

Chapter 8. Assessing the impact of IMSS procurement on national policies

As the largest health provider in Mexico, IMSS is an unavoidable actor of the national health system and represents a considerable source of revenue for the private sector. Therefore, this chapter explores the role of IMSS in the Mexican health system and how the entity could use its procurement to maximise the effectiveness of national health policies. In addition, considering the national impetus given to the support of small and medium-sized enterprises (SMEs) which are the backbone of the Mexican economy, this chapter assesses the measures implemented by IMSS to facilitate SMEs access to its procurement opportunities.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

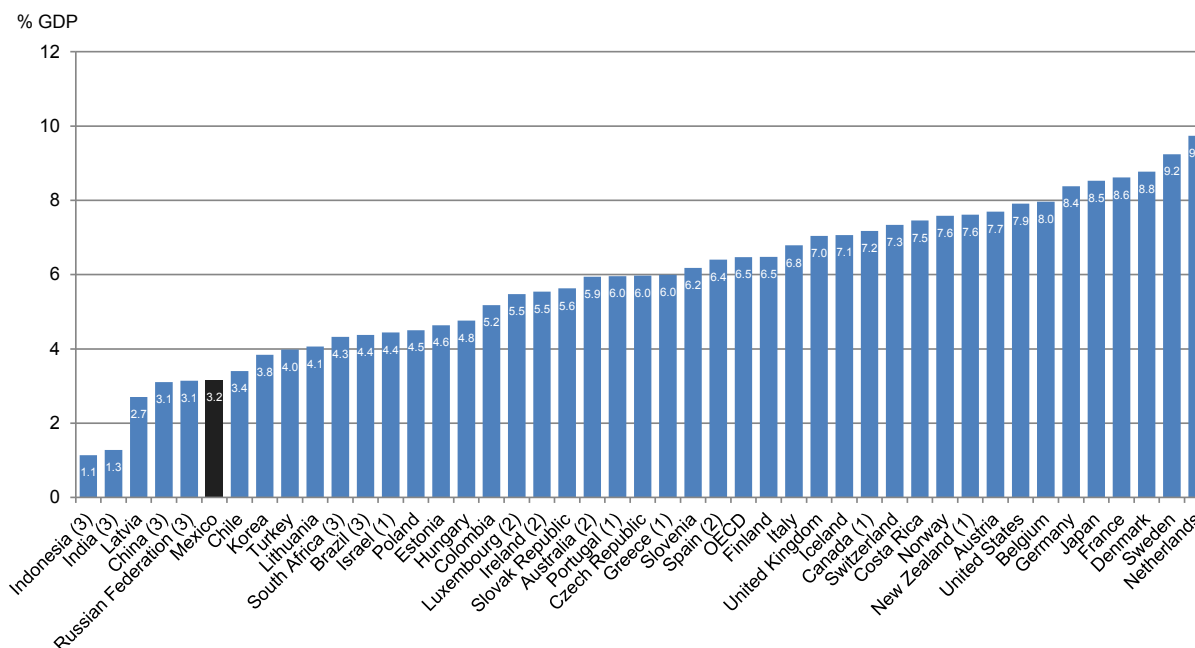
Aligning procurement strategies with national health policies

IMSS leadership in health procurement advocates for an enhanced role in framing national policies

At 3.2% of gross domestic product (GDP) (Figure 8.1), Mexico's public health expenditure is one of the lowest in the OECD, with the OECD average at around 6.5%. This low rate of health expenditure may explain Mexico's below-average performance in many health indicators, such as life expectancy, infant mortality, overweight and obesity rates (see Chapter 1). In 2005 the OECD provided recommendations in six areas to enhance Mexico's healthcare system (OECD, 2005^[1]): 1) ensuring adequate funding of the health system; 2) tackling the remaining barriers in accessing services for those not covered by social security; 3) encouraging greater efficiency of health care providers; 4) encouraging greater productivity of health care professionals; 5) promoting the quality and the effectiveness of care; and 6) improving the governance of the system. Since then and despite health reforms, significant efforts are still required to address the major health issues facing the country (OECD, 2016^[2]).

The National Development Plan (*Plan Nacional de Desarrollo*) for 2013-2018 defines the national priorities, divided into five main objectives: 1) Peace in Mexico; 2) Inclusive Mexico; 3) Quality of the Mexican education system; 4) Prosperous Mexico; and 5) Mexico with a global responsibility. These objectives are to be achieved through strategies and action plans for the relevant sectors. For example, the Sectoral Health Programme (SHP) for 2013-2018 (Mexican Health Ministry, 2014^[3]), has been translated into development plans for each part of the health system, including IMSS.

Figure 8.1. Public health expenditure as a share of GDP, 2013 (or nearest year)



Note: Excluding investments unless otherwise stated. 1. Preliminary estimates. 2. Data refers to 2012. 3. Including investments

Source: (OECD, 2016^[2])

The Health Ministry is in charge of co-ordinating the national health system, establishing and conducting national health policies, and co-ordinating healthcare service programmes of entities of the federal government. It is also in charge of co-ordinating the Sectoral Health Programme.

Like the National Development Plan, each sectoral programme includes objectives, strategies and action plans. The SHP includes six objectives:

1. Consolidating actions for the protection, promotion of health and prevention of diseases
2. Ensuring the effective access to qualitative healthcare services
3. Reducing the risks affecting the population's health in all activities
4. Closing the existing gaps in provision of healthcare services between different social groups and regions of the country
5. Ensuring the generation and effective use of health resources
6. Advancing the national universal health system under the stewardship of the Health Ministry.

Many of the strategies and action plans derived from the SHP are linked to procurement by health entities (Box 8.1).

