Public procurement review of the State’s Employees’ Social Security and Social Services Institute in Mexico

Smart procurement for healthy public services

HIGHLIGHTS
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Identification of needs remains a significant challenge
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Key recommendations

Safeguarding integrity and enhancing transparency throughout ISSSTE’s procurement cycle

Transparency is a priority for the Mexican federal Government and ISSSTE
Public access to timely and user-friendly data on ISSSTE’s procurement activities remains limited
It is essential for ISSSTE to develop a culture of integrity with special focus on preventing, mapping and mitigating corruption risks
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The health of citizens has significantly improved in the last decades: the average life expectancy has increased by more than 10 years since 1960 in OECD countries. However, health systems are also under growing pressures. Health risk factors are changing, with an aging population and a rising tide of chronic diseases resulting from unhealthy lifestyles. Poverty, unemployment and stress are also increasing in countries facing economic difficulties, which negatively impact health outcomes. Against the background of evolving health challenges, public spending on health has to be controlled. Forecasts show that health spending will keep climbing in the foreseeable future, challenging the fiscal sustainability of health systems.

The health challenge is particularly complex in Mexico. While the average life expectancy has increased by almost 18 years since 1960, it remains one of the lowest in the OECD, while the rate of adult obesity has increased rapidly to 30%. At the same time, resources to address these challenges are insufficient. Over 25% of Mexican citizens do not have health insurance coverage and total public and private health expenditure per capita is less than a third the OECD average. More than elsewhere, the quality of health care delivered to Mexican citizens depends on an innovative, efficient health system.

In this context, public procurement plays a key role in increasing the efficiency and sustainability of Mexico’s health system and in maintaining high-quality health care for citizens. Through strategic procurement, hospitals and clinics can obtain more products and services of better quality at the same, or even lower, costs. Effective procurement also ensures the availability of medical goods and services required for health systems to be effective and responsive to patient needs. Good governance in public procurement is therefore necessary to enhance the public trust in the capacity of Mexico’s health care sector to deliver timely and effective public services.

For many years, the OECD has assisted governments in reforming their public procurement through sharing international good practices, comparative data and conducting peer reviews against the OECD Principles for Enhancing Integrity in Public Procurement. These efforts also support the G20 commitment to promote integrity, transparency and accountability in public procurement.

The report on the State’s Employees’ Social Security and Social Services Institute (ISSSTE) is the second OECD peer review in the health sector of Mexico. Similarly to the procurement review of the Mexican Institute of Social Security (IMSS), it assesses the effectiveness, efficiency and integrity of ISSSTE’s entire procurement system and identifies a series of actions for improvement. ISSSTE is a main player in the Mexican health care system providing numerous medical and non-medical services for more than 12 million public sector employees and their families.

The review found that ISSSTE has taken bold measures in strengthening the stock management of its medicines and medical products. It has also benefited from economies of scale and reduced its costs through significant centralisation and consolidation, both within the organisation and with other Mexican health care providers. However, stronger actions are required for ISSSTE’s procurement function to achieve its full strategic potential. Its numerous decentralised procurement units currently fail to work in a cohesive manner toward clear priorities and objectives. Also, ongoing improvements in procurement activities and the dissemination of good practice are hindered by a lack of communication and
co-ordination. Finally, the various risks present throughout the procurement process are not sufficiently monitored and weaknesses addressed.

The review shows how ISSSTE can strengthen its procurement function, starting with the development of an organisation-wide procurement strategy to bring clarity to the procurement priorities and key strategies and to increase cohesion. Implementing an e-procurement management system covering the entire procurement cycle, from needs definition to contract and final payment, would improve its results while providing evidence-based decision-making. Finally, ISSSTE staff involved in procurement activities is highly committed, but is in strong need of greater expertise, such as in market research, and improved career opportunities based on merit and fairness.

This review is the fourth review of procurement practices in major Mexican spending areas and demonstrates Mexico’s efforts to modernise its procurement systems in line with OECD good practice. I very much hope that it provides ISSSTE with the tools necessary to build a smart procurement for healthy public services!

