

Executive summary

Good governance in Mexico’s public procurement improves health outcomes while increasing efficiency and savings

As in many countries, Mexico’s main providers in the health care sector are under intense demographic and financial pressure to deliver more and improved services with limited resources. Procurement is crucial to the effectiveness and viability of this sector as it accounts for considerable administrative and financial resources and is an essential element for service delivery. However, due to its complexity, the size of the financial flows it generates, and the close interaction between the public and private sectors, public procurement is also the government activity most vulnerable to waste, fraud and corruption. As such, good governance is necessary for enhancing credibility and public trust in the capacity of the health care sector to deliver timely and effective services to the public.

While health indicators of the Mexican population have improved over the past two decades, life expectancy at birth remains lower and infant mortality higher than in most OECD member countries. Health expenditures is the variable that contributes most to health status, yet Mexico had in 2009 a total health expenditure per capita only slightly more than a quarter of the OECD average and still has one of the lowest expenditure per capita on pharmaceuticals. Simultaneously, opportunities to increase health care spending may be limited in Mexico’s financially constrained health care sector. In that context, the procurement function is a key lever that can be used to improve the quantity and quality of products and services delivered in a timely manner, contributing to improving Mexican health indicators.

Against that background, the Mexican Institute of Social Security (*Instituto Mexicano del Seguro Social – IMSS*) covers almost 45% of the Mexican population and provides the largest number of health services in Mexico, making it the largest health and social security provider in Latin America. It is also a major spending entity of the Mexican government and about 75% of its procurement spending concerns goods, particularly medicines. Recognising the importance of public procurement in improving spending efficiency while maintaining high quality health services, IMSS requested the OECD in early 2011 to review the integrity and efficiency of its procurement system. The review aims to increase the openness and transparency of its procedures and help achieve higher effectiveness and efficiencies.

Recent centralisation efforts have achieved a variety of benefits, such as savings, expertise and standardisation

A large part of IMSS’ public procurement function is highly decentralised, being embedded in 35 local entities and 25 high specialty medical units in charge of administrating its medical and social services to the population. In order to increase the cohesion of the system, various key decisions and strategies related to the procurement function have been

centralised, such as the dissemination of procurement policies and procedures. IMSS has also centralised procurement activities, through standardisation and consolidation of similar or complex requirements of the user areas. As a result, more than half of the value of its contracts is now issued by central units.

IMSS has recently embarked on several initiatives to improve its procurement function, such as streamlining procurement processes and consolidation of therapeutic goods (including medicines since 2008). In conjunction with the use of reversed auctions, these efforts resulted in savings of USD 2.8 billion between 2007 and 2010. Additional savings are achieved through participation in the joint negotiation of prices for patent medicines by various Mexican public health stakeholders. IMSS' centralisation initiatives have facilitated the emergence of a centre of excellence in procurement within the organisation.

Yet, IMSS' procurement system does not fully reach the objective of operating as a unified, performance-focused function

Notwithstanding recent efforts, IMSS' procurement function is generally not recognised as a strategic instrument that contributes to the organisation's key objectives. Rather, it is perceived as an administrative task to the service of other internal areas. Furthermore, some decentralised local entities have experienced insufficient supply coverage under recent consolidation contracts issued at the central levels, due to delays in implementation or to low performance of suppliers (non-delivery of medicines sometimes reaching up to 30% in some regions).

This situation is partly attributable to the absence of an explicit, clear and comprehensive organisation-wide procurement strategy that clearly communicates the vision, objectives and desired outcomes of the procurement function to all stakeholders within the organisation. Furthermore, IMSS does not have indicators in place to assess the overall effectiveness of its procurement function. While some *ad hoc* indicators exist in some units, they are not consistent and are underused. Another significant shortfall preventing strategic management of the procurement function is a lack of capacity to rapidly and accurately consolidate data into organisational-wide statistics and reports. This constraint should be reduced through ongoing system integration efforts to achieve an integrated back office for procurement, budget and information processes.

Internal communication and co-ordination are also found to be insufficient, resulting in significant loss of internal knowledge and expertise. The current vertical relationship is highly "institutional". On the one hand, new procurement policies are disseminated top-down through e-mails or meetings, and insufficient guidance is provided to decentralised units on their application and on the development of procurement strategies. On the other hand, product and market intelligence available in the decentralised units are often not collected and considered in the development of initiatives managed centrally, resulting in adverse impacts. Similarly, there is little exchange of knowledge and experiences between the different regional areas of the organisation, resulting in the loss of significant synergy and efficiency opportunities. While a function was recently created in the central area to collect and consolidate good practices related to procurement, the associated activities only take place in an informal and *ad hoc* basis and the results are not sufficiently communicated across the organisation.

The lack of strategic management of IMSS’ human resources hinders the development of an efficient and effective procurement workforce

Although IMSS’ procurement agents demonstrate a high level of commitment, they come from very different backgrounds. There is evidence of recent efforts in IMSS to train procurement officials, for example through delivering specialised training to middle managers. Nonetheless, common training on core skills and knowledge has not yet been systematically delivered to all procurement agents. The OECD review has therefore identified a significant knowledge, competency and capacity gap in the organisation, particularly in the decentralised units. Such shortfalls relate to various key activities of the procurement process, such as market research, the development of requirement definitions, use of flexible evaluation approaches, as well as supplier and contract management. Similarly, various managers lack crucial knowledge and capabilities, such as team building, communication and strategic planning. Building on existing job profiles to create a complete competency framework for procurement agents and leaders would be a step forward in assessing the skills needed and identifying training gaps.