Box 8.1. Examples of strategies and action plans of the sectorial Health Plan linked to procurement

Strategy 1.5. Increase access to sexual and reproductive health with special focus on teenagers and vulnerable populations

1.5.5 Ensure the supply of contraceptive methods and for the prevention of HIV and other STDs

Strategy 2.6. Ensure access to medicines and medical supplies for a qualitative health

2.6.1. Strengthen the supply chain of medicines and medical supplies in public health institutions

2.6.2. Increase the supply of medicines and biological products according to local needs

2.6.3. Implement medical distribution programs that align the incentives of the institutions of all participants

2.6.4. Encourage the rational use of medical prescription

Strategy 2.7. Implement the National Strategy for the Prevention and Control of Overweight, Obesity and Diabetes

2.7.5. Ensure timely and complete supply of medicines and medical supplies

Strategy 5.5. Encourage efficient spending on medicines and medical supplies

5.5.1. Promote the release of generics to reduce health spending

5.5.2. Promote the consolidated procurement of medicines and medical supplies among public sector institutions

5.5.3. Encourage coordinated procurement of medicines and medical supplies between the federation and federative entities

5.5.4. Consolidate the price negotiation process of medicines and medical supplies with current and single source patent

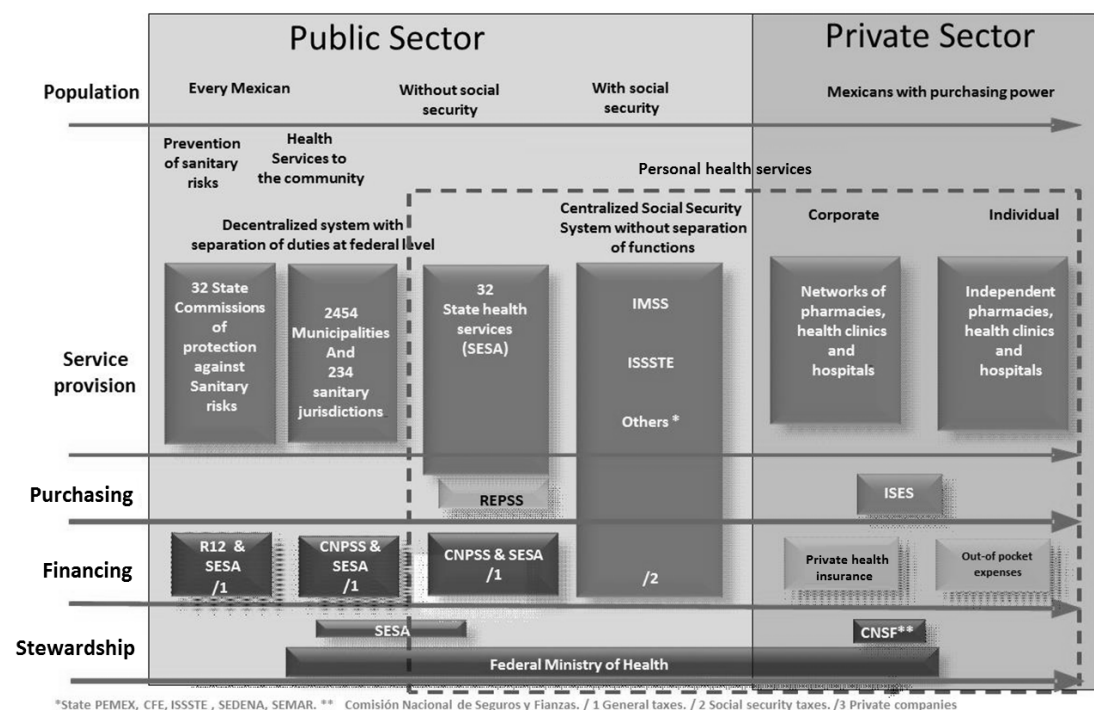
5.5.5. Monitor the efficiency in spending allocated to the procurement of medicines and health supplies

5.5.6. Apply innovative procurement schemes and supply of medicines to ensure their supply

Source: (Mexican Health Ministry, 2014_[3])

The effective implementation of this sectoral programme is however hindered by the fragmentation of the health system and the multiplicity of health providers (see Figure 8.2). Besides increasing inequalities in access and quality of care, this also affects the co-ordination of procurement strategies whose outcomes ultimately contribute to health care services.

Figure 8.2. Landscape of the Mexican Health system



Source: (OECD, 2016_[2])

IMSS is the largest health provider in the country, covering around 59 million regular beneficiaries and 12 million IMSS-Oportunidades beneficiaries (a federal programme providing preventive health services free of charge for rural and marginalised urban communities), representing together more than 50% of the Mexican population. IMSS is also the largest contracting authority in terms of expenditures, spending more than 40% of all public sector health expenditures (Table 8.1). It is also the largest employer in the healthcare system, employing 65 115 doctors and 95 387 nurses and running more than 264 hospitals (OECD, 2016_[2]). In IMSS, on average 500 000 consultations, 50 000 emergencies and 4000 operations are dealt with every day.

Table 8.1. Health expenditure in Mexico, 2013

	Expenditure (thousand current pesos)	Coverage (people)	Per capita expenditure (current pesos)
Budget line 12 (Ramo 12: Ministry of Health)	118 893 910	65 527 283	1 814
Budget line 33 (Ramo 33: FASSA ¹)	67 679 092	65 527 283	1 033
Budget line 19 (Ramo 19: IMSS-Prospera)	9 881 767	11 891 406	151
States' health expenditure	28 217 527	65 527 283	431
Total federal and state expenditure for people without social security²	224 672 296	65 527 283	3429
IMSS	208 586 381	59 511 963	3 505
ISSSTE ³	49 832 292	12 630 569	3 945
PEMEX ⁴	12 866 306	755 346	17 034
Total social security	271 284 979	72 897 878	3 721
Total public sector	495 957 275	138 425 161	7 150

Note:

1. FASSA: Federal contributions to health services (*Aportaciones Federales para los Servicios de Salud*);
2. Population without social security includes those affiliated to Seguro Popular, those covered by IMSS-Prospera and those without any public health insurance who can get care at Ministry of Health and states' facilities.
3. ISSSTE: *Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado*, The State's Employees' Social Security and Social Services Institute,
4. PEMEX: *Petróleos Mexicanos*. Population corresponds to 2012.
5. Figures exclude expenditure reported by the Ministry of Defence (*Secretaría de la Defensa Nacional-SEDENA*), the Ministry of Navy (*Secretaría de Marina-SEMAR*), Insurance institutions specialised in health (*Instituciones de Seguros Especializadas en Salud-ISES*) and Social Security Institute for the Mexican armed forces (*Instituto de Seguridad Social para las Fuerzas Armadas Mexicanas- ISSFAM*), which together represent 5.4% of total public expenditure.

Source: (OECD, 2016^[2])

Therefore, IMSS is a major contributor to the healthcare system – not only in providing healthcare services, but also in gathering information on health indicators and healthcare performance. Given its importance, IMSS has a role to play in both implementing and supporting national health policies. It could be beneficial for the effectiveness of Mexican health policies to consider IMSS not only as an implementing entity, but also as a stakeholder participating in the development of health policies.

In the United Kingdom, for example, the National Health Service (NHS) is responsible for the provision of health services and for the procurement of related goods and services. Considering its purchasing power and role in the UK's health care system, the NHS not only ensures the effective application of national health policies, but also participates in their design and implementation (see Box 8.2 for an example).

