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**Development Strategy**

**of the limited liability partnership**

**"SK-PHARMACY"**

**for 2019-2023**

**Approved by the decision of**

**the Supervisory Board**

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# INTRODUCTION

Current global health trends show that the share of health spending in the state budget is one of the critical indicators of socio-economic policy. At the same time, the costs of drug provision, both for the state budget and in terms of individual consumer spending, are among the most significant.

Over the past decade, most countries have been reforming the drug supply system in the direction of centralizing the purchase of pharmaceutical and medical products, reducing prices under various price-volume agreements, introducing a system of external and internal reference prices, regulating the rate of profit at the stages of selling medical products, and reducing VAT on them. These measures are due to the impact of the global economic crisis and the need to save budget funds.

In recent years, an increasing number of developing countries have successfully used the flexibility provided for in the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) to reduce costs and increase access to essential medicines by facilitating the local production or import of generic drugs.

A significant part of the world's countries are striving (in different ways and with different success) for universal coverage of the population with affordable medical care, including preferential provision of medicines.

The problem of drug supply in the Republic of Kazakhstan is in the center of attention of the state policy of the country and is reflected in many state documents:

Address of the President of the Republic of Kazakhstan - leader of the nation N. Nazarbayev to the people of Kazakhstan dated December 14, 2012 Strategy "Kazakhstan-2050",

Address of the President of the Republic of Kazakhstan N. Nazarbayev to the people of Kazakhstan dated January 10, 2018 "New development opportunities in the context of the Fourth Industrial Revolution",

Strategic Development Plan of the Republic of Kazakhstan until 2025, approved by the Decree of the President of the Republic of Kazakhstan No. 636 dated February 15, 2018,

Code of the Republic of Kazakhstan dated September 18, 2009 "On the Health of the People and the Health Care system" (the Code),

Resolution of the Government of the Republic of Kazakhstan No. 1729 dated October 30, 2009 "On approval of the Rules for the organization and conduct of the purchase of medicines, preventive (immunobiological, diagnostic, disinfecting) drugs, medical devices and medical equipment, pharmaceutical services for the provision of guaranteed volume of free medical care and medical care in the system of compulsory social medical insurance (RGRK 1729), and a number of other regulatory legal acts in the field of drug provision.

In addition, ensuring the availability of medicines and medical devices, their quality and safety, the development of domestic pharmaceutical production, and the financial stability of the healthcare system are identified as the main directions for the implementation of the National Drug Policy in the State Program for the Development of Healthcare of the Republic of Kazakhstan "Densaulyk" for 2016-2019, approved by Decree of the President of the Republic of Kazakhstan No. 176 dated January 15, 2016.

Thus, the creation of a Single Distributor is a clear proof that the state pays increased attention to the issues of drug supply to the population.

# ANALYSIS OF THE EXTERNAL ENVIRONMENT

# Single Distribution System

The system of Single distribution of medicines and MD within the guaranteed volume of free medical care (GVFMC) and the system of compulsory social medical insurance (CSMI) in the Republic of Kazakhstan (RK) was established in accordance with the Decree of the Government of the Republic of Kazakhstan No. 134 "On some issues on the introduction of a Single system of distribution of medicines within the guaranteed volume of free medical care" dated February 11, 2009 in order to consolidate the purchase of medicines and MD within the GVFMC.

By the Decree of the Government of the Republic of Kazakhstan No. 1781 dated November 7, 2009 , the limited liability partnership "SK-Pharmacy" (Organization, Single Distributor) is defined as a Single distributor for the purchase of medicines, MD, services for the storage and transportation of medicines, MD and the conclusion of contracts, long-term contracts, as well as the organization of the purchase of medical equipment (ME) under the GVFMC.

According to the Decree of the Government of the Republic of Kazakhstan No. 516 "On measures to implement the Decree of the President of the Republic of Kazakhstan" dated May 25, 2013, No. 571 "On certain measures to optimize the management system of development institutions, financial organizations and the development of the national economy" dated May 22, 2013, the rights of ownership and use of 100% of the state share in the Organization were transferred to the Ministry of Health of RK.

In accordance with Article 77 of the Code, the following types of activities are established as the main subject of the activities of a Single Distributor: 1) selection of suppliers; 2) conclusion of contracts for the supply of medicines and medical devices; 3) conclusion of long-term contracts for the supply of medicines and medical devices and (or) for the storage and transportation of medicines and medical devices; 4) provision of medicines and medical devices according to the list determined by the authorized body; 5) purchase of medicines and medical devices, services for storage and transportation according to the list determined by the authorized body; 6) purchase of pharmaceutical services; 7) purchase of services for the accounting and sale of medicines and medical devices; 8) organization of the purchase of medical devices within the guaranteed volume of free medical care.

The principles of procurement of medicines and medical devices are defined by the Code as following:

1) providing potential suppliers with equal opportunities to participate in the procurement procedure;

2) fair competition among potential suppliers;

3) publicity and transparency of the procurement process;

4) support of domestic producers.

In order to regulate the procedure for the purchase of drugs and MDI within the framework of GVFMC and CSMI, the Government of RK has the authority to establish the procedure for organizing and conducting the purchase of drugs and MD, pharmaceutical services and the procedure for purchasing services for the storage and transportation of drugs and MD, services for the accounting and sale of drugs and MD by a Single distributor within GVFMC and in CSMI system.

The Code defines that the purchase of medicines and medical devices intended for the provision of GVFMC and medical care in CSMI system is carried out in accordance with the procedure and methods established by the Government of the Republic of Kazakhstan, including through the web portal for the purchase of medicines and medical devices.

The Code does not provide for the conditions for the purchase of storage and transportation services, accounting and sale of medicines and medical devices through the procurement web portal.

The creation, development, maintenance and system maintenance of the web portal for the purchase of medicines and medical devices is carried out by a single operator in the field of procurement of medicines and medical devices.

# Social and economic trends

According to the data of the National Bank, the interest rates of banks on attracted deposits of legal entities in the national currency (tenge) in 2018 were in the range from 6.8 to 7.6% per annum. At the same time, over the five – year period 2013-2018, the rate increased by 2 times (the average annual value from 3.7% in 2013 to 7.19% in 2018) with a maximum value in 2016 of 13.6% (the peak in January of 29.3%).

As for foreign currency deposits, in the same period, the rate fell by half - from 2.2% in 2013 to 1.1% in 2018, where the maximum rate was observed in 2015 at 2.4% per annum (in November, 3.3%).

GDP growth in January-September 2018 was supported by positive dynamics in all sectors of the economy. The largest contribution to the growth of the economy was made by the mining industry (4.9% growth in production volumes), manufacturing (5.1%), wholesale and retail trade (6.7%), transport and warehousing (4.6%), real estate operations (2.3%).

According to the Statistics Committee of MNE RK, 92.6 billion tenge of investments were attracted to the healthcare sector in January - November 2018, including 38.9 billion tenge of extra-budgetary funds.

The index of the physical volume of investments in fixed assets in 2018 compared to the corresponding period of 2017 was 118.7 %.

The system of health care financing is being improved on the basis of the principle of universal health care coverage, including through the elaboration of issues of improving the tariff policy and reimbursement of depreciation of fixed assets and the co-payment mechanism.

The main measures are aimed at diversifying the sources of financing by involving all social partners (the state, employers and citizens), ensuring balance and financial stability in the framework of the introduction of mandatory social medical insurance. PHC is a priority area of funding.

The practice of using the PPP mechanism in the construction of social facilities in healthcare and education will continue.

The volume of healthcare financing in 2018 amounted to 1 trillion 72 billion 856 million tenge against 1 trillion 30 billion 325 million tenge in 2017 - an increase composed 42.5 billion tenge or 4%.

The amount of GVFMC in 2018 amounted to 954 billion 671 million tenge, that exceeded the indicator of 60 billion 204 million tenge or 6.7% in 2017.

A National screening program is being implemented to identify diseases that are the main causes of death and disability early. In 2017, taking into account the recommendations of international experts, the age group of the population subject to screening was expanded to 70 years, the frequency of screening examinations was increased, and the coverage of target groups will increase from 70% to 90% by 2022.

For 9 months of 2018, 9,481,767 screening examinations of target population groups were conducted, 714,945 (7.5%) were identified, and 341,503 (47.8%) were registered at the dispensary. Including, examinations of children - 3,998,813, identified – 454,797 (11.4%), taken on dispensary registration - 140,927 (32.4%).

The incidence rate of diseases of the circulatory system for 9 months of 2018 increased by 6.3% and amounted to 2674.8 per 100 thousand of the population against 2516.4 for the same period of 2017.

For 9 months of 2018, the incidence rate of malignant neoplasms increased by 1% and amounted to 192.4 per 100 thousand of the population against 190.5 for the same period of 2017.

For 9 months of 2018, the number of accidents, injuries and poisonings decreased by 12% and amounted to 2793.4 per 100 thousand of the population against 3174.7 for the same period of 2017.

The work on the prevention of infectious diseases continues, preventive and anti-epidemic measures are carried out on a regular basis.

In Kazakhstan, immunoprophylaxis is one of the priority areas of preventive health care. Thanks to vaccination, the Republic of Kazakhstan has achieved an epidemic benefit for vaccine-controlled infectious diseases.

Every year in Kazakhstan, about 5 million people are vaccinated against infectious diseases, including 1.3 million children . In order to provide children with vaccines of guaranteed quality, WHO-certified vaccines are purchased in Kazakhstan.

The provision of high-quality, safe and effective medicines and medical devices is carried out by improving the pharmaceutical inspectorate and pharmaceutical inspections on appropriate pharmaceutical practices and the system for ensuring the safety, quality and effectiveness of medical devices, pharmacovigilance and monitoring the safety, quality and effectiveness of medical devices, the introduction of a tracking system for medical products.

In order to ensure timely and uninterrupted supply of medicines to the population, work on the automation of the drug supply system, the transition to electronic prescriptions, the introduction of a price control system for all medicines, and support for domestic pharmaceutical manufacturers is being provided.

In general, in the field of transport and logistics, Kazakhstan is involved in many projects, including international ones. The cooperation of the authorized agencies and organizations continues within the framework of the project on the formation of the road infrastructure of the International Transport Route "Western Europe — Western China". As a result of the commissioning of the Kazakh and Chinese sections of this route, a record volume of cargo — 2.1 million tons - was transported by road through the territory of Kazakhstan over the past 5 years.

For 11 months of 2018, capital investments in the transport and logistics sector amounted to 1.2 trillion tenge, which is almost 12% more than in the same period a year earlier (PVI - 106%). The main investment resources in the field of transport and warehousing are the business ' own funds (34% of the total investment portfolio of the industry), borrowed funds (28.8%) and the republican budget (18.6%).