The current management of human resources prevents the organisation from developing a sustainable and effective procurement function. At this time, strategic management of the procurement workforce is lacking in IMSS, the personnel units primarily having an administrative focus, such as managing payroll and conducting selection tests to candidates proposed by each procurement unit. Inadequate workforce planning, a high workload, inadequate facilities and fear of sanctions should an error occur in the procurement process are factors resulting in a high level of stress in the units and in a very important turn-over (one to four years for operational staff and one year for middle managers). Furthermore, the current appointment process (both recruitment and promotion) is carried out in a discretionary manner, with little or no competition and without sufficiently considering candidates external to the organisation. This process jeopardises the principles of merit, hinders career opportunities and development, and prevents the organisation from acquiring all competencies necessary to fulfil its mission. Finally, employee performance is not systematically measured and managed in IMSS, resulting in a focus on daily needs rather than on key results aligned with the organisational priorities and performance targets.

Various deficiencies in IMSS’ procurement process limit the efficiency and outcomes of the procurement function

Various key steps of the procurement process are undermined by insufficiently developed key competencies in the organisation, a lack of market intelligence (including of the goods and services available or under development), and insufficient time available to procurement officials due to inadequate planning or unreasonable client expectations. This results, among others, in some requirement descriptions being unclear or lacking balance (being either overly restrictive or underspecified), thereby limiting the level of competition or requiring various clarifications.

Specific procurement strategies are often developed by procurement units without considering all relevant information and risks. The strategies also overly focus on the use of mandatory requirements and on final selection based on the lowest acquisition price. The use of more flexible evaluation and selection approaches – such as non-mandatory criteria and selection based on the best overall value considering the entire life-cycle of the product – would allow IMSS to maximise its outcomes and better mitigate various risks and adverse impacts experienced by procurement units. Due care must also be taken

to ensure that proposals made by bidders are evaluated in accordance with the criteria and requirements specified in the solicitation document. Significant breaches of that key principle have been evidenced in IMSS in the past. This situation compromises the integrity of its procurement system, prevents the organisation from meeting its needs under the best conditions, and negatively impacts its relation with suppliers (including a reduction of its supply base). For example, between 2007 and 2010 14% of IMSS' competitive procedures were subject to formal challenges from bidders. This percentage is three times higher than the average of the rest of the federal entities.

IMSS could improve its interaction with the marketplace and the management of its suppliers

Significant information asymmetry exists between IMSS and the market place. While positive progress has been made through a discussion forum in place between IMSS and the industry (the Mixed Consultative Supply Commission), industry representatives report that it has not reached its full potential to either party. IMSS could increase the efficiency and outcomes of the interaction with its suppliers and its market intelligence, among others by answering electronically to questions from suppliers under a competitive process (rather than solely through formal clarification meetings), providing verbal debriefing, undertaking regular supplier' survey and reinforcing existing communication forums.

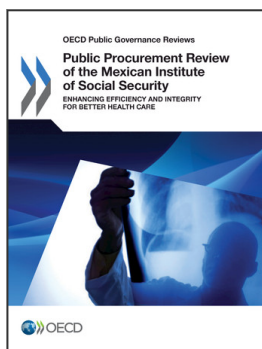
Poor performance by suppliers is found to negatively impact IMSS' capacity to provide sufficient high-quality services to the population under the best conditions. This issue is particularly evidenced in centralised medicines contracts, under which up to 30% of deliveries do not take place in some regions. This can be partly explained by IMSS not consistently applying available recourses such as penalties for late delivery, thereby significantly reducing their role in incentivising contractors to meet their obligations. Concerns have been raised that some bidders consider this context in their bid strategy, reducing their price in order to be awarded the contract while not intending to meet the portion of the requirement involving the highest expenses such as deliveries of medicines in remote locations. In addition to strengthening the use of available recourses, IMSS could implement tailored supplier' performance monitoring and management programmes for a few of the requirements that are crucial to the organisation and for which securing adequate supply has proven difficult.

IMSS has undertaken significant efforts to increase the transparency of its procurement system, but initiatives to prevent corruption and wrongdoing are still needed

Over the last years, IMSS has implemented various initiatives to increase the transparency of its procurement process. It has revamped its online transparency portal in 2011 in order to significantly increase the level and clarity of publicly available procurement-related information. It has also fought supplier collusion (also known as bid rigging) through co-operation in investigations of the Mexican Federal Commission on Competition and through collaboration with the OECD (including training for more than 200 employees). Finally, it has employed since 2011 the Reliability System (*Sistema de Confiabilidad*) to identify positions that present high risk of nepotism and corruption.

IMSS' integrity enhancement essentially relies on a corrective approach based on sanctions. Complementing that approach with a preventive strategy based on values would assist in changing the organisational culture and creating an integrity-prone environment.

For that purpose, IMSS could expand the existing code of ethics to provide specific guidelines for appropriate behaviour and assisting public servants in dealing with situations of conflict of interest, bribery or influence peddling. It could also implement mechanisms and red flags allowing procurement officials, management and internal control areas to rapidly detect an improper or corrupt practice and to act promptly. Finally, IMSS could introduce enhanced whistle-blowing mechanisms and protection as the current use of mailboxes to report misconduct is insufficient and subject to misuse.



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