Box 8.2. The NHS National Diabetes Prevention Programme

The NHS Diabetes Prevention Programme (NHS DPP) is a joint commitment from NHS England, Public Health England and Diabetes UK, to deliver at scale, evidence based behavioural interventions for individuals identified as being at high risk of developing Type 2 diabetes.

Type 2 diabetes is preventable and there is strong international evidence that behavioural interventions can significantly reduce the risk of developing the condition, through reducing weight, increasing physical activity and improving the diet of those at high risk. Diabetes treatment currently accounts for around 10 per cent of the annual NHS budget.

The NHS DPP is led by Public Health England and was developed by a delivery team from NHS England, Public Health England, and Diabetes UK. The programme is overseen at a strategic level by the NHS Prevention Board, and programme governance is provided by the NHS Diabetes Programme Board.

Prior to deciding on the type of programme, the University of Sheffield was commissioned to develop a NHS DPP return on investment tool to assist sites in understanding the costs, savings and health benefits likely to be produced by implementing the NHS DPP. The report took into account several variables with the main elements being the cost of the programme per participants and the programme effectiveness. Based on several scenarios of costs proposed by bidders, it concluded that with an average cost range of GBP 155-350 (equivalent tariff range approx. GBP 250-560), the net cumulative financial impact over five years of the DPP represented a cost between GBP 37m and 113m, excluding implementation costs and assuming a base case effectiveness. Over a 20-year horizon the net cumulative financial impact of the DPP is a saving of between GBP 4m and 80m depending on final average costs (excluding implementation costs).

The report further estimated that during the first five years the DPP is estimated to save a cumulative 700-1,100 Quality Adjusted Life Years (QALYs) depending on programme effectiveness. Over the long term, the 20-year horizon estimates between 13,000-21,000 cumulative QALYs saved. This translates to 14,000-21,000 cases of diabetes prevented or delayed in the first five years of the programme, for an initial five-year cohort of 390,000 participants enrolled in the programme. Assuming base case effectiveness, for every 100,000 people enrolled in the NDPP the cumulative impact over the following five years is approximately 4,500 diabetes diagnoses prevented or delayed.

Based on these preliminary impact assessments, the NDPP team ran in late 2015 a national commercial procurement to select four framework providers to deliver the NDPP nationally. Potential providers were required to bid against criteria set by the NDPP national team, and submit their intervention models to ensure these were in line with the national service specification. Bids were evaluated by an expert panel from NHS England, Public Health England (PHE) and other key stakeholder organisations.

Source: Adapted from (NHS England, 2016^[4])

To support the implementation of national health policies, IMSS could leverage on strategic public procurement

Besides its contribution to shape national health policies, IMSS could use its procurement operations as a strategic tool for the implementation of public policies. Indeed, public procurement is a key lever for improving the value that IMSS can deliver to patients through medical care and pharmaceutical products. In line with the SHP, IMSS developed its own institutional programme for 2014-2018, which has 5 central objectives,¹ 29 strategies and 129 action lines aimed at building a universal national health system and expanding the access to social security, and more generally enhancing the healthcare system and ensuring the effectiveness of national healthcare policies (IMSS, 2014_[5]).

Many strategies and actions in the programme directly aim to enhance the procurement process (Box 8.3). While many others are not directly linked, they will still require a procurement process. For example, Strategy 1.1 aims to increase beds by building new hospitals in zones lagging behind. The effective implementation of this strategy through effective procurement operations in all IMSS entities will help to improve the efficiency of the system.

Box 8.3. Example of strategies and action plans linked to procurement in IMSS's institutional programme for 2014-2018

Strategy 1.3: Favouring consolidated tenders in order to guarantee better prices

- Implement mechanism to determine goods and services to procure through consolidated tenders taking into account their characteristics, use and frequency.
- Promote consolidated tenders with other entities of the health sector.

Strategy 3.1 Rationalising and optimising administrative and operational expenses to strengthen priority programmes

- Implement austerity measures and administrative and operational expenditure restraints
- Enhance the procurement methods for goods, services and public works
- Strengthen the supply chain for therapeutic goods and for the provision of integrated services
- Optimise the use of spaces and institutional buildings.

Strategy 3.6: Optimising the use of resources for medical care

- Control and evaluate the adequate and efficient prescription of drugs
- Apply the diagnosis-related groups (GRD) to enhance the health, economic and financial management of hospitals
- Strengthen the substitution of drugs favouring the use of those with the lower price while ensuring security and similar efficiency.

Source: (IMSS, 2014_[5])

When analysing the various strategies and action aiming to create a universal national health system and their links with public procurement, three categories can be identified: 1) strategies to optimise processes through procurement methods, such as consolidated tenders; 2) strategies to optimise financial and physical resources, such as promoting substitutes for medicines and optimising the use of space; and 3) strategies to control the use of resources, such as the adequate and efficient prescription of drugs.

Among the different national health strategies which translate into IMSS's institutional programme, universal access to medicines concentrated recent efforts. Indeed, in line with the National Action Plan (Plan Nacional de Desarrollo) for 2013-2018, universal access to healthcare – and more specifically to medicines – is one of Mexico's national objectives. One major step towards achieving this would be to substitute expensive patented drugs with generic drugs. This policy had been endorsed by IMSS by developing the strategy 3.6 of its institutional programme for 2014-2018 where the entity has to strengthen the substitution of drugs favouring the use of those with the lower price while ensuring security and similar efficiency.

A recent report from the Mexican Competition Authority noted that penetration rates of generic drugs in Mexico when patents are no longer in force are considerably lower than in other countries, meaning Mexican families are missing out on substantial benefits (COFECE, 2017^[6]). For example, two years after the entry of the first generic, the penetration of generic drugs reaches 21.4% of the market, compared to 89% in the US for the same period. Among the causes of this low penetration rate, the report points to the relatively low number of generic drugs available and identifies entry barriers in consolidated tenders for small generic manufacturers.

If the penetration rate were to double, this would save Mexican families MXN 2,252 million per year. Considering its buying power and influence amongst health institutions in consolidated tenders, IMSS should consider all available strategies which would help to increase the number of generic drugs. As discussed in Chapter 6 extending the duration of the bidding period and the production lead-time could act as strong incentives for small generic manufacturers to participate in tenders.