# Pharmaceutical market analysis

The volume of the retail market of medicines in 2018 amounted to 833 million US dollars (in distribution prices). According to the report of the international analytical company IQVIA, the growth rate of the market volume in value terms slowed from 10.3% to 5.1%, and in physical terms, the sales growth rate accelerated to 10.6%.

One of the reasons for the slowdown in sales in the market in value terms is a significant reduction in sales of expensive drugs priced at $ 20 and above. Thus, the volume of sales in the most expensive price range in 2018 decreased by 14.1% compared to 2017. The market has lost at least $ 5.5 million as a result of the impact of this trend.

The reason for the acceleration of sales in physical terms was an increase in sales in the low-cost price segment to $ 1 by 13.6% in packages, which had a positive impact on the dynamics of sales in packages. In 2018, in absolute numbers, the market in this segment increased sales by 42.8 million packages of drugs more than in 2017.

In 2018, drug prices remained virtually unchanged in US dollars (the Paasche Index for 2018 was 0.06%). The slowdown in the growth rate of drug prices is due to the growth in the value of the US dollar, which on average in 2018 increased by 5.7% against the tenge, as a result of which the market lost up to 56 million US dollars. The slowdown in the rate of price growth was the second reason for the slowdown in the rate of sales growth in the US dollar market.

Prescription drugs continue to form the basis of the market in value terms and account for 59.1% of the total volume. In 2018, the market share of prescription drug sales increased from 58.3% to 59.1% in US dollars. The prevailing growth rate of sales of prescription drugs in both monetary and physical terms had a major impact on the positive dynamics of sales growth in the market.

The main contribution to the positive dynamics of market sales in value terms was made by antibiotics for systemic use due to an increase in sales in 2018 by 8.68 million US dollars. According to the results of sales in 2018, the main consumer demand was for drugs in the price range of up to $ 5 (63.1% in money and 95.2% in packages).

The following drugs had a significant impact on the market growth in US dollars for 2018: Systemic antibacterial drugs (15.7%), Anti-inflammatory and anti-rheumatic drugs (8.9%), Antiseptics and disinfectants (6.7%), Antidiarrheal, intestinal anti-inflammatory / anti-infectious drugs (5.8%), Other drugs for the treatment of gastrointestinal diseases and metabolic disorders (4.9%), Drugs for the treatment of eye diseases (4.4). At the same time, these groups of drugs were not included in the TOP 15 groups of drugs in terms of market share: antiseptics and disinfectants (market share of 1.9% in US dollars) and drugs for the treatment of gastrointestinal diseases and metabolic disorders (market share of 1.4% in US dollars).

The analysis of pharmacy sales of distributors showed that out of 13 groups of drugs according to the ATC classification, which since 2016 were sold at a rate higher than the market average in physical terms, antifungal drugs, drugs for the treatment of itching, hypolipidemic agents, and appetite stimulants became the largest sales volume in packages.

The drug market in 2018 remains import-dependent (the market share is 92%) in US dollars. Imported products sold in Kazakhstan in 2018 were produced mainly in the European Union (market share of 56.2% and in the TOP 15 countries 44.4% in money). However, products manufactured in Kazakhstan on the market sold well (sales growth rate of 16%) in 2018, which increased Kazakhstan's market share from 7.55% to 8.32%.

The market leader in terms of value remained the same. The main share belongs to Germany at 16.2% in US dollars. Turkish products showed a significant growth rate of sales in physical terms (sales growth of 40.5%). Kazakhstan became the leader of the manufacturing countries that had a positive impact on the growth of sales in the US dollar market in 2018 in terms of value.

Dynamic sales growth in physical terms was developed by 16 manufacturing countries, the TOP 5 of which are: Moldova, Finland, Uzbekistan, Cyprus, Japan, etc. The countries with the largest sales volume in packages were Turkey, Spain, and Egypt.

The leader in the rate of sales development in terms of value is the company "WORLD MEDICINE". The leader is followed by the companies "SANTO" and "NOBEL".

According to the sales growth rate in value terms, brand "Ibufen®" from the company "SANTO" stood out (sales growth of 46.5% in US dollars).

Metrogil, Creon, Actovegin, Otryvin, Smecta - are the first brands in terms of sales in packaging, demonstrating dynamic growth from year to year.

The main drug markets are located in 4 cities of Kazakhstan - Almaty, Karaganda, Astana and Shymkent. Together, the 4 cities formed a market share of 55.2% in value terms. The largest decrease in sales occurred in 2018 in Almaty, and amounted to 21 million US dollars.

Thus, 2018 showed the strength of the negative impact of the growth in the value of the US dollar and the devaluation expectations of the population. Market growth in 2018 compared to 2017 slowed to 5.1%. Given the acceleration of the growth rate of the value of the US dollar in 2019 (up to 10.7%), the market is expected to slow down to 2% compared to 2018 in US dollars (positive forecast). The main risk for the drug market in 2019 may be the introduction of state regulation of prices for the retail sale of GLS. The most pessimistic scenario is a 3.9% reduction in the market in US dollars.

# A Single distributor in the system of compulsory social medical insurance

The Social Health Insurance Fund (SHIF, the Fund) is the financial operator of the state for the purchase of services of the basic package of medical services of GVFMC and CSMI to the population of the country within the framework provided for by the law No. 405-V "On Compulsory Social Medical Insurance" dated November 16, 2015 (hereinafter - the Law of CMI).

In accordance with Article 7 of the Law of CMI, the provision of medicines and MD is carried out when providing:

outpatient care - in accordance with the list of medicines and medical devices approved by the authorized body for free and (or) preferential outpatient care for certain categories of citizens with certain diseases (conditions);

inpatient and inpatient replacement care - in accordance with the drug forms of health organizations.

Payment of the cost of medicines and medical devices within the framework of GVFMC and CSMI system is regulated by the Rules for payment of the cost of pharmaceutical services to entities in the field of circulation of medicines, medical devices and medical equipment, approved by order of the Acting Minister of Health of the Republic of Kazakhstan No. 138 dated March 29, 2018 (Rules 138).

According to Rules 138, within the framework of outpatient drug provision (ODP), the Fund pays the cost of pharmaceutical services according to the list of a Single Distributor for the pharmaceutical services actually rendered by the subjects or organizations of healthcare providing ODP, within the funds provided for in the plan for the purchase of medical services under GVFMC on the ODP at the expense of the transfer transferred to the fund from the republican budget in order to pay for the provision of services under GVFMC and (or) the assets of the fund.

The centralized purchase of a Single distributor of drugs and MD in the framework of inpatient care is financed from the budgets of hospitals, which in turn are financed by paying for the medical services provided by them to the population within the framework of the CSMI on the basis of the principle of clinical cost groups.

However, from January 1, 2020, amendments and additions to the Code will come into force, where, in accordance with the Law of the Republic of Kazakhstan No. 208-VI "On amendments and additions to certain legislative acts of the Republic of Kazakhstan on health issues" dated December 28, 2018, a definition of co-payment will be given. According to this definition, co-payment is the payment of the difference in the cost of drugs, MD and the established maximum price of their compensation under the GVFMC and in the CSMI system. At the same time, the function of developing and approving the rules for making co-payments is assigned to the authorized body.

In this regard, within the framework of the project of the Ministry of Health of RK "Social Health Insurance", conducted jointly with the World Bank Group (WB), one of the objectives of the project is "Strengthening the mechanisms for the procurement of medicines and medical technologies", which is planned to be implemented in 2020. As part of this task, the WB consultants will present recommendations on the introduction of co-payment for medicines, MD, provided to citizens under the GVFMC/CSMI and on improving the mechanisms for their purchase.

Thus, starting from 2020, the function of centralized procurement of a Single distributor of medicines and MDI to provide medical organizations with GVFMC and medical care in the CSMI system will undergo significant changes due to the introduction of a co-payment mechanism.

The introduction of a co-payment mechanism carries some risks for a Single Distributor. The financing of the purchase of a Single distributor will depend on the list of drugs (groups of anatomical-therapeutic-chemical classification), MD recommended for co-payment, which may lead to a reduction in the names of the List of drugs and MD to be purchased through a Single distributor, in connection with which the company's production volumes may significantly decrease.

# The impact of the Eurasian Economic Union on the Single Distribution System

The opportunities and threats of the Eurasian Economic Union (EAEU) for the Single Distribution system arise as a result of the launch of the common market of medicines and MD starting from January 1, 2016:

Potential opportunities

* The adoption of relevant regulatory documents (uniform rules for registration, labeling, instructions for the use of medicines, etc.) will contribute to ensuring uniform requirements for the safety and quality of medicines in the territory of the EAEU;
* For the purpose of circulation of medicinal products on the common market, manufacturers will be given the opportunity to choose a reference state for the implementation of the procedure for registration of medicinal products;
* Expansion of the sales market for domestic producers (DP).

Potential limitations (threats)

* A limited market for medical products within the territories of the EAEU member states. Medicines that are not registered in accordance with the procedure established by the Eurasian Economic Commission and are not included in the Single Register of Medicines will be sold only on the national markets of the EAEU member states;
* The Agreement on common principles and rules for the circulation of medicines within the framework of the Eurasian Economic Union (hereinafter referred to as the Agreement) provides for categories of medicines that are not subject to registration within the EAEU;
* The division of the drug market according to the territorial principle (for example, the sale of drugs on the territory of only one member state of the EAEU), may contradict the principles of competition within the EAEU;
* The risk for DP is not to supply in some cases competitive products in sufficient volume and quality;
* The interaction of the member states of the common drug market should not contradict the general rules of competition. Otherwise, it may lead to:

1. setting or maintaining prices (tariffs), discounts, surcharges, mark-ups;
2. increase, decrease or maintain prices at auction;
3. the division of the market according to the territorial principle;
4. reduction or termination of production of goods;
5. refusal to enter into an agreement with certain sellers (buyers).

Increasing the risk of counterfeit goods entering the Kazakhstan market. Thus, the share of counterfeit goods in the Russian pharmaceutical market reaches 20%.

The above-mentioned threats primarily apply to the existing mechanisms of support for DP, including the preferences provided for by RGRK 1729 for the purchase of medicines, MD and MT under the GVFMC. So, on November 30, 2018, the authorized representatives of the member States of the Eurasian Economic Union held consultations (Protocol No. 25-35/pr). At these consultations, the issue of Kazakhstan's non-compliance with the provisions of the Agreement in terms of providing Russian goods and their suppliers with a national regime when placing a state order for the purchase of medicines and medical devices was raised.

The issue of combating counterfeit products in the territory of the Republic of Kazakhstan will require special attention and study.

# State material reserve system

One of the measures of mobilization training is to ensure the effective and trouble-free operation of the state material reserve system. However, as law enforcement practice shows, not all provisions of the current management system of the state material reserve are effective.

