілікті қамтуды талдау**

<sup>1</sup>\*ЕСМАҒАМБЕТОВ Дәулет Бекбатырұлы, докторант, d.yessmagambetov@apa.kz,

<sup>1</sup>ҚҰСАЙЫНОВА Лариса Ислямқызы, э.ф.к., профессор, l.kussainova@apa.kz,

<sup>2</sup>ПЕРШКО Лариса Александровна, э.ф.д., профессор, larisa\_pershko@ukr.net,

<sup>1</sup>Қазақстан Республикасы Президенті жанындағы Мемлекеттік басқару академиясы, Қазақстан, Астана, Абай даңғылы, 33а,

<sup>2</sup>Экология, экономика және құқық институты, Украина, Киев, Тургеневская көшесі, 11,

\*автор-корреспондент.

**Аңдатпа.** Қазақстан Республикасы Мемлекеттік бюджетінің жыл сайынғы тапшылығы жағдайында мемлекеттік сатып алудың тиімділігі мәселесі өзекті болып отыр. Мемлекеттік сатып алу тиімділігінің көрсеткіштерінің бірі олардағы жергілікті қамту үлесі болып табылады. Жұмыстың мақсаты мемлекеттік сатып алуда жергілікті қамтуды дамытуды қамтамасыз ету бойынша ағымдағы жағдайға шолу және проблемалық аймақтарды айқындау болып табылады. Талдау үшін жалпыға қолжетімсіз, Қазақстан Республикасы Индустрия және инфрақұрылымдық даму министрлігінен алынған мемлекеттік сатып алулардағы жергілікті қамту туралы статистикалық деректер пайдаланылды. Талдау қорытындысы бойынша мемлекеттік сатып алулардың басым бөлігі импортталатын өндірушілермен жабылатыны анықталды. Мемлекеттік сатып алулардағы жергілікті қамту үлесіне жергілікті атқарушы органдар деңгейінде сатып алынатын жұмыстар ең үлкен әсер ететіні, және аймақтар арасында жергілікті қамту көрсеткіштерінде үлкен алшақтық проблемасы айқындалды. Нәтижесінде мәселенің болжамалы себептері көрсетілді және оны әрі қарай зерттеу бағыттары ұсынылды.

**Кілт сөздер:** жергілікті қамту, мемлекеттік сатып алу, реттелетін сатып алулар, отандық тауар өндірушілер.

**Анализ местного содержания в государственных закупках Республики Казахстан**

<sup>1</sup>\*ЕСМАҒАМБЕТОВ Даулет Бекбатырович, докторант, d.yessmagambetov@apa.kz,

<sup>1</sup>ҚУСАИНОВА Лариса Ислямовна, к.э.н., профессор, l.kussainova@apa.kz,

<sup>2</sup>ПЕРШКО Лариса Александровна, д.э.н., профессор, larisa\_pershko@ukr.net,

<sup>1</sup>Академия государственного управления при Президенте Республики Казахстан, Казахстан, Астана, пр. Абая, 33а,

<sup>2</sup>Институт экологии, экономики и права, Украина, Киев, ул. Тургеневская, 11,

\*автор-корреспондент.

**Аннотация.** В условиях ежегодного дефицита государственного бюджета Республики Казахстан все более актуальным становится вопрос эффективности государственных закупок. Одним из показателей эффективности государственных закупок является доля местного содержания в них. Целью данной работы явля-

ется обзор текущего положения по обеспечению развития местного содержания в государственных закупках и определение проблемных зон. Для анализа были использованы статистические данные о местном содержании в государственных закупках, отсутствующие в открытом доступе и полученные от Министерства индустрии и инфраструктурного развития Республики Казахстан. По итогам анализа выявлено, что большая часть государственных закупок покрывается импортируемыми производителями, а наибольшее влияние на долю местного содержания в государственных закупках оказывают закупки работ, которые осуществляются преимущественно на уровне местных исполнительных органов. Кроме того, существует большой разрыв в показателях местного содержания между регионами. В результате указаны возможные причины проблемы и предложены направления для её дальнейшего изучения.

**Ключевые слова:** местное содержание, государственные закупки, регулируемые закупки, отечественные товаропроизводители.

## REFERENCES

1. «Strategy Kazakhstan – 2050»: a new political course of the established state. 2012.
2. OECD. Public Procurement in Kazakhstan: Reforming the system in order to increase efficiency. 2019.
3. Postanovlenie Pravitel'stva Respubliki Kazahstan ot 30 iyunya 2022 goda No. 452 «Ob utverzhdenii Programmy razvitiya vnutristranovoj cennosti i eksportoorientirovannykh proizvodstv».
4. Gene M. Grossman. The Theory of Domestic Content Protection and Content Preference. The Quarterly Journal of Economics. – 1981, pp. 583-603.
5. John C. Beghin, Daniel A. Sumner. Domestic content requirements with bilateral monopoly. Oxford Economic Papers. – 1992, pp. 306-316.
6. René A. Belderbos, Leo Sleuwaegen. Local content requirements and vertical market structure. European Journal of Political Economy. – 1997, pp. 101-119.
7. Temirbekova A.B., Temirbek E.B. Podderzhka otechestvennykh tovaroproizvoditelej putyom razvitiya Kazahstanskogo sodержaniya. MNPК «Nauchnaya diskussiya postsovetskogo prostranstva: problemy i perspektivy. 2014.
8. Gimranova L.R., Pritvorova T.P., Gimranova G.I. Gosudarstvennaya podderzhka v razvitii Kazahstanskih tovaroproizvoditelej. Central Asian Economic Review. 2020;(2):37-47.
9. Zhuparova A.S. Razvitie Kazahstanskogo sodержaniya v usloviyah innovacionnogo razvitiya nacional'noj ekonomiki. Vestnik KazNU. Seriya ekonomicheskaya. No. 5 (99). 2013, pp. 57-61.
10. Ukaz Prezidenta Respubliki Kazahstan ot 27 yanvarya 2009 goda No. 733 «O nekotorykh voprosah kazahstanskogo sodержaniya pri zakupke tovarov, rabot i uslug, priobretaemykh organizatsiyami i gosudarstvennymi organami».
11. Letter of the Ministry of Industry and Infrastructure Development of the Republic of Kazakhstan No. 04-3-25/19342 dated 06/16/2022