Fulfilling IMSS's potential as a source of revenue for the private sector

To widen economic benefits for companies of all sizes IMSS could build on its purchasing power

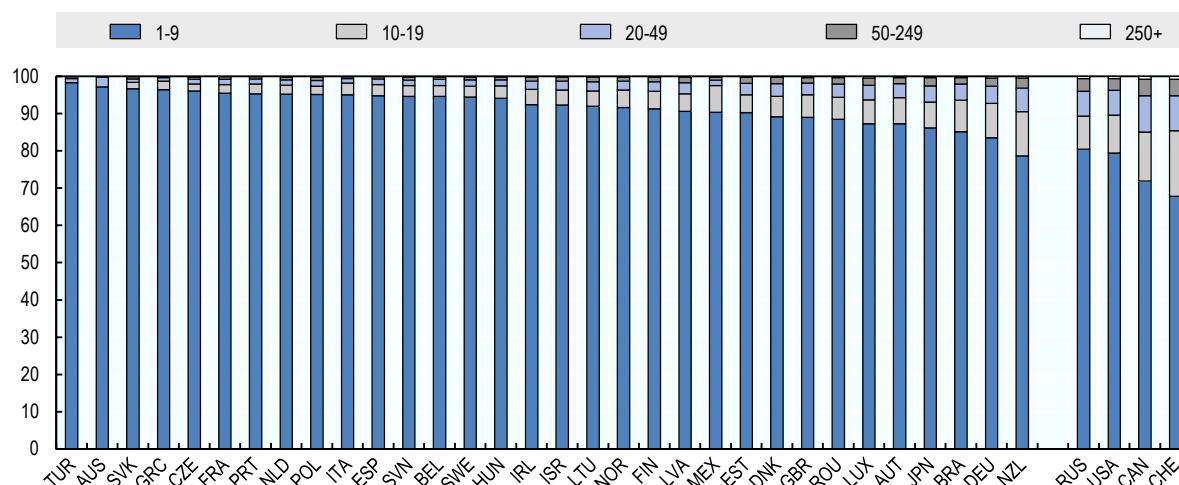
Although health spending is below the OECD average in Mexico, the procurement volume is still significant and can be used to achieve several policy objectives at the national level but also at the entity level. It represents a considerable source of revenue for the private sector. Thus, IMSS's strategic decisions could shape the economic growth of suppliers in IMSS's markets.

The OECD Recommendation on Public Procurement calls on countries to include secondary policy objectives in their public procurement policies, such as sustainable green growth, innovation, standards for responsible business conduct and the development of small and medium-sized enterprises (OECD, 2015^[7]). This section will focus on the role of procurement in developing Mexico's small and medium-sized enterprises.

In many countries, small and medium-sized enterprises (SMEs) are the backbone of the economy, representing more than 90% of all firms in most OECD countries (Figure 8.3).

The role of public procurement in giving access to markets can enhance SMEs' performance. Recognising the important role that the public sector can play as a purchaser of goods and services, as well as the critical role of SMEs in the economy, governments are increasingly using public procurement to promote, develop and support local SMEs (see Box 8.4 for a Korean example). This is also the case for Mexico.

Figure 8.3. Share of enterprises by number of employees in OECD countries



Note: CAN, USA, RUS: data do not include non-employers.

Data for CHE exclude enterprises with less than 3 persons employed

AUS, TUR: size class 1-9 refers to 1-19

AUS: size class 20-49 refers to 20-199, 250+ refers to 200+; JPN: 50-249 refers to 50-299, 250+ refers to 300+;

AUS, CAN, ISR, NZL, RUS: data refer to 2015, MEX: 2013, JPN: 2011

KOR, MEX data refer to establishments.

GBR data exclude small unregistered businesses; these are both self-employed without VAT or PAYE administrative basis and incorporated businesses with one employee, as the latter are likely to be owners/workers in the business.

Source: (OECD, 2017^[8])

Box 8.4. Korea's support for SMEs

Support for SMEs in Korea is a strong priority, given the make-up of the economy. There are approximately 3.3 million SMEs in Korea, while there are only 2 900 large businesses: SMEs make up 99.9% of Korean businesses. The Public Procurement Service (PPS) implements the government's policies for increasing public purchases from a variety of types of entities, including small and medium-sized businesses, local businesses, women-owned businesses and other social enterprises.

The legal basis of support of SMEs requires the heads of public institutions to provide small and medium-sized businesses with increased opportunities to receive orders when they intend to make procurement contracts for goods, services and construction works.

A recent change, which took effect on 1 January 2015, now defines SMEs solely in terms of sales volume (either annual or average). In addition to the criteria for being included as an SME, there are specific factors that can exclude an enterprise from SME status, including total assets exceeding USD 423.8 million.

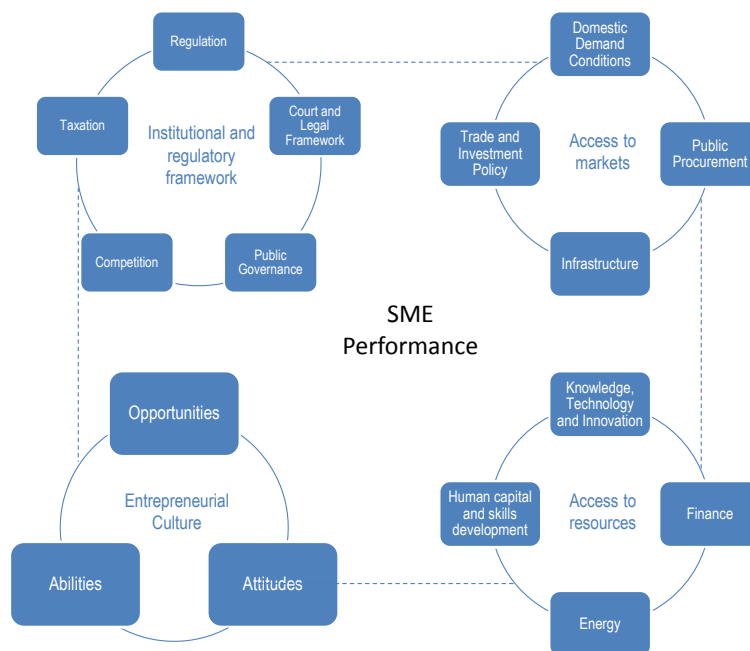
A business must be deemed independent in ownership and operation (not a subsidiary of a large enterprise) with respect to the relevant laws and regulations.

Article 4 of the Enforcement Decree of the Act on Facilitation of Purchase of Small and Medium Enterprise-Manufactured Products and Support for Development of their Markets sets an annual purchasing goal for SME-manufactured products of 50% or more of total purchasing value.