A serious problem here is the inefficiency of the current system of refreshing the material values of the state material reserve before the expiration of their storage periods, which leads to the unfitness of the goods and to their further disposal and destruction.

Currently, there are difficulties in updating the material values of the mobilization reserve of the health system, since there are no legislative mechanisms for obtaining a license for the purchase and sale of medicines by the authorized body in the field of the state material reserve, medicines have limited shelf life (storage), and the market is filled with drugs of better quality compared to those stored in the mobilization reserve.

The analysis of international experience shows that the institution of the state material reserve is widely in demand as a tool for overcoming various resource constraints in the event of exacerbations of the military-political situation, in the event of natural disasters and man-made disasters, and in the event of adverse changes in the economic situation. Such insurance is becoming particularly relevant at the present time, when globalization and the rapid development of technology act as factors for the growth of the diversity and intensity of risks.

In the world, there are two main approaches to creating reserves – reserving directly by the state (state reserves) and imposing reserve obligations on private companies (commercial reserves).

State reserves exist in most countries, including all the CIS countries, the United States, China, South Korea, Germany, Italy, Switzerland, etc. The state reservation model is able to respond quickly to changes in the situation, makes it possible to quickly use large volumes of goods, provides full control over their availability and condition, and avoids interference in the activities of private companies. State reserves can be used in cases where attracting business is difficult due to its commercial disinterest: for example, to protect the population from sharp price spikes and to support unprofitable, but strategically important sectors of the economy.

The attractiveness of commercial reserves is that they do not require budget expenditures. However, commercial reserves may entail limited control over the implementation of the requirements for reserves by the state and the risk of unreliability of information about the volume and quality of reserves, as well as direct interference in the economic activities of companies. To solve this problem, in a number of countries, reserves created at the expense of private companies are transferred to the management of specially created organizations-operators accountable to the state. A commercial reserve model exists in a number of countries, such as France and Japan, and is usually used to stabilize markets and ensure the smooth operation of industries, but they mostly function as a supplement to government reserves.

One of the main tasks when operating the state material reserve is its timely refreshment. In Germany, to refresh the federal state material reserve, an online auction is held for buyers from Germany and neighboring countries.

In the practice of the CIS member states, storage in secure storage facilities with the possibility of self-refreshment is quite widely used. Thus, the Russian legislation provides that the refreshment of the reserves of the state reserve held by the responsible custodians and the replacement of the material values of the state reserve are carried out by the responsible custodians independently, without attracting additional budget funds. Moreover, for certain types of material assets of the state reserve, a different procedure for refreshing the reserves and replacing the material assets of the state reserve may be established.

In the Republic of Belarus, article 12 of the Law "On State and Mobilization Material Reserves" provides that the refreshment and replacement of material values of the mobilization material reserve with a gap in time can be carried out by responsible custodians with the permission of the State Reserve.

This practice also corresponds to the provisions of the Model Law "On the State Material Reserve", approved by the resolution of the Interparliamentary Assembly of the CIS Member States dated November 18, 2005, according to which the refreshment of the material values of the state material reserve, as well as their replacement, is carried out independently by organizations that carry out responsible storage.

The foreign practice of managing the mobilization reserve deserves attention. The legislation in the field of the state reserve of Belarus, Azerbaijan, and Tajikistan provides that the formation and accumulation of material values of the mobilization reserve is carried out by sectoral state bodies. The transfer of functions for the formation of the material values of the mobilization reserve to state bodies that have mobilization tasks will help to raise the share of the material values of the mobilization reserve provided for by the Nomenclature of the mobilization reserve, i.e. create a sufficient amount of material assets of the mobilization reserve to meet the needs of the Armed Forces, other troops and military formations during the period of mobilization, martial law and in wartime.

In Spain, the ministries and departments of the country monitor the movement and availability of basic goods and materials on a daily basis, including food, which are located in retail stores, various industries, etc. If necessary, the government can gain control over these materials and goods. The temporary use of funds (transport, buildings, etc.) is provided for in the Law "On Civil Protection in the Event of Emergencies or Disasters".

Based on the above, there was a question of transferring the function of forming, storing and refreshing the material values of the mobilization reserve of the health system to the authorized body in the field of health and a single distributor, which will require amendments to the Code "On Health and the Health System" and the Law "On Civil Protection".

In this regard, the activities of a Single Distributor should be aimed at developing its own model of logistics infrastructure that meets the best practices of the GDP, which carries additional financial risks for the Organization.

# PEST – ANALYSIS

| **№** | **Weight** | **THE FACTOR AND ITS INFLUENCE**  **(+) opportunity**  **(-) threat** | **CHANGES IN THE INDUSTRY** | **CHANGES IN THE COMPANY** |
| --- | --- | --- | --- | --- |
| **Р** |  | **POLITICAL FACTORS** | | |
| Р-1 | 0,22 | (+) The regulatory norms of the SD system ensure the timeliness and transparency of the drug supply of the population | It will allow for an effective distribution of funds for drug provision | Development of opportunities and development of new mechanisms to ensure savings of public funds and ensure timely delivery of pharmaceutical products to customers |
| Р-2 | 0,20 | (+) Expanding the scope of the SD activities in terms of developing its own warehouse logistics | Optimization of the state health infrastructure by merging special medical supply bases and improving the social situation of employees of special medical supply bases and qualitative changes in the special medical supply service as a whole | Creating its own distribution networks and ensuring control over sales channels through the development of its own logistics system, which will allow a Single distributor to carry out the full cycle of the technological chain of production from procurement to delivery and monitoring of the products supplied by it |
| Р-3 | 0,07 | (+) Entering the pharmaceutical market of the Eurasian Union countries | Development of practical cooperation in the areas of ensuring the effective functioning of the common market of goods, services, capital and labor resources, harmonization of national legislation in the field of healthcare, as well as their unification, promotion of domestic manufacturers of medicines and MD | Entering the market of the EAEU countries as a distributor of medicines that meet the standards of good pharmaceutical practices and medical devices (medical devices and medical equipment) |
| Р-4 | 0,13 | (-) Introduction of price regulation for all medicines | The regulation of prices for all medicines will allow to keep prices in this corridor, there will be a lever and obligations for these companies not to raise prices beyond the limits that will be set by the state. Also, it will allow to switch to the co-payment mechanism in the future and get away from centralized procurement procedures | It may lead to a reduction in the names of the List of drugs and MD to be purchased through a Single distributor, and therefore the company's production volumes will significantly decrease. In the worst case, the exclusion of purchasing through a Single distributor |
| Р-5 | 0,08 | (-) Not all types of procurement are implemented through the web portal | The current regulations do not provide for all types of procurement in the field of medical supply in electronic format, which contributes to the emergence of corruption risks, the delay in procurement procedures, the lack of reliable and complete information on the volume of procurement of pharmaceutical products under the GVFMC, the restriction of healthy competition and uneven availability of medicines and MD under the GVFMC to the population of Kazakhstan | Keeping the procurement methods on paper creates inconveniences for the work of all procurement participants, the appearance of violations in the procurement process on the part of the procurement organizers, delays all procedures and restricts the access of procurement participants to the accumulated information |
| Р-6 | 0,08 | (-) The RLA cannot be fully implemented | Ineffective and constraining component for rapid response to changes in trends in the field of drug provision | Delaying the approval of changes to the rules governing the provision of medicines, which can lead to untimely procurement procedures and disruption of the delivery of pharmaceutical products to the customer, increasing social tension among patients |
| Р-7 | 0,05 | (-) The norms for defining the size of the SD margin do not have a clear justification | Inefficient budget planning within the framework of the GVFMC | The formation of the purchase price of a single distributor creates conditions under which there is an unjustified underestimation of prices for suppliers, which entails reputational risks for the company |
| Р-8 | 0,03 | (-) Transfer of the SDS to the management of the MHIF | Centralization of the purchase of health care services | Loss of independence of the Organization and control over revenue |
| **Е** |  | **ECONOMIC FACTORS** | | |
| Е-1 | 0,06 | ( + ) Increase in the financing of GVFMC | Increasing the coverage of the population with GVFMC | Increase in the company's assets |
| Е-2 | 0,03 | ( + ) Economic situation predictability and strategic stability | Stability of the main strategic directions in the healthcare sector | The ability to mitigate the company's risk events and implement a positive risk system |
| Е-3 | 0,03 | ( + ) Transport, warehousing and retail trade contributed to Kazakhstan's GDP growth | Development of the logistics infrastructure of the healthcare system | Development of the Organization's own logistics infrastructure |
| Е-4 | 0,09 | (- ) Growth of inflation and reduction of interest rates of banks on foreign currency deposits | Increase in prices for health services and goods | Decrease in the company's profitability indicators |
| Е-5 | 0,05 | (- ) Strong exchange rate growth in the next 5 years |
| Е-6 | 0,04 | (- ) Increase in the cost of transport services |
| **S** |  | **SOCIAL AND CULTURAL FACTORS** | | |
| S-1 | 0,13 | ( + ) Effective budgeting of GVFMC | Increasing the coverage of the population with GVFMC | Increase in the company's assets |
| S-2 | 0,09 | ( + ) Changes in the structure of morbidity and mortality of the population | Reallocation of GVFMC funds to socially significant nosologies | Increase in the volume of purchase of medicines and MD in certain categories and nosologies |
| S-3 | 0,07 | ( + ) Implementation of the medical product monitoring system | The openness of all processes of selling medical products, ensuring their economic accessibility, as well as the elimination of counterfeit products in the pharmaceutical market | Improving the forecasting of demand for drugs and MD, reducing the cost of their storage, as well as effective planning of the material base. Introduction of the principles of personalized accounting of medicines in the framework of GVFMC |
| S-4 | 0,06 | ( + ) Positive dynamics of demographic indicators in cities of national significance | Shift of funding within the framework of the GVFMC to cities of national significance | Increase in the volume of purchase of medicines and MD in certain categories and nosologies |
| S-5 | 0,03 | ( + ) Active vaccination program to reduce vaccine-controlled infectious diseases | Reducing morbidity and mortality rates | Increase in the volume of purchase of ARV drugs |
| S-6 | 0,11 | (- ) Implementation of the patient co-payment mechanism | Decentralizing the purchase of medicines and MD according to the list of nosologies whose services will be subject to co-payment | It may lead to a reduction in the names of the List of drugs and MD to be purchased through a Single distributor, and therefore the company's production volumes will significantly decrease |
| S-7 | 0,08 | (- ) Inefficient planning of medical product requirements by customers | Inefficient spending of funds intended for the provision of services under the GVFMC | Untimely provision of medicines and MD to the population, unfavorable image of the company |
| **Т** |  | **TECHNOLOGICAL FACTORS** | | |
| Т-1 | 0,18 | ( + ) Development of logistics companies ' infrastructure capabilities through production automation | Optimization of the state health infrastructure by merging special medical supply bases and improving the social situation of employees of special medical supply bases and qualitative changes in the special medical supply service as a whole | Formation of its own product distribution networks and ensuring control over sales channels through the development of its own logistics system, which will allow a Single distributor to carry out the full cycle of the technological chain of production from procurement to delivery and monitoring of the products supplied by it |
| Т-2 | 0,03 | ( + ) Formation of innovative logistics concepts and management tools |
| Т-3 | 0,06 | ( + ) Development of logistics infrastructure (transport, warehousing, storage) and increasing the attractiveness of the logistics market in Kazakhstan |
| Т-4 | 0,03 | ( + ) The concept of "Thrift" has a positive impact on the profitability of the company | Development of information technologies in the field of healthcare | Automation of the company's business processes |
| Т-5 | 0,04 | (- ) Healthcare supply chain technologies are not configured efficiently | Lack of reasonable norms for calculating the logistics services of medicines and MD purchased within the framework of the GVFMC | Non-transparent conditions for purchasing logistics services |
| **0,78** | | **Total assessment of the THREAT impact (62.3%) (37.7%)** | | |
| **1,29** | | **Total assessment of the OPPORTUNITY impact (62.3%)** | | |

The analysis allows to assess the impact of external factors on the activities of a Single Distributor. Taking into account the estimated significance of the selected factors, it can be concluded that the total assessment of the threat impact (0.78) is lower than the total assessment of the opportunity impact (1,29).