Ángel Gurría,

OECD Secretary-General
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### Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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| CANIFARMA | National Chamber of the Pharmaceutical Industry  
Cámara Nacional de la Industria Farmacéutica |
| CFC | Federal Competition Commission  
Comisión Federal de Competencia |
| CFE | Federal Electricity Commission  
Comisión Federal de Electricidad |
| COCODI | Internal Control and Performance Evaluation Committee  
Comité de Control y Desempeño Institucional |
| ERP | Enterprise Resource Planning |
| ICO | Internal Control Office  
Órgano Interno de Control |
| IMSS | Mexican Institute of Social Security  
Instituto Mexicano de Seguridad Social |
| ISSSTE | State’s Employees’ Social Security and Social Services Institute  
Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado |
| LAASSP | Law of Acquisitions, Leasing and Services of the Public Sector  
Ley de Adquisiciones, Arrendamientos y Servicios del Sector Público |
| LOPSRM | Law of Public Works and Related Services  
Ley de Obras Públicas y Servicios Relacionados con las Mismas |
| POBALINES | ISSSTE’s internal procurement guidelines  
Políticas, Bases y Lineamientos en Materia de Adquisiciones, Arrendamientos y Servicios |
| SIEDI | Institutional Performance Evaluation Internal System  
Internal Sistema Interno de Evaluación del Desempeño Institucional |
| SMEs | Small and medium-sized enterprises  
Micro, pequeña y medianas empresas nacionales |
| SFP | Ministry of Public Administration  
Secretaría de la Función Pública |
| SURECON | Subcommittee for the Revision of Solicitation Documents  
Subcomité de Revisión de Convocatorias |
Executive Summary

OECD data shows that spending on healthcare is the variable which contributes most to a countries’ health status (OECD, 2011a), yet opportunities to increase public spending is generally limited. Efficient spending through smart public procurement practices is therefore a key lever to improve the quantity and quality of health products and services delivered in a timely manner, contributing to improving health indicators. At the same time, public procurement is also the government activity most vulnerable to waste, fraud and corruption due to its complexity, the size of the financial flows it generates, and the close interaction between the public and private sectors.

Good governance in public procurement is therefore necessary to enhance credibility and public trust in the capacity of the health care sector to deliver timely and effective public services to citizens. With this in mind, the Mexican State’s Employees’ Social Security and Social Services Institute (Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado, ISSSTE) requested the OECD to assess the efficiency and integrity of its procurement system and to identify opportunities for improvement.

Key findings

Procurement units fail to work as a comprehensive and strategic function. ISSSTE’s procurement structure is well defined, with strong procurement units in place at the central level and a large number of geographically decentralised procurement units. However, the priority and objectives of the procurement function are not adequately articulated in an organisation-wide procurement strategy. This prevents all units from working as a comprehensive function. Lack of co-ordination, communication and performance management, as well as deficient internal control and risk management, hinder on-going improvements as well as the full dissemination and adoption of best practices.

Insufficient HR and IT capacity hinders the procurement function. Workforce planning, recruitment, promotion, and career development processes are insufficient and not always based on merit and fairness. This, in turn, prevents the organisation from attracting, deploying and retaining the employees with the necessary skills set and experience.

Moreover, while ISSSTE has recently developed various IT systems and tools (mainly related to medical services and stock management), no electronic management system covering the entire procurement cycle is in place. This results in divergences in the processes used and in the inaccessibility of key data and information that is essential for adequate evidence-based decision making and procurement function management.

ISSSTE’s level of competition and range of sourcing strategies do not maximise the outcomes of its solicitation procedures. In order to increase competition and benefit from economies of scales, ISSSTE has implemented significant initiatives to consolidate the requirements of its decentralised units and to implement joint procurement with other Mexican health and social security providers.

Competition is however hindered by an excessive use of exceptions to public tendering, some of which result from inadequate planning and lack of market intelligence. In addition, ISSSTE only uses a very limited range of procurement instruments, mostly standard contracts without options, which limit the
flexibility, efficiency and value for money of its procurement process. Finally, it awards its contracts primarily on the basis of mandatory requirements and lowest price, not sufficiently considering other approaches.