An SME set-aside programme is run in co-operation with the Small and Medium Business Administration (SMBA). Under this programme, SMBA designates specific products for SMEs, and currently there are 207 products with this designation. For these products to be designated as competitive products, only SMEs that directly manufacture such products are invited to participate in competitive tenders.

Source: (OECD, 2016^[9])

While the primary objective of public procurement is to deliver goods and services necessary to accomplish government missions in a timely, economical and efficient manner, countries are increasingly using it as a governance tool to achieve broader objectives. Considering the structure of the private sector in most countries around the world where SMEs make up a large share of the economy, efforts directed towards the promotion of their economic growth are commonly pursued and actions to strengthen SMEs business environment include opening access to public markets (Figure 8.4).

Figure 8.4. SME business environment: A conceptual framework

Source: (OECD, 2017_[10])

As part of efforts carried out to ease SMEs' access to markets governments and entities develop and implement several measures to enhance SMEs' participation in public procurement. Box 8.5 offers a description of some of these measures.

Box 8.5. Measures for enhancing SME participation in public procurement

- Put in place a specific legislative provision or policy (e.g. set-aside, bid preferences) to encourage participation from SMEs in procurement
- Remove barriers to SME access to public procurement by:
 - disseminating information on bids online
 - offering possibility to submit bids online
 - dividing contract into lots
 - simplifying administrative procedures for SMEs.
- Offer training and capacity building to SMEs, by:
 - making documentation or guidance focused on SMEs available online,
 - providing capacity-building programs and workshops for SMEs to help new entries into the public procurement marketplace
 - developing dedicated call centres for answering questions from SMEs.
- Apply preferential fees or financial incentives:
 - offering preferential financial treatment (e.g. waiving fees) for SMEs
 - providing tender documents at a lower price for SMEs
 - reducing the payment deadlines for SMEs.

Source: (OECD, 2016^[11])

At the national level, there is no stand-alone policy to support SMEs access public procurement opportunities. However, the Mexican procurement legal framework includes provisions to support their access and development through several mechanisms (see next section). These include joint bidding and subcontracting arrangements, set asides, allotment strategies, and favouring awards of contracts to SMEs in the case of a tie between two or more suppliers. When preparing its procurement plan, IMSS assesses the estimated procurement value for each need, as well as the procurement value directed to SMEs. According to IMSS's 2017 procurement plan, approximately MXN 15 billion will be allocated to SMEs, representing around 18.7% of the total procurement value. This information is reported on the webpage of the Ministry of Economy dedicated to enhancing SMEs' participation in federal public procurement. The page also includes a section reporting on progress made by entities from the federal government in implementing this provision. In July 2017, IMSS had reached 51% of its target, while other entities like the State's Employees' Social Security and Social Services Institute (ISSSTE) had reached 47% and the Health Ministry 73% of their annual targets.

Although this information is relevant, in order to tailor specific procurement strategies to enhance SMEs' participation, it is also crucial to have information on each procurement procedure (open tender, restricted tender, direct award, etc.) or type, such as consolidated tenders.

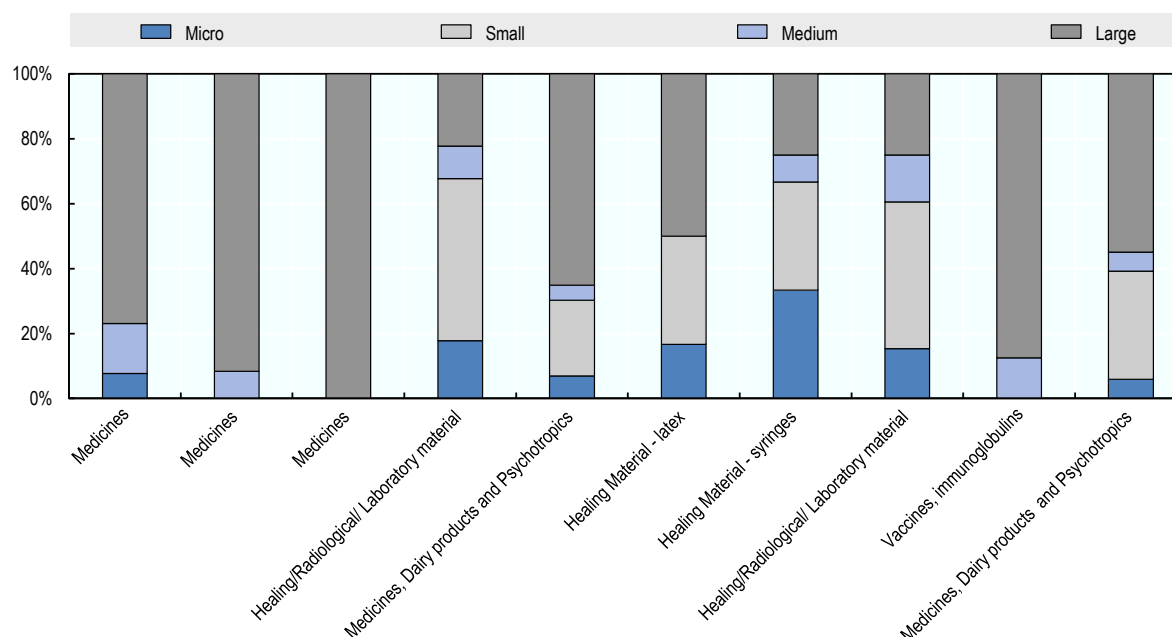
When demand is aggregated into high-volume contracts, it is possible that SMEs could be excluded from the procedures, since they often have limited production capacity and reduced access to credit, which makes competition for these types of contracts less suitable for them than for larger firms. In the case of IMSS's consolidated procurement, this concern applies particularly to procedures involving medical devices which is characterised by the presence of several SME suppliers – more so than in other markets where IMSS carries out consolidated procedures, such as for medicines. Therefore, IMSS

recently initiatives implemented by IMSS for the procurement of medical devices such as launching two tenders, one at the international level and the other at the national level with a higher procurement value aiming at giving access to local suppliers, in particular SMEs.

Yet, IMSS's experience finds higher non-compliance rates among SMEs than among larger companies, presumably due to the SME's lack of capacity to satisfy the high-volume demand created by consolidated procurement. In this context, shipping and delivery costs proposed by SMEs also tend to be higher than those offered by larger companies, since SMEs have access to less extensive delivery networks than their larger competitors. SMEs' limited access to credit also makes them vulnerable to the delays in payment that can be a common feature of IMSS's consolidated procurement procedures (Chapter 4).