The most significant factors among the threats are:

Introduction of price regulation for all medicines (0.13),

Implementation of the co-payment mechanism (0.11),

Growth of inflation and reduction of interest rates of banks on foreign currency deposits (0.08),

Not all types of purchases are implemented through the web portal (0.08),

RLA cannot be fully implemented (0.08),

Inefficient planning of needs for medical products by medical organizations (0.08).

The most significant opportunities are:

SDS provides timely and transparent drug supply to the population (0.22),

Expanding the scope of the ED activities in terms of developing its own warehouse logistics (0.20),

Automation of production - is the key to the development of logistics infrastructure (0.18),

Effective budgeting of GVFMC (0.13),

Changes in the structure of morbidity and mortality of the population (0.09).

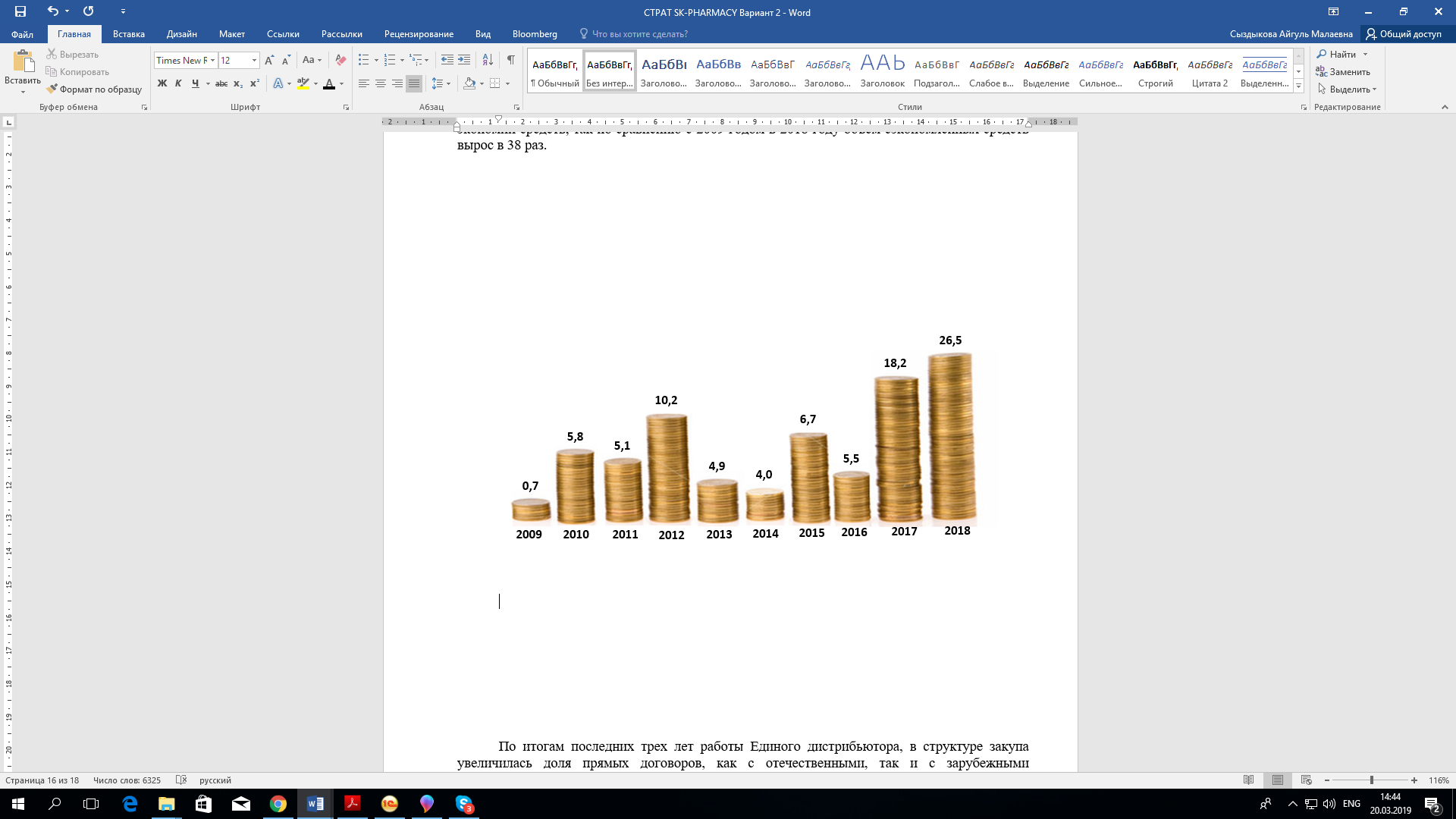
# ANALYSIS OF THE INTERNAL ENVIRONMENT

# Production activities

According to Vi-ORTIS company, the structure of the pharmaceutical market by sales channels in value terms, the purchase of medicines through the single distribution system amounted to 40% and medical products to 50%.

As a result of the work of a Single Distributor, for the period from 2009 to the present, medicines and medical devices were centrally purchased in the amount of about 851.2 billion tenge or $2.5 billion.

Since the creation of the SD, the total savings allocated for drug provision in the framework of the GVFMC amounted to 87.6 billion tenge. There is a tendency to increase savings, so compared to 2009, in 2018, the amount of savings increased 38 times.



**billion tenge**

Following the results of the last three years of operation of the Single Distributor, the share of direct contracts in the procurement structure has increased, both with domestic and foreign manufacturers, including with international organizations such as UNICEF and UNDP.

One of the tasks assigned to "SK-Pharmacy" LLP is to support domestic developments and the development of a competitive pharmaceutical industry. So, according to the results of the purchase for 2018, the first place in terms of the share in the total purchase volume fell on domestic products, the second place was purchased by German customers. The largest savings on the results of the purchase were obtained thanks to Indian drugs (65% of the money saved on the results of the purchase from the original purchase price offered by a Single distributor).

It is planned that the implementation of projects under long-term contracts will increase the volume of purchases of domestic pharmaceutical products in the system of a Single Distributor to 73 billion tenge by 2022.

The purchase of medicines for medical organizations within the framework of free outpatient drug provision (ODP) for the population of the country by a Single distributor has been carried out since 2018. Until January 1, 2018, the purchase of medicines for patients registered at the dispensary was carried out by local public health authorities.

The expenses for the treatment of the top 10 nosologies account for 68% of the total expenditure on drug provision within the allocated budget funds for ODP.

At the same time, as a result of the centralization of ODP, the following main problems were identified:

- incorrect formation of the need for medicines by medical organizations;

- poor-quality data entry into information systems;

- untimely introduction of dispensed prescriptions into the Information System of Drug Provision (ISDP) (the number of prescriptions issued exceeds the number of dispensed prescriptions by 2 times).

It is worth noting that according to the results of the activities in the warehouses of the single distributor, a rolling balance is formed, which represents the drugs and MD accepted in the past financial years from suppliers to the warehouse of the single distributor, including those unrealized by customers from the non-reduced stock.

The analysis of the rolling stock over a 5-year period shows an annual increase in the number of drug/MD names of the rolling remainder. So, in 2014, the number of positions of the rolling stock was 164 drugs/MD, in 2015 - 343 drugs/MD (the growth rate in 2014 was 2.09), in 2016 the number of positions of the rolling stock was 13 drugs/MD, in 2017 - 44 drugs/MD (the growth rate by 2016 was 3.38) and in 2018 the number of names increased by 3.39 times and amounted to 147 drugs/MD.

Special attention should be paid to the creation of an irreducible supply of vital medicines in case of temporary interruptions in supply. The minimum stock of a Single Distributor is formed and purchased based on the results of the purchase of the previous year in the amount of 10% of the total volume of medicines and medical devices. Its formation is based on the principles of need, optimization, rationality, the targeted nature of the appointment and the principle of efficiency. The target settings of the order of formation and use of the irreducible stock are reduced to the rules 7 "Right" (the right product, in the required quantity, the specified quantity, in the right place, at the specified time, for a specific consumer, at the lowest cost).

Thus, since its foundation, the Single Distributor has fully justified itself as a tool for minimizing risks, "safety cushions" due to centralized procurement, restraining the growth of prices for pharmaceutical products within the framework of the GVFMC and in the CSMI system, reducing the share of intermediaries in the form of local commercial distributors.

# Financial indicators

The single distributor was created in order to increase the stability and competitiveness of the pharmaceutical industry of RK and does not have the main goal of generating revenue. MHRK, as the sole participant, exercises the rights of ownership and use of 100% of the stake in "SK-Pharmacy" LLP and represents the interests of the state. At the same time, the income from the activities is distributed in accordance with the legislation, the Charter of "SK-Pharmacy" LLP and the decisions of the Sole Participant.

"SK-Pharmacy" LLP operates at the expense of the mark-up of a Single Distributor, established by the authorized body in differentiated percentages on a regressive scale.

The Sole Distributor's own funds are formed and consist of the authorized capital, profit from the sale of drugs and MD, and other income not prohibited by the legislation of RK. The formed authorized capital at the expense of the republican budget is 700 million tenge.

Over the past 5 years, there has been an increase in the total amount of the Organization's income by an average of 19%, compared to 2014, the total amount of the Organization's income has increased by 2 times. The amount of consolidated revenue at the end of 2018 is 6% lower than the results of 2017.