**Deficiencies were identified in all phases of the ISSSTE procurement cycle.** Insufficient market intelligence as well as an unclear or overly restrictive definition of requirements limits ISSSTE’s capacity to obtain the products and services which meet its needs at the best price and conditions. Improper bid evaluations and late payment also negatively impact the relationship with suppliers, while insufficient performance management limits the benefits of contracts in place. Finally, ISSSTE has been reinforcing its stock management capacity, but inadequate inspection of products and services received remains a concern.

**Insufficient attention has been given to identifying and mitigating integrity risks.** ISSSTE has made transparency a priority through proactive disclosure of procurement information. Nonetheless, easy access to timely and user-friendly procurement data and information remains a challenge.

ISSSTE’s approach to prevent corruption and wrongdoing in procurement is largely based on compliance and discipline and effective mechanisms to identify and monitor integrity risks are lacking. There is also insufficient guidance and tools for employees involved in procurement-related activities to identify, report and mitigate integrity risks.

**Key recommendations**

**Management, coordination and communication**

- Develop and widely communicate an organisation-wide procurement plan setting priorities and targets for that function, and assess progress on a regular basis.

- Strengthen existing communication mechanisms, in particular to increase consultations on organisation-wide initiatives, dialogue and transfer of expertise and best practices between the procurement.

- Implement formal performance management of the procurement function to assess and communicate its results and promote continuous improvement, including the automated collection of key procurement data.

- Develop and implement a procurement management system covering the entire procurement cycle, available to all procurement units and fully integrated with other systems in place.

- Pursue further opportunities for synergy within the organisation (e.g. further consolidations) and with other entities of the Mexican government (e.g. market research, training and development, fight against bid rigging).

**Workforce management and capability**

- Professionalise the procurement function and develop a workforce with the right competencies through workforce planning, recruitment and giving promotions based on merit and fair opportunity.
Executive summary

Public Procurement Review of the State’s Employees’ Social Security and Social Services Institute in Mexico: Highlights © OECD 2013

- Balance the current HR management based on strict compliance with the rules with an approach based on competency and performance.

- Provide more consistent and regular training and development opportunities not only to procurement experts, but also to user areas as well as suppliers (particularly small and medium-sized enterprises).

**Relationship with the marketplace**

- Increase market intelligence through enhanced market research capacity (including building a specialised market research unit) and structured dialogue with potential suppliers (request for information, verbal debriefing following a solicitation process, etc.).

- Enhance the performance of suppliers under contracts through on-going monitoring, tailored performance management programmes for key suppliers and consistent application of penalties and other recourses in case of late deliveries or improper performance.

**Solicitation process**

- Increase competition by reducing the use of exceptions to public tendering, allowing an increased participation of foreign suppliers as well as higher and balanced consolidation.

- Promote the use of a larger range of evaluation and selection criteria, including life-cycle cost assessments.

- Ensure that proposals received are evaluated in strict compliance with the criteria established in the solicitation documents.

- Increase the use of contractual vehicles providing efficiencies and higher savings such as framework agreements, multi-year contracts and contracts with options.

**Transparency and integrity**

- Facilitate public access to more accurate, timely and user-friendly procurement-related data, while ensuring this does not increase risks to integrity (such as supplier collusion).

- Create a culture of integrity prevention through awareness campaigns as well as mechanisms, guidelines, risk mapping and red-flags assisting employees to effectively identify, report, monitor and address integrity risks (including misappropriation of medical products).

- Promote the reporting of wrongdoing and enhance the protection of whistle-blowers against retaliation and victimisation.
Overview of the Mexican health system: the role of the State’s Employees’ Social Security and Social Services Institute

The Mexican health care system is fragmented in various service providers

Mexico has a fragmented health care system comprised of three main types of service providers. These institutions provide specific health services to different segments of the population (Table 1):

1. Social security providers: mandatory for employees in the formal economy.
2. Private insurance: voluntary, with individuals paying premiums to a private insurer. Premiums are defined according to the individual’s risk profile and for a mutually agreed package of health services.
3. The System of Social Protection in Health (*Sistema de Protección Social en Salud-Seguro Popular*): reserved for citizens not covered by any other health care scheme. It is almost entirely financed by federal budgetary resources.