To assess the potential of IMSS's procurement opportunities for attracting SMEs, the authors have analysed detailed information on suppliers' participation in procurement opportunities (Figure 8.5). In the ten consolidated tenders launched in 2016 to procure medicines and healing material, on average 60% of bidders were large firms. Yet this analysis only takes into account the size of the awarded bidders and does not compare the amounts awarded to the size of suppliers. Doing so would complement this analysis and enable IMSS to identify bottlenecks as well as opportunities for improvement by tailoring strategies on a case-by-case basis. Indeed targeted and specific efforts are required in order for IMSS to enhance SME participation in its procurement process.

Figure 8.5. Share of micro, small, medium and large enterprises bidding for all consolidated tenders launched by IMSS in 2016



Source: Analysis based on CompraNet

To enhance SMEs participation in IMSS procurement opportunities, the institute could implement various procurement strategies going beyond thresholds imposed by the law

The legal framework, and in particular Article 23 of the Regulation of the Public Procurement law (*Reglamento de la Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público*- RLAASSP), mandates contracting authorities to allocate to SMEs 50% of their procurement volume which is spent through restricted tenders or direct award (i.e. exceptions to open tenders provided for in Article 42 of the Public Procurement law (*Ley de adquisiciones, arrendamientos y servicios del sector público* - LAASSP). Yet Article 42 mentions that these exceptions cannot exceed 30% of the annual procurement budget, which means that through this procedure SMEs will receive a maximum of 15% of procurement volume of each entity. As described in Table 8.2, 21% of IMSS's procurement volume was awarded to SMEs in 2016.

Table 8.2. Share of IMSS procurement volume and contracts allocated to SMEs, 2014-2016

Year	Share of procurement volume awarded to SMEs	Share of contracts awarded to SMEs
2014	16%	20%
2015	16%	34%
2016	21%	28%

Source: Data provided by IMSS

In the absence of detailed information and assuming that the use of this set-aside through exceptions to open tenders is fully seized by the IMSS (15% of its procurement volume), one can estimate that only 6% of the procurement volume spent through open tenders was awarded to SMEs in 2016 and only 1% in 2014 and 2015. Therefore, IMSS could benefit from monitoring closely the use of the set-aside provisions included in the legal framework.

When procuring large volumes such as in consolidated tenders, or in the case of complex procurement, the market structure and concentration might not be adapted to effective competition and to participation by market players of smaller sizes. This may harm the efficiency and inclusiveness of the system. The Competition Authority (COFEC) has voiced concerns about the negative impact of consolidated tenders on SMEs.

To overcome barriers to SMEs participation, contracting authorities can implement a variety of strategies and policies including:

- enabling competitors of different sizes to participate through joint bidding and subcontracting arrangements
- reducing the size of the contract by dividing it into lots.

The different strategies and policies are discussed in turn below. For each of them market analysis will play a crucial role since it will identify SMEs' capacity to participate in procurement opportunities and therefore inform decisions to implement the most appropriate strategies.

Joint bidding

Joint bidding refers to the practice of two or more supplier submitting a single bid. The main objective of this mechanism is to enable suppliers with limited capacity (human,

technical and geographical) to participate in a tender that they would not be able to bid for alone. When implementing this mechanism, however, contracting authorities might need to be vigilant of the risks of bid rigging (OECD, 2012^[12]).

In Mexico, the LAASSP and RAASSP allow for firms to submit joint bids for all open tenders, and in specific cases for restricted tenders, when the contracting authority finds it appropriate to enhance SMEs' participation. The process to be followed by the different suppliers is described in Article 44 of the RAASSP. SMEs may choose to combine their resources with other firms (SMEs or not) and present a joint offer in a procedure in which they would have been unable to take part on their own. However, this option seems to be underused: only one joint bid has been identified in all the consolidated tenders launched in 2016, and it was not awarded a contract.

Considering the extent of market concentration in certain product categories such as in medical devices, joint bidding could help to diversify IMSS's supply base and to attract more SMEs. IMSS could promote the use of joint bidding among suppliers by further insisting on the existence of this possibility in its tender documentation and through meetings with chambers of commerce and business associations.

Subcontracting

SME participation can also be fostered through subcontracting arrangements. Indeed, for large contracts, SMEs might not be in a position to be a prime contractor, performing the whole contract; However subcontracting can still provide SMEs with opportunities to perform a share of the contract (OECD-SIGMA, 2016^[13]). Again, the Mexican regulatory framework foresees this possibility in Article 3-VI of the LAASSP. Subcontractors need to provide the same documentation as the winner of the contract. IMSS has not shared information with the review team on how many of its contracts have subcontracting arrangements. An analysis of those contracts could help to tailor specific strategies, for instance according to contract size, to enable the direct participation of subcontractors in procurement opportunities. In addition, in Mexico, subcontractors are not paid directly, which can put them in a difficult financial situation. IMSS could consider promoting the use of subcontracting arrangements and assessing the feasibility of paying subcontractors directly.

Allotment strategies

Dividing large contracts into lots can bring on board more SMEs, but requires taking several factors into account. These include the possibility of achieving economies of scale, and the market structure in terms of participants and their degree of specialisation. The size of each lot will determine the potential economic operators who can participate. Article 39 of the LAASSP states that it is possible to award one contract/lot to more than one supplier. This mechanism has been implemented by IMSS for some procurement procedures, including consolidated tenders. Open tenders are divided into lots or "*partidas*". This procedure is called simultaneous procurement ("*abastecimiento simultaneo*") and requires fixing the rules in advance governing the share of the contract to be awarded to each lot and under what conditions. As mentioned in the LAASSP, entities implementing this mechanism will need to take into account recommendations from COFECE on mitigating the risks of collusion. IMSS should consider increasing its division of contracts into lots while taking into account market analysis outcomes and COFECE and OECD's recommendations.

By adopting more systemic measures easing access to public markets, IMSS could increase the attractiveness of its procurement operations for SMEs

Aside from these strategies, another element which often acts as an impediment to small businesses participation in public tenders is the extent of resources, both human and financial, required to submit an offer. These include the fees and red tape necessary for firms to submit the bidding documents, as well as the required monetary guarantees. To minimise the adverse impact of these procedural steps, the costs and administrative burden associated with the preparation of bids should be kept to a minimum.

The first type of costs that can be minimised are those directly related to submitting the bid itself: the payments for obtaining the tender documentation and financial guarantees, such as performance bonds, to ensure the satisfactory execution of the contract by the awarded bidder. When used disproportionately, bonds can represent an administrative and financial obstacle to SMEs participating in public procurement opportunities.