For the period from 2014 to 2018, there is a 2-fold increase in the total expenses of the Organization.

In 2018, the total expenses of the Organization exceeded the figures of 2017 by 21%:

- the indicator of the cost of products sold in comparison with the same period last year increased by 19% due to an increase in the volume of purchase of medicines, MD in the framework of the centralization of ODP;

- general administrative expenses in 2018 increased by 7% compared to 2017;

- other costs of the main production (transportation, exchange rate difference) are 2 times higher than the costs incurred in 2017.

The decrease in income from investment activities by almost 2 times was due to a decrease in the amount of free cash on settlement and deposit accounts, which was due to organizational procedures (including the late integration of the ISDP and UPIS programs) of the receipt of funds from the Fund for pharmaceutical services rendered. Also, the reason for the decrease in financial income in the reporting year in comparison with 2017 is the decrease in rates on deposit accounts. Due to the transition to inflation targeting and the introduction of the discount rate by the National Bank, the average deposit rates for 2017 in tenge were 9-11%, for deposits in US dollars - 3% per annum, in 2018, respectively, 7-9% and 2%.

A direct impact on the profitability of sales and income of a Single Distributor is provided by the timely approval of the list of drugs and Md to be purchased through a Single Distributor (hereinafter referred to as the List of SD). The list of SD is formed and approved by the authorized body, and, according to RGRK 1729, it is sent for execution to a Single Distributor no later than June 1 in the current year for the next financial year, however, as practice shows, in 2014, 2015 and 2017, the List of SD was approved 2-3 months later than the deadline, which affected the internal activities of "SK-Pharmacy" LLP.



**Return on equity (ROE)**

**32.65**

**40.82**

**13.04**

**20.73**

**31.72**



**Net profit,**

**billion tenge**

**3,7**

**6,0**

**3,8**

**5,4**

**3,7**

**2014**

**2018**

**2017**

**2016**

**2015**

**2014**

**2018**

**2017**

**2016**

**2015**

# Formation of a communication channel

The information policy when covering the activities of a Single distributor for the purchase of medicines and MD within the framework of the GVFMC "SK-Pharmacy" LLP has always been quite restrained since the company's creation. Reticence in covering the work of a Single Distributor was associated with a large number of high-profile scandals, alleged corruption in procurement and inflated prices in procurement; high-profile court proceedings in the termination of a number of contracts; and, finally, sharp criticism of the company's management by the President.

Since the centralization of the ODP, it has become obvious that there is a need to change the approaches to conducting information work. Information about any interruptions in outpatient drug supply immediately enters the information field, is widely discussed in social networks and is instantly reflected in the media.

Such conditions required changes in the company's information policy and increased efforts to inform the public about its activities. The format of the information work has been changed from reactive to proactive. Thus, in order to inform the population about the provision of free medicines to the population, a Single distributor has launched a contact center with the short number 1439 for the convenience of patients.

This is one of several projects implemented by the company as part of the digitalization of healthcare. Patients from all over Kazakhstan can call the short number 1439 for free from any landline phone. Contact center operators provide information about the terms, volumes and planned dates of delivery of necessary medicines, which are released free of charge for patients who are registered at the dispensary and receive outpatient treatment in the framework of the GVFMC.

The well-established policy of maintaining official accounts of "SK-Pharmacy" LLP in social networks and interacting with the population through them allowed us to position the company as a modern, open and transparent organization. The constant presence and prompt response to questions, requests and complaints from the public, as well as the rapid provision of detailed answers, allowed to change the perception of the Organization, forming its image as an open, ready to interact and solve every issue of the company.

The favorable image of "SK-Pharmacy" LLP is also positively affected by the extensive work carried out on a regular basis to provide charitable assistance. When considering applications for charitable assistance, first of all, applications concerning assistance in obtaining medicines are considered. In general, in 2018, charitable assistance was provided in the amount of more than 100 million tenge. Such work not only had a positive impact on the company's image, but also allowed to establish cooperation with various patient organizations and NGOs.

In order to ensure the transparency of procurement, since October 2015, the tender procedures have been broadcast online on the website of the Single Distributor.

# Development of information systems

Today, as part of the digitalization of Kazakhstan, in order to introduce a system of personalized accounting of medicines and MD for each patient, Kazakhstan actively integrates the information systems of the Ministry of Health (ISDP, ERDP), medical organizations (MIS) and a Single Distributor (UPIS). This step will allow forming the need and monitoring the use of medicines online, which will significantly improve the quality of drug supply to the population.

The introduction of e-procurement in the field of drug provision is an important project implemented as part of the digitalization of healthcare, which allowed to eliminate administrative barriers, ensure transparency and objectivity of procurement procedures, which, ultimately, will help the industry to strengthen the trust of Kazakhstanis.

The portal operates on the platform of the E-Commerce Center, where the portal of electronic public procurement, "e-Ministry of Finance" and "Treasury – client" are already based. The functionality of the portal is designed in a simple and accessible form, similar to public procurement, but taking into account all the requirements of the legislation on the procurement of medicines.

As part of the digitalization of healthcare, a Single distributor has launched a single electronic directory on the availability of free medicines in polyclinics.

The directory allows patients to see for themselves all the data on drug supply online: which medicines the medical organization has placed an application for, when and in what volume the medicines have already been received there, their availability at the moment, as well as the timing of the next drug deliveries.

Since 2018, as part of the digitalization of healthcare, a Single Distributor has launched a mechanism for paperless interaction with medical organizations. Now all applications of medical organizations for drug provision and the conclusion of purchase contracts are carried out in the information system of a Single distributor by means of an electronic digital signature.

This step made it possible to significantly optimize the bid and contract campaigns for the implementation of drug provision within the framework of the state volume of free medical care.

# Analysis of the achievement of the targets of the previous Strategy

The reasons for updating the development strategy of a Single Distributor are changes in regulatory norms that have led to a number of fundamental changes in the drug supply system.

In accordance with the Address of the President of the Republic of Kazakhstan N. Nazarbayev to the people of Kazakhstan "The Third Modernization of Kazakhstan: global competitiveness" and the creation of a common market for medicines and medical devices in the Eurasian Economic Union, the Law of the Republic of Kazakhstan "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan on the circulation of medicines and medical products" was adopted on December 28, 2018.

The main changes made are:

- the introduction of price regulation for all medicines, which will exclude from the competence of local executive bodies the functions of issuing licenses for pharmaceutical activities with the transfer to the Ministry of Health;

- formation of the Kazakhstan national form based on the assessment of health technologies, which is a list of medicines with proven clinical efficacy and safety, containing information about medicines and prices, which is a mandatory basis for the development of drug forms and a list for the purchase of a Single distributor);

- the introduction of ethical standards for the promotion of medicines, which will allow us to strengthen control over the prescription and consumption of prescription drugs, to analyze the choice of medicines, including for proven effectiveness;

- the transition to electronic procurement of medicines and medical devices within the framework of the GVFMC and in the CSMI system through the web portal of procurement of medicines and MD, as well as the definition of a single operator for the maintenance and system maintenance of the web portal.

According to the Roadmap of the Development Strategy for 2018, 66 events are planned. Upon completion: 48 completed, 12 lost relevance due to the redistribution of functions between the subordinate organizations of the Ministry of Health, 6 events were postponed to 2019. The analysis of the achievement of the Development Strategy indicators shows that, in general, the development strategy indicators have been achieved.

# Risk management and internal control

The objectives of the risk management and internal control system of "SK-Pharmacy" LLP are:

The risk management process in the Organization is carried out in accordance with the Risk Management Policy, which takes into account the basics of generally recognized concepts and standards in the field of risk management of the International Organization for Standardization 31000:2009 "Risk Management-Principles and Guidelines", defines the structure, the main components of the risk management process, provides a systematic and consistent approach to the implementation of the risk management process in the Organization.

The decision of the Supervisory Board of the Organization for 2018 approved the Register and the Risk Map of the Organization, which defines 29 relatively significant risks of the Organization: the red zone – 12 risks, the orange zone - 9 risks, the yellow zone - 8 risks.

In the course of its activities, "SK-Pharmacy" LLP faces various risks that to some extent affect the achievement of planned indicators and goals, the effectiveness of decisions made and the overall performance of its activities.

So, for the period of 2018, four risks were minimized, five risks were realized and raised to the Red Zone of the Risk Map. The risks realized were mainly related to the processes of interaction with stakeholders and the operation of information systems. The risk of increased staff turnover has been lowered from the Red Zone to the Orange zone, but is subject to monitoring throughout 2019. In addition, three risks were again identified, one of which is the risk of social tension.

# Analysis of weak and strong points

|  |  |  |  |
| --- | --- | --- | --- |
| **Strong points** | **Score** | **Weak points** | **Score** |
| The prospect of developing our own logistics infrastructure | 0,26 | Dependence on logistics service providers | 0,26 |
| Exclusive right of centralized purchase of medicines and MD within the framework of the GVFMC and the CSMI system | 0,19 | SD product tracking system is not available. | 0,21 |
| The trend of increasing the volume of purchases through international organizations and from foreign manufacturers | 0,13 | Incorrect formation of the need for medicines by medical organizations | 0,19 |
| Availability of its own IT infrastructure integrated with MHRK systems | 0,13 | Long terms of mutual settlements with the Fund | 0,19 |
| Savings on the scale of centralized procurement | 0,06 | Low level of formalization of business processes | 0,17 |
| Proactive format of information work and expansion of communication channels | 0,06 | There is no single mechanism for managing applications during the reorganization/liquidation of a medical organization | 0,17 |
| Long-term contracts with domestic producers | 0,04 | Linking several medical organizations to a single provider of accounting and sales services | 0,17 |
| The accumulated experience of centralized procurement of medicines and MD in the framework of the GVFMC and the CSMI system | 0,02 | Lack of a quality management system | 0,11 |
| Purchase of an irreducible stock of drugs and MD | 0,02 | Interruptions in the work of the IT systems of the MHRK | 0,09 |
| - | - | Expenses related to the formation of a rolling balance and unclaimed goods | 0,06 |
| - | - | Direct dependence on the exchange rate difference when purchasing under direct contracts | 0,06 |
| - | - | Untimely approval of the List of SD disrupts the supply of drugs and MD, while having a negative impact on the profitability of sales | 0,06 |
| **Summary assessment of the impact of strong points** | **0,91** | **Summary assessment of the impact of weak points** | **1,74** |

The analysis allows to assess the impact of internal factors on the activities of a Single Distributor. Taking into account the assumed significance of the selected factors, it can be concluded that the total assessment of the impact of strong points (0.91) is lower than the total assessment of the impact of weak points (1,74).