Table 1. Mexican health system

<table>
<thead>
<tr>
<th>Service provider</th>
<th>Population served</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Institutions that provide services to an open/uninsured population</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>System of Social Protection in Health (<em>Sistema de Protección Social en Salud-Seguro Popular</em>)</td>
<td>Self-employed, unemployed, employees not covered by social security systems</td>
<td>Federal and state government through the System of Social Protection in Health</td>
</tr>
<tr>
<td>IMSS-Oportunidades</td>
<td>Vulnerable and marginalised population</td>
<td>Federal government</td>
</tr>
<tr>
<td><strong>Institutions that provide services to a population with social security</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IMSS</td>
<td>Employees from the private sector of the formal economy and IMSS’ employees</td>
<td>Federal government, employers’ and employees’ fees</td>
</tr>
<tr>
<td>ISSSTE, SEDENA, SEMAR, PEMEX</td>
<td>Employees from the public sector of the formal economy</td>
<td>Federal government and employees</td>
</tr>
<tr>
<td><strong>Private sector institutions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private hospitals and clinics</td>
<td>Individuals with or without social insurance and with a greater ability to pay for health services</td>
<td>Employees and employers</td>
</tr>
</tbody>
</table>


ISSSTE has a key role in providing various services to Mexican public servants

The Mexican State’s Employees’ Social Security and Social Services Institute (Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado, ISSSTE) was created by a presidential decree in December 1959 as a decentralised entity. While the Mexican Institute of Social Security (Instituto Mexicano del Seguro Social, IMSS) and the Ministry of Health (Table 2) provide a higher volume of services, ISSSTE remains an important health service provider of the fragmented Mexican health care system as it covers more than 12 million beneficiaries consisting of public sector employees (active or retired) and their family members.

Table 2. Services provided in the Mexican health sector by service provider (percentage, 2010)

<table>
<thead>
<tr>
<th>Service provider</th>
<th>Consultation</th>
<th>Discharges</th>
<th>Surgeries</th>
<th>Auxiliary diagnostic services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General</td>
<td>Specialty</td>
<td>Emergency</td>
<td>Dental</td>
</tr>
<tr>
<td>IMSS</td>
<td>47.0</td>
<td>39.1</td>
<td>61.9</td>
<td>29.5</td>
</tr>
<tr>
<td>ISSSTE</td>
<td>7.6</td>
<td>15.8</td>
<td>3.6</td>
<td>9.0</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>42.1</td>
<td>32.0</td>
<td>26.2</td>
<td>54.6</td>
</tr>
<tr>
<td>Other</td>
<td>3.3</td>
<td>13.1</td>
<td>8.2</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Note: Other includes university hospitals, Mexican Petroleum (PEMEX), Ministry of the Navy (SEMAR) and Ministry of National Defence (SEDENA).

Source: Information provided by ISSSTE, obtained from the Ministry of Health

ISSSTE has a complex structure including various decentralised entities (Figure 1).

Through these various entities, ISSSTE provides a wide range of services to its beneficiaries including:

- medical services (ISSSTE central, 35 delegations, 12 regional hospitals and the National Medical Centre “20 de Noviembre”);
- 278 facilities for social and cultural services including cultural centres, libraries, training centres, sports (ISSSTE central, 35 delegations);
- 113 child care centres;
- 12 facilities for funeral services (ISSSTE central, 35 delegations);
- 242 discount supermarkets and 90 pharmacies (Superissste), also available to the general public;
- 36 travel agencies and hotels (Turissste);
- insurances through the program ISSSTE Asegurador;
- mortgage loans (Fovissste); and
- pensions (Pensionissste).

However, ISSSTE’s main activity is the provision of medical services through almost 1 200 medical units distributed between 35 regional delegations across the Mexican territory (Table 3).
Figure 1. ISSSTE’s organisational structure

In a typical day, ISSSTE therefore provides more than 100 000 medical consultations, cares for more than 120 000 children in day-care centres and pays more than 800 000 pensions every month (representing 20% of Mexico’s total number of pensioners) (Table 4).

At the central level, some of the key management areas are:

- The Administration Directorate (Dirección de Administración), which plays an