Although access to tender documentation is free of charge in Mexico, performance bonds representing 10% of the bid can be required. As discussed in Chapter 3, the requirement to provide this financial guarantee can be waived in specific instances, such as previous satisfactory performance (art. 48 of the LAASP). Yet the benefit of the exemption cannot be granted as such to SMEs. IMSS could consider applying targeted efforts to reduce the value of the guarantee for SMEs, or exempt them from providing it, in order to enhance their participation in procurement opportunities.

Advanced payments can also play an important role in facilitating entry to the market for SMEs that have limited access to credit. This holds true in Mexico, where SMEs' average interest rate in 2015 was around 9% - one of the highest in OECD countries. Many contracting authorities in OECD countries allow SMEs to receive advanced payments. These can enable firms to perform their contract despite needing to buy expensive inputs. Under Article 13 of the LAASSP, contracting authorities can provide advanced payments to suppliers. When it comes to SMEs and when the manufacturing time exceeds 60 days, this article mandates contracting authorities to provide advanced payments ranging between 10 to 50% of the procurement value. Mexico's legal framework enables the provision of advanced payments, but they need to be guaranteed, which undermines the benefits of the system. While there is a mandatory aspect in case of long manufacturing time, this article doesn't prevent IMSS to voluntarily apply advance payments to other situations such as contracting with SMEs. IMSS could therefore consider implementing this mechanism when contracting with SMEs, even when the manufacturing process is shorter than 60 days.

In Mexico, three instruments have been developed through the Productive Chain Program (*Programa Cadenas Productivas*) for suppliers of the federal government (including IMSS) by Nacional Financiera, a local development bank. Through this programme suppliers can obtain 1) immediate liquidity based on the invoice's value through a financial transaction called electronic factoring; 2) loans (up to approximately USD 6,9 million); and 3) letters of credit which can be used to provide performance bonds. IMSS could benefit from promoting these mechanisms or developing other specific instruments for its SME suppliers.

Additional ideas for alleviating the financial burden on suppliers and in particular SMEs can be found amongst large contracting authorities or central procurement agencies in many OECD countries (Box 8.6).

Box 8.6. Financial support initiatives for SMEs in OECD countries

Reverse factoring in France

In addition to the advanced payment foreseen in the French public procurement law, UGAP, a French Central Purchasing Body (CPB) operating in many sectors including the medical sector, developed a solution called “reverse factoring” for its suppliers. The CPB does not provide financing to its suppliers; the mechanism consists of negotiating financial interest rates to be paid by suppliers to a financial institution for those willing to receive an anticipated payment and being paid in 2 days on average instead of the standard 30 days.

Given its procurement power, the interest rates negotiated by the CPB following an open tender are much more advantageous than the interest rates that a single supplier could get in the financial market. The CPB does not have any financial interest when suppliers are using this mechanism.

UGAP’s suppliers can adhere to this solution on a voluntary basis and can use it for all their invoices, or on a case-by-case basis depending on their financial needs.

Instant contract payments in Korea

PPS, the Korean procurement agency, provides special financial support to SMEs involved in public contracting. SMEs are entitled to an upfront payment of up to 70% of the value of a government contract. For some contracts for goods – including orders against unit-price contracts, lump sum contracts for goods valued up to KRW 500 million, or at the request of the end-user for other goods contracts – the business is entitled to instant payment upon presentation of the invoice. In these cases, payment is made from PPS’s special account and then reimbursed by the end-user. Though central government entities are entitled to a payment period of up to five days, instant payment allows SMEs to receive payment within as little as four working hours.

Source: (UGAP, 2017^[14]); (OECD, 2016^[9])

Besides direct financial costs, indirect costs also stem from the various forms and administrative documentation which need to be submitted along with the technical and financial proposal. The time or cost necessary to request them could hinder SMEs from participating in public tenders. Some countries, such as Spain (Box 8.7) have attempted to streamline their tendering procedure, for example by using the same application forms or asking for the same type of information in different tenders. Mexico’s legal framework does not include such measures, and suppliers have to submit the administrative documentation for every tender. The SFP is the entity in charge of the federal public procurement system including the management of CompraNet, the e-procurement system. As a policy maker, it is the entity in charge of detailing the practical steps to carry out procurement procedures which are defined in the legislative environment. As such, it has the potential for devoting efforts to streamline as much as possible tendering procedures.

Box 8.7. Self-declarations to reduce red tape in Spain

In 2013, Spain introduced measures intended to support and facilitate participation of SMEs in public procurement. SME bidders can now provide contracting authorities with a self-declaration, rather than numerous documents certifying their legal, social and fiscal situation.

This self-declaration is sufficient for public works contracts worth under EUR 1 million and for goods and services contracts worth under EUR 90,000. Only the winning bidder is required to provide the documentary evidence and contracting authorities will not conclude contracts with bidders unable to do so.

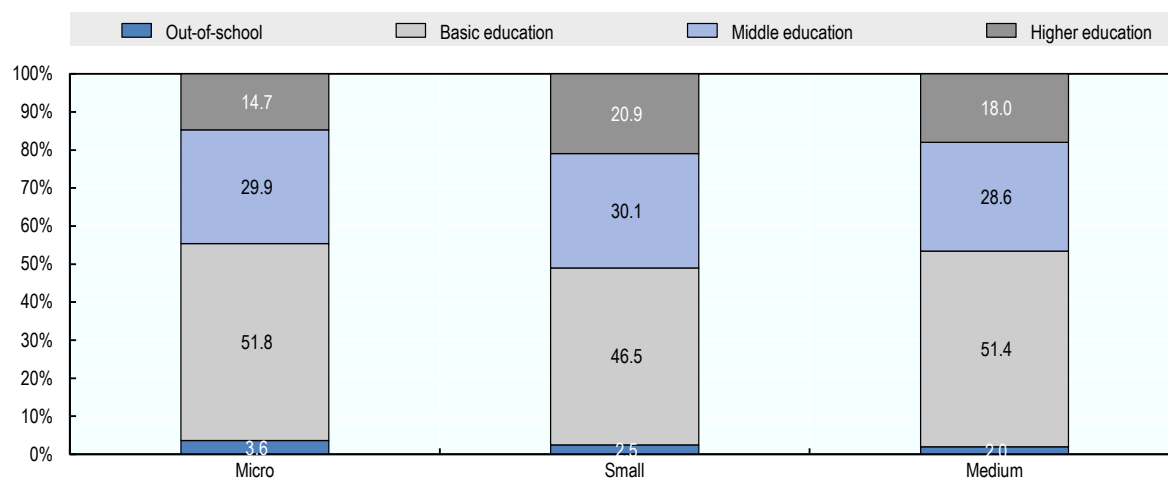
These measures are consistent with recent EU Directives on Public Procurement, which note that: “Many economic operators, and not least SMEs, find that a major obstacle to their participation in public procurement consists in administrative burdens deriving from the need to produce a substantial number of certificates or other documents related to exclusion and selection criteria. Limiting such requirements, for example through use of a European Single Procurement Document consisting of an updated self-declaration, could result in considerable simplification for the benefit of both contracting authorities and economic operators”

Source: (OECD, 2014^[15])

The OECD recommends opening public markets to competitors of all size including SMEs. Countries have developed a wide array of measures supporting SMEs in their public procurement systems such as making documentation or guidance focused on SMEs available online, providing capacity-building programmes and workshops for SMEs, as well as developing dedicated call centres for addressing their questions (Box 8.5).