The most significant factors among the weak points are:

Dependence on logistics service providers (0.26),

SD product tracking system is not available (0.21),

Incorrect formation of the demand for medicines by medical organizations (0.19),

Long terms of mutual settlements with the Fund (0.19),

Low level of formalization of business processes (0.17),

There is no single application management mechanism for the reorganization/liquidation of a medical organization (0.17),

Linking several medical organizations to a single provider of accounting and sales services (0,17).

The most significant strong points are:

The prospect of developing its own logistics infrastructure (0.26),

Exclusive right of centralized purchase of medicines and MD within the framework of the GVFMC and the CSMI system (0.19),

The trend of increasing the volume of purchases through international organizations and from foreign manufacturers (0.13),

Availability of its own IT infrastructure integrated with MHRK systems (0,13).

# SWOT – ANALYSIS

According to the results of the analysis of the external and internal environment of the Organization, a SWOT analysis matrix was compiled, where:

Strengths amounted to 19%,

Weaknesses - 35%,

Opportunities – 27%,

Threats – 17%.

This distribution of factors suggests that the Organization's strategy should be built in such a way that, at the expense of the opportunities that have appeared, it should try to overcome the existing weaknesses in the organization.

|  |  |
| --- | --- |
| **STRENGTHS** | **WEAKNESSES** |
| * The prospect of developing our own logistics infrastructure * Exclusive right of centralized purchase of medicines and MD within the framework of the GVFMC and the CSMI system * The trend of increasing the volume of purchases through international organizations and from foreign manufacturers * Availability of its own IT infrastructure integrated with MHRK systems | * Dependence on logistics service providers * SD product tracking system is not available. * Incorrect formation of the need for medicines by medical organizations * Long terms of mutual settlements with the Fund * Low level of formalization of business processes * There is no single mechanism for managing applications during the reorganization/liquidation of a medical organization * Linking several medical organizations to a single provider of accounting and sales services |
| **OPPORTUNITIES** | **THREATS** |
| * The current system of SD allows ensuring the timeliness and transparency of drug supply to the population * Expanding the scope of SD activities in terms of the development of its own warehouse logistics * Development of infrastructure capabilities of logistics companies through production automation * Effective budgeting of GVFMC * Changes in the structure of morbidity and mortality of the population | * Introduction of price regulation for all medicines * Implementation of the co-payment mechanism * Growth of inflation and reduction of banks ' interest rates on foreign currency deposits * Not all types of procurement are implemented through the web portal * The rules of the procurement procedure are not always aligned with the higher-level RLA * Inefficient planning of medical product needs by customers |

# Strategic Initiatives Tree

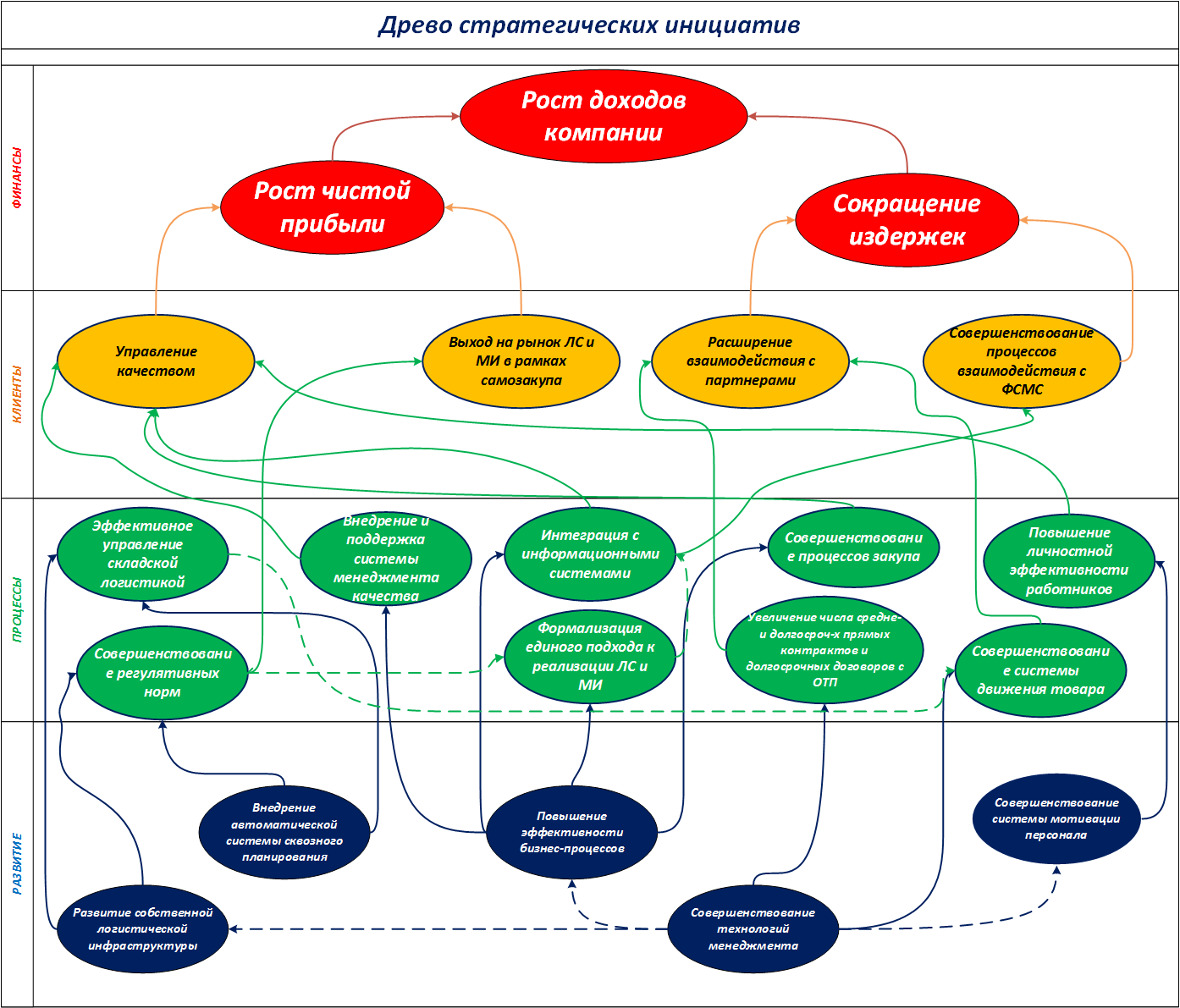
Based on the SWOT analysis, the most significant strategic initiatives of the Organization were identified by filling in the problem fields (Appendix).

As a result of the analysis of the SWOT problem field, the most critical strategic initiatives were:

* Improving the efficiency of business processes
* Implementation of an automatic end-to-end planning system
* Development of our own logistics infrastructure
* Improving regulatory standards
* Entry into the market of medicines and MD in the framework of self-procurement of medical organizations
* Quality Management
* Improving management technologies

The resulting strategic initiatives were dispersed in the plane of the four perspectives of the System of Balanced Indicators (SBI): Development, Processes, Customers, and Finance.

The relationship of strategic initiatives in the prospects of the SBI allowed to define the strategic goals of the Organization and set tasks for their implementation.



# THE MISSION. THE VISION. STRATEGIC GOALS. KPI.

# THE MISSION

With highly professional employees and a well-developed infrastructure, we provide the population of the Republic of Kazakhstan with equal and timely access to medicines and medical devices.

We are focused on the quality of our work.

# THE VISION

By 2023, our company is an effective functioning organization with a modern infrastructure that ensures the uninterrupted supply of medicines and medical devices to medical organizations in Kazakhstan and the Eurasian Union.

# VALUES

Trust and mutual understanding - High trust and mutual understanding between the stakeholders of the Organization.

Quality and safety - The Organization's activities are aimed at meeting the requirements of all stakeholders for the quality and safety of goods and services.

Innovation and self-improvement - The creative activity of the Organization is aimed at improving and finding new working methods through innovations in business processes and IT infrastructure.

Corporate spirit and positive thinking – Our team is a close-knit team of highly qualified specialists, effectively aimed at achieving the best results while continuously improving the quality of the Organization's activities.

# STRATEGIC DEVELOPMENT GOALS OF THE ORGANIZATION

The main reasons for the development of a new Strategy for the development of the Organization are changes in regulatory norms that have led to drastic changes in the drug supply system and the decision of the Security Council of the Republic of Kazakhstan to transfer the function of operating the mobilization reserve of the health system to the jurisdiction of "SK-Pharmacy" LLP.

Analysis of the features of the basic strategy that represent the development of the Organization, in the context of the decision of the Security Council of the Republic of Kazakhstan on the transfer of the warehouses of the mobilization reserve to the management of "SK - Pharmacy" LLP, the optimal application is the Integrated Growth Strategy model. In accordance with the generally accepted methodology for developing a company's Strategy, this model is based on two fundamental principles: the formation of their own distribution networks and ensuring control over sales channels. At the same time, the effectiveness of the integrated growth strategy is achieved by integrating it with the company's strategic growth model through diversification, which is based on strengthening activities with the full implementation of strategic correspondences and focusing on high economic performance.

Accordingly, the main message of the development strategy of "SK - Pharmacy" LLP is the development of its own logistics system, which will allow a single distributor to carry out the full cycle of the technological chain of production from procurement to delivery and monitoring of the products supplied by it.

The implementation of this strategic content will allow the Organization to:

* Expand Organization's business capabilities
* Develop own logistics infrastructure
* Implement modern approaches to drug provision within the framework of the GVFMC and CSMI.

**This Strategy defines the following strategic goals for the development of the Organization:**

**GOAL 1. Business transformation in the context of expanding business opportunities**

**GOAL 2. Quality management in the Organization's activities**

**GOAL 3. Improving management technologies**

# GOAL 1. Business transformation in the context of expanding business opportunities

As part of this strategic goal, the Organization will provide a full industry cycle of production in a single distribution system, as well as allow it to develop the potential of its business opportunities.

The key to achieving this goal is to give a Single Distributor the authority to operate the drugs and MI of the mobilization reserve and transfer the bases of special medical supply to the Organization, as well as the implementation of a number of innovative solutions.

So, in order to ensure uninterrupted supply of medicines and MD to the population within the framework of the GVFMC at the outpatient level, the Organization aims to implement an innovative project to introduce in Kazakhstan an automatic system for providing patients with prescription drug forms by selling goods through prescription drug dispensers. Currently, such a system of prescription drugs and MD is implemented only in 24 US states.

# Strategic key performance indicators

**KPI 1.1.** Compliance of the Organization with the GDP standard, %

**KPI 1.2.** Reduction of logistics costs per unit of medicinal products, MD, %

**KPI 1.3.** The share of established (functioning) serial dispensers for the issuance of prescription dosage forms from the total number of MO providing PHC

**KPI 1.4.** The share of the purchase of medicines and / or MD for hospitals outside the list of a single distributor, from the total volume of the Organization's purchase in monetary terms, %

**Key risks**

* Risk of late approval of the RLA
* Risk of lack of dispenser suppliers
* The risk of opposition from medical organizations to the centralized purchase of medicines and MD outside the list of a Single distributor.

The main **tasks** for the first strategic goal of the organization are:

# Task 1.1. Development of own logistics infrastructure

Ways to implement the construction of the Organization's warehouse system:

1. Creation and implementation of the infrastructure model of the Organization's warehouse and transport logistics;
2. Adaptation of regulatory norms in the field of mobilization training to the conditions of the SDS;
3. Restructuring of the Organization taking into account the new infrastructure model and the authority to operate the mobilization reserve;
4. Licensing of the organization's activities;
5. Certification of GDP warehouses;
6. Conducting the purchase of MR;
7. Delivery of MR goods to warehouses;
8. Implementation of an innovative project to introduce an automatic system for providing patients with prescription drugs/MD through pharmaceutical dispensers.

Ways of implementation of the innovative project on introduction of the automatic system of the Organization for providing patients with prescription drug forms:

The implementation of this innovation in the outpatient drug supply system is planned to be carried out in two stages.

At the first stage, it is advisable to conduct a pilot project in Nur-Sultan on the basis of three organizations providing primary health care (PHC). The pilot project is planned for implementation in 2020 and will consist of the following milestones:

1. Clarification and formalization of the requirements for the pilot project:

* compliance with the national regulatory framework,
* solving the IT aspects of the project (network structure, interface, language / localization, reporting forms, compliance with the temperature regime, etc.);
* determining the source of funding;

1. Adaptation and customization of the software to the requirements of the national ODP system;
2. Identification of the dispenser supplier and formalization of the relationship with it;
3. Installation of 3 serial dispensers in medical institutions of primary health care in Nur-Sultan;
4. Development of an interface between the dispensers system and the MHRC Drug Information System (ISDS);
5. Complete end-to-end testing and pilot operation of the system prior to installation in PHC organizations;
6. Fully functional operation in pilot mode:

* final refinement of the algorithms and software of the system and dispensers
* development of network solutions, computer hardware, printers, etc.,
* training of doctors and pharmacists (prescribing, managing balances, system monitoring)
* training of technical personnel for the maintenance and technical support of dispensers.

The second phase of the project will be implemented from 2021 to 2023 and represents a full-scale implementation of the Organization's automatic system for providing patients with prescription drug forms and will be implemented in the following milestones:

1. Determining the source of funding;
2. Commissioning of 600 dispensers in 3 years from the completion of the pilot project (from the first half of 2020 to 2023):

* connecting dispensers to a functioning system,
* processing reports in the ISDS;

1. Local system support and maintenance:

* the dispenser supplier provides training to local authorized personnel and employees of the Organization on the installation, maintenance and technical support of the system, within the competence of;
* The organization creates its own logistics/distribution services, technical support, and trains Contact Center employees on the automatic issuance of prescription forms;

1. "Deep localization" of the system in order to reduce costs and prices, which involves modifying the design of dispensers as part of their optimization for the Kazakhstan market.

# Task 1.2. Coverage of GVFMC participants out of the list of a Single distributor

A single distributor in its organizational and legal form is a commercial organization, with an established, but not limited by legislation, mono-oriented direction, expressed in the provision of medicines to the population within the framework of the GVFMC and CSMI according to the List.

The concentration of activities on only one area, funded from the state budget and the Fund, atrophies the organization's ability to be healthy competitive in other areas, no less important in the field of drug provision.

The transition from a mono-oriented state–oriented activity to a multi-vector-private one is a natural life cycle of any commercial organization ready for development, as well as a requirement of the present time in the period of ongoing reforms related to the privatization of state property.

Moreover, the development of activities outside the List of a Single Distributor can be an impetus for the Organization to enter the commercial markets of the EurAsEC countries and other foreign countries.

So, to implement the Organization's activities outside the List of a Single Distributor, the following is necessary:

1. Amendments to the RLA regulating the provision of medicines within the framework of the GVFMC and CSMI;
2. Amendments to the constituent documents of the Organization;
3. Analysis of the market of purchased by MO drugs/MD within the framework of the GVFMC, including socially significant ones for the state (outside the List of SD);
4. Determination of economically advantageous positions of drugs and MD from the list of GVFMC for participation in the procurement conducted by the Ministry of Defense, as well as positions within the framework of GVFMC and CSMI (socially significant for the state, outside the List of ED);
5. Pilot purchase of medicines and MI in the framework of the GVFMC at the request of the Ministry of Defense, not included in the List of SD;
6. Conducting PR campaigns to promote the Organization's activities in this direction

# GOAL 2. Quality management in the Organization's activities

Within the framework of this strategic goal, the Organization takes responsibility for all issues of quality management of products and services provided. Since a new approach to quality management strategy has emerged in recent years, this trend shows the need to change the attitude towards quality.

The new direction of the strategy in quality management is characterized by a number of points:

* quality assurance should not be understood as a technical function implemented by a single department, but as a systematic process that permeates the entire organizational structure of the Organization;
* quality should be focused on meeting the requirements of all stakeholders of the Organization;
* improving the quality of products requires the use of new technologies both in production and the use of new management technologies along with the improvement of business processes.

The key to the successful implementation of this strategic goal is the application of the PDCA cycle in the practical activities of the Organization, the method of which will be applied with the frequency of reporting and planning cycles. When performing corrective actions, the duration of the PDCA may be less or longer than the duration of the reporting and planning cycles and is set depending on the nature, scope, duration and content of the measures to eliminate the causes of the deviation.



**Цикл Деминга**

**Deming Cycle**

# Strategic key performance indicators

**KPI 2.1.** The share of the Organization's coverage of the needs of medical organizations within the framework of the GVFMC, %

**KPI 2.2.** Execution of the shipment schedule to Customers, %

**KPI 2.3.** Level of satisfaction of stakeholders, %

**KPI 2.4.** Share of third-level automated business processes, %

**Key risks**

* The risk of not purchasing drugs and MD
* Risk of poor quality planning by medical organizations
* Risk of violation of the terms/non-fulfillment of obligations of existing contracts / agreements
* Risk of unethical promotion of drugs and MD.

The main **tasks** for the second strategic goal of the organization are:

# Task 2.1. Ensuring uninterrupted supply

Within the framework of this task, the work on improving e-procurement will continue, which will reduce labor costs, increase transparency, reduce the time of the procurement process and review of price offers from potential suppliers.

Ensuring the reliability of supplies is an important part of the Organization's activities and will be ensured by further processes of forming an irreducible supply of food and compliance with all procedures for monitoring, replenishing and maintaining an irreducible supply, which will help reduce the risk of failure of the supply of medicines and MD.

Ways of implementation:

1. Improving the process of electronic procurement of goods and services;
2. Further work on the management of the irreducible stock of drugs and MD;
3. Further improvement of modules in information systems in accordance with changing business processes and production needs;

# Task 2.2. Improving the effectiveness of interaction with partners

One of the main elements of improving the quality of services provided is to increase the efficiency of interaction with partners. By forming a well-defined and constructive process of interaction with partners, the Organization not only improves the quality of its activities, but also establishes the general trust and binding nature of the relationship.

As part of this task, work will continue to increase the share of the purchase of non-taxable drugs under direct contracts with manufacturers, which will help to save the state budget by excluding "intermediaries" in the form of local commercial distribution companies from the purchase chain.

Also, as part of this task, the Organization plans to continue working on the conclusion of long-term contracts with DP for the supply of drugs and MD, which were produced in accordance with GMP standards of good manufacturing practice, as well as in accordance with ISO standards (on a regular basis). This cooperation on a long-term basis will allow the organization to contribute to the development of domestic production, provide the state with national security in terms of drug supply in case of problems with the supply of imported drugs and MD or in emergency situations, create additional jobs and increase the export orientation of Kazakhstan manufacturers.

Ways of implementation

1. Improving the processes of interaction with stakeholders;
2. Monitoring the satisfaction and needs of stakeholders;
3. Improving the efficiency and flexibility of the Organization's procurement process:

* improving the procedure for interaction with foreign manufacturing plants, the head offices of large international pharmaceutical companies, international organizations, including by regulating the procedure for concluding direct contracts and possible organizational solutions,
* joint procurement of individual medicines with other countries,
* conducting image events to increase the Organization's awareness at the international level;

1. Promoting the development of domestic pharmaceutical production.

# Task 2.3. Improving the efficiency of business processes

As part of the implementation of this task, it is planned to increase the return on business with various types of upgrades: from the introduction of modern software to the replacement of old planning schemes with more innovative ones, using information systems and their capabilities. In this case, the improvement of the existing information systems of the Organization, and the introduction of modern software products will automate part of the business processes and increase the level of communication of employees.

This task implies a radical restructuring and optimization of all business processes, which will make collective work in the Organization more efficient, as well as eliminate many business problems. Many innovations, for example, the introduction of the purchase of medicines and MD in the framework of outpatient drug provision, face obstacles that have arisen due to spontaneous business processes, not working out all the chains of new business processes, unpreparedness and / or insufficient competence of employees in the framework of new activities, and much more.

Today, as part of the digitalization of Kazakhstan, in order to introduce a system of personalized accounting of medicines and MD for each patient, Kazakhstan actively integrates the information systems of the Ministry of Health (ISDS, ERDP), medical organizations (MIS) and a Single Distributor (UPIS). This step will allow forming the need and monitoring the use of medicines online, which will significantly improve the quality of drug supply to the population.

The organization has its own IT infrastructure, which has passed state accreditation, which allows it to seamlessly integrate with the information systems of authorized health authorities and organizations.

Ways of implementation to improve the efficiency of business processes:

1. Implementation and maintenance of the QMS;

In 2018, the Organization started work on the implementation of the quality management system and in the future this work should be carried out on a regular basis.

1. Implementation of the automated management system of the Organization's BP by means of software;
2. Formalization of a unified approach in the implementation of drugs and MD by medical organizations;
3. Improvement of the system of movement of goods in the regional and operational warehouses of the Organization;
4. Implementation of an automatic system for end-to-end planning of the needs of medical organizations in medicines and MD;
5. Creating an information field that creates conditions for automating the Organization's business processes.

# GOAL 3. Improving management technologies

An effective management system of the Organization is an important factor in ensuring a high-quality and uninterrupted supply of medical products to the population of the country. To achieve this goal, the Organization will implement new and develop a number of existing processes.