In Mexico, SMEs might lack the capacity to understand and to deal with public procurement processes. A survey by the National Institute of Statistics and Geography shows that on average 80% of staff working in SMEs lack a higher education degree (Figure 8.6), suggesting a need to strengthen staff capacity in several areas including public procurement.

IMSS could offer training and capacity building for SMEs on the public procurement process, in particular the use of e-procurement tools, as well as on the exact needs of the public sector and how they can contribute to the system. Offering training for suppliers on different aspects of IMSS’s procurement procedures could encourage greater participation in open tenders. SFP does provide training in how to use CompraNet to potential suppliers to the public sector. IMSS could benefit from promoting this training amongst its suppliers and bidders.

Figure 8.6. Level of education of staff by enterprise size.

Source: (INEGI, 2016^[16])

Given the specificities of the health sector and the procurement volume in IMSS tenders, it could also develop dedicated training programmes in areas that bidders in IMSS procurement processes find challenging. For example, in response to the situation on joint bidding described above, training could pave the way for SME suppliers to present joint bids when they cannot bid on their own, while providing them with guidance to avoid contract performance problems.

IMSS could work on identifying other problem areas, for instance those raised in the clarification meetings, and design training for suppliers on these issues. The training could be offered in the form of in-person training sessions, by means of an online website, as a written guidance document, or with the intermediation of business chambers (see OECD examples in Box 8.8).

Box 8.8. Supplier training in Italy and Sweden

Supplier training desk in Italy

In Italy, MSMEs (micro, small and medium enterprises) tend to participate in lower value public procurement tenders. Their participation in tenders worth from EUR 100,000 to 300,000 corresponds to 65%, whereas in tenders worth EUR 1 to 5 million it decreases to 51%, and to 30% for tenders with a value higher than EUR 5 million.

Italy has strengthened its co-operation with suppliers by setting up Supplier Training Desks within the offices of National Enterprise Associations. Here, experts from the central purchasing agency (Consip) provide training and assistance to local businesses, and in particular MSMEs on the use of electronic procurement tools.

This project has been well received and attended by MSMEs. Since the beginning of the project, more than 2 250 MSMEs have been supported by the Supplier Training Desks and qualified for the public e-marketplace for low-value purchases through e-catalogues (MePA). Today, SMEs represent the highest percentage of enterprises using the MEPA.

Online assistance in Sweden

The Swedish Competition Authority (SCA) has created an online interactive tool providing companies with guidance on when and in what form they can co-operate and submit joint procurement bids. The SCA had noticed that companies found it difficult to draw the line between competitive and anti-competitive and/or illegal co-operation, and saw an opportunity to pair its enforcement work with more preventative outreach measures by assisting companies at an earlier stage.

The guide features frequently asked questions, such as, “Can we co-operate in this particular tender?”, or “When am I allowed to use a competitor as a subcontractor?”. It also contains information on the consequences of illegal co-operation. Throughout the guide, “pop-up windows” give the user more detailed information about specific questions or examples based on real cases. Eventually, the user is given an indicative answer on whether the situation in question is likely to be permitted or not, subject to the need to seek legal advice in case of uncertainty

Source: (OECD, 2014_[15])

Proposals for action

As the largest health provider in Mexico, IMSS is a central actor of the national health system and represents a considerable source of revenue for the private sector. Building on efforts made by IMSS since the last review, the institute could further align its procurement strategies with national health policies and further implement measures to facilitate SMEs access to IMSS procurement opportunities.

Aligning IMSS procurement strategies with national health policies

- At the federal level, further contributing to framing national health policies by closely interacting with the Ministry of Health.
- Contribute to national healthcare objectives such as universal access by defining specific procurement strategies supporting these endeavours. For example, IMSS could design procurement processes which would increase the penetration rate of generic drugs, thereby providing the Mexican population with cheaper alternatives to patented drugs.
- Leveraging on strategic public procurement to ensure the effectiveness of national healthcare policies.

Fulfilling IMSS's potential as a source of revenue for the private sector

- Given the information available in CompraNet and in its own information system, track information on the size of suppliers submitting a bid, as well as the size of suppliers winning a contract, and link it with the identification of suppliers during the market analysis phase to assess the level of participation of potential suppliers and tailor specific procurement strategies to enhance SME's participation in IMSS procurement activities.
- Define procurement strategies to attract SMEs to participate in IMSS procurement opportunities for all categories including medicine and medical devices by:
 - monitoring closely the use of the set-aside provisions for SMEs included in the legal framework to disentangle the compliance with the legal framework from the rest.
 - promoting the use of joint bidding to diversify IMSS's supply base and to attract more SMEs especially for some product categories with a high market concentration such as medical devices , and;
 - defining allotment strategy and subcontracting arrangements in IMSS procurement opportunities while taking into account market analysis outcomes and COFECE's recommendations.
- Going beyond the legal framework and develop additional measures to increase SMEs' access to IMSS contracts, including:
 - exempting or reducing the value of guarantees for SMEs,
 - facilitating access to advanced payment for suppliers and ensuring timely payments as delays increasingly harm SMEs,
 - developing or promoting financial instruments and mechanisms aiming at supporting SMEs in Mexico
 - with the support of SFP streamlining tendering procedure in particular for the submission of administrative documentation
- In addition, IMSS could promote training provided by SFP among its suppliers and bidders, and develop a dedicated call centre to support SMEs during the tendering phase.

Note

¹ The objectives are 1) to contribute to the universal right to access healthcare; 2) to strengthen its revenues; 3) to increase productivity; 4) to enhance the healthcare model; and 5) to enhance economic and social benefits.

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