As one of the directions of improving the management technologies of the Organization, it is possible to distinguish the improvement of the organization of managerial work. This direction is associated with the effective organization of the work of the Organization's employees. The main task of each employee of the Organization is to make decisions regarding the efficiency of the production process. It is the employees of the Organization who play a key role in the process of maintaining a balance between production activities and set goals, in determining the optimal option for the development of production and maintaining its efficiency. However, an important role in the implementation of this direction is the presence of highly specialized personnel in the Organization. In this regard, the organization intends to carry out continuous work on the development of human resources.

Also, to increase the development of the Organization and improve its activities, it is necessary to preserve knowledge and accumulated experience. To do this, the Organization determines the knowledge base based on experience and information obtained through seminars, on-the-job training, workshops, etc.

# Strategic key performance indicators

**KPI 3.1.** Staff turnover, %

**KPI 3.2.** Level of corporate governance implementation, %

**KPI 3.3.** Performance of financial stability and performance indicators, %

**Key risks**

* Risk of insufficient staff skills
* Risk of lost financial gain
* Currency risk
* Risk of non-repayment of accounts receivable and formation of accounts payable

Thus, in order to achieve the third strategic goal, the organization has the following **tasks**:

# Task 3.1. Human resource development

Ways to implement the development of human resources

1. Implementation of the balanced scorecard;
2. Determination of staff satisfaction (on a regular basis);
3. Development and continuous improvement of key performance indicators of each employee based on the results of production activities;
4. Ensuring transparency of employee motivation based on the results of their activities for a certain period (material and non-material);
5. Continuous professional training of employees;
6. Organization of cooperation on the exchange of experience with foreign companies;
7. Formation, maintenance and updating of the organization's knowledge base on the basis of accumulated experience (on a regular basis).

# Task 3.2. Achieving financial stability

Ensuring the financial stability of the Organization is an integral part of this strategy for the development of the Organization. As part of achieving this goal, the financial management system will focus on the effective use of its own working capital through an optimal financial management model. At the same time, the construction of an optimal financial management model of an Organization requires comprehensive work to improve the structure and functioning of the financial management system, taking into account external factors that affect the stability of the Organization.

Thus, the following ways are proposed for the implementation of this task:

1. Effective management of accounts receivable and payable, their timely analysis and tracking of changes, control of goods and materials and cash flows;
2. Profit maximization due to the relative reduction of the Organization's expenses with an increase in the physical volume of sales;
3. Providing control and monitoring of critical sales volume that covers costs and ensures the break-even operation of the Organization.

# KEY EFFECTS OF THE STRATEGY

# ARCHITECTURE OF INTERACTION BETWEEN STRATEGIC AND BUDGET PLANNING

|  |
| --- |
| **Strategic Plan of the Ministry of Health of the Republic of Kazakhstan for 2017-2021** |
| **2 priority direction "Improvement of the provision of medical services"**  **2.5. Implementation of the National Drug Policy** |

**Strategic goals of "SK-Pharmacy" LLP**

|  |  |  |
| --- | --- | --- |
| **Strategic goal 1.**  Business transformation in the context of expanding business opportunities | **Strategic goal 2.**  Quality management in the Organization's activities | **Strategic goal 3.**  Improving management technologies |

**Tasks of "SK-Pharmacy" LLP**

|  |  |  |
| --- | --- | --- |
| **Task 1.1**  Development of our own logistics infrastructure  **Task 1.2**  Coverage of GVFMC participants outside the list of a Single distributor (in ensuring equal rights of citizens to drug provision) | **Task 2.1.**  Ensuring uninterrupted supply  **Task 2.2.**  Improving the efficiency of interaction with partners  **Task 2.3.**  Improving the efficiency of business processes | **Task 3.1.**  Human resource development  **Task 3.2.**  Achieving financial sustainability |

**Own resources**

# STRATEGIC GOALS, TASKS AND TARGET INDICATORS

| **№** | **Target**  **indicator** | **Responsible persons** | **Source of information** | **Unit of meas.** | **Fact of 2018** | **Planning period** | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **2019** | | **2020** | | **2021** | | **2022** | | **2023** | |
| Plan | *Weight, %* | Plan | *Weight, %* | Plan | *Weight, %* | Plan | *Weight, %* | Plan | *Weight, %* |
| **STRATEGIC GOAL 1. TRANSFORMATION OF ACTIVITIES IN THE CONTEXT OF EXPANDING BUSINESS OPPORTUNITIES** | | | | | | | | | | | | | | | |
| **Task 1.1. Development of own logistics infrastructure** | | | | | | | | | | | | | | | |
| 1.1. | Compliance of the Organization with the GDP standard | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | - | - | - | - | *-* | - | *-* | 100% | *8%* | 100% | *8%* |
| 1.2. | Reduction of logistics costs per unit of drugs, MD | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | - | - | - | at least 2% | *10%* | не менее 4% | *10%* | at least 5% | *8%* | at least 6% | *10%* |
| 1.3. | The share of established (functioning) serial dispensers for the issuance of prescription dosage forms from the total number of MO providing PHC | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | - | - | - | - | *-* | at least 0,5% | *10%* | at least 1% | *8%* | at least 2% | *8%* |
| **Task 1.2. Coverage of participants of the GVFMC outside the list of a Single distributor (in ensuring equal rights of citizens to drug provision)** | | | | | | | | | | | | | | | |
| 1.4. | The share of the purchase of medicines and / or MD for hospitals outside the list of a Single distributor, from the total purchase volume of the Organization | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | - | - | - | - | - | - | - | at least 3% | *10%* | at least 5% | *8%* |
| **STRATEGIC GOAL 2. QUALITY MANAGEMENT IN THE ORGANIZATION'S ACTIVITIES** | | | | | | | | | | | | | | | |
| **Task 2.1. Ensuring uninterrupted supply** | | | | | | | | | | | | | | | |
| 2.1. | The share of the Organization's coverage of the needs of medical organizations within the framework of the GVFMC and CSMI | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | 96% | at least 90% | *16%* | at least 91% | *15%* | at least 92% | *12%* | at least 93% | *12%* | at least 95% | *10%* |
| 2.2. | Execution of the shipment schedule to Customers (within the hospital) | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | - | at least 85% | *16%* | at least 90% | *15%* | at least 91% | *12%* | at least 92% | *12%* | at least 95% | *10%* |
| **Task 2.2. Improving the effectiveness of interaction with partners** | | | | | | | | | | | | | | | |
| 2.3. | Level of satisfaction of stakeholders | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | - | at least 50% | *15%* | at least 60% | *12%* | at least 70% | *12%* | at least 75% | *10%* | at least 80% | *10%* |
| **Task 2.3. Improving the efficiency of business processes** | | | | | | | | | | | | | | | |
| 2.4. | Share of third-level automated business processes | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | - | at least 20% | *13%* | at least 25% | *12%* | at least 30% | *12%* | at least 35% | *8%* | at least 40% | *10%* |
| **STRATEGIC GOAL 3. IMPROVEMENT OF MANAGEMENT TECHNOLOGIES** | | | | | | | | | | | | | | | |
| **Task 3.1. Human resource development** | | | | | | | | | | | | | | | |
| 3.1. | Staff turnover | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | - | 15% | *14%* | 12% | *12%* | 11% | *12%* | 10% | *8%* | 10% | *10%* |
| 3.2. | The level of implementation of corporate governance | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | - | 50% | *13%* | 55% | *12%* | 60% | *10%* | 65% | *8%* | 65% | *10%* |
| **Task 3.1. Achieving financial stability** | | | | | | | | | | | | | | | |
| 3.3. | Implementation of financial stability and performance indicators | Chairman and members of the Board | Data of "SK-Pharmacy" LLP | % | - | 70% | *13%* | 75% | *12%* | 80% | *10%* | 85% | *8%* | 90% | *8%* |

# 

# METHODOLOGY FOR CALCULATING KEY PERFORMANCE INDICATORS

The following notation applies hereafter:

**n** - the value of the indicator for the reporting period/on the last day of the reporting period / purchases made in the current period for the current and upcoming financial year

**n-1** - indicator value for the previous reporting period / on the last day of the previous reporting period

**n+1** - the value of the indicator for the upcoming reporting period / on the last day of the upcoming reporting period / purchases made in the current period for the upcoming financial year

**A** - designation of the name corresponding to the efficiency

**KPI 1.1.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **Compliance of the Organization with the GDP standard, %** |
| The Organization has a valid GDP certificate in the planned period | |

**KPI 1.2.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **Reduction of logistics costs per unit of medicinal products, MD, %** |
|  | The amount of cost reduction for logistics services in monetary terms |
|  | Logistics services costs in monetary terms |
|  | Coefficient of change in the volume of supplies of medicines and MD |
|  | |

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | Coefficient of change in the volume of supplies of medicines and MD |
|  | Quantity of product units for the previous reporting period, in physical terms |
|  | Quantity of product units for the reporting period, in physical terms |
|  | |

**KPI 1.3.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **The share of established (functioning) serial dispensers for the issuance of prescription dosage forms from the total number of MO providing PHC** |
|  | The quantity of established (functioning) serial dispensers for the issuance of prescription dosage forms from the total number of MO providing PHC |
|  | Total number of MO providing PHC services |
|  | |

**KPI 1.4.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **The share of the purchase of medicines and / or MD for hospitals out of the List of SD, from the total volume of the Organization's purchase in monetary terms, %** |
|  | The volume of purchased medicines and / or MD for hospitals under the GVFMC out of the List of SD in monetary terms |
|  | Total volume of drugs and MD purchased by SD in monetary terms |
|  | |

**KPI 2.1.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **The share of the Organization's coverage of the needs of medical organizations within the framework of the GVFMC included in the List of SD** |
|  | The volume of medicines and Md purchased for the needs of the Ministry of Defense in physical terms for the period |
|  | Total demand for medicines and MD declared by the Ministry of Defense in physical terms for the same period |
|  | |

**KPI 2.2.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **Execution of the shipment schedule to Customers** |
|  | The number of items of medicinal products, MD, shipped to customers according to the delivery schedules |
|  | The total amount of the declared demand of the Ministry of Defense according to the delivery schedules |
|  | |

**KPI 2.3.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **Level of satisfaction of stakeholders** |
| According to the methodology | |

**KPI 2.4.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **Share of third-level automated business processes** |
|  | Number of automated third-level business processes |
|  | Total number of third-level business processes |
|  | |

**KPI 3.1.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **Staff turnover** |
|  | Number of employees who left during the period |
|  | Average list number of employees for the same period |
|  | |

**KPI 3.2.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **The level of implementation of corporate governance** |
| According to the methodology | |

**KPI 3.3.**

|  |  |
| --- | --- |
| **Notation** | **Description** |
|  | **Implementation of financial stability and performance indicators** |
|  | The actual value of the financial stability indicator for the period |
|  | The planned value of the financial indicator for the same period |
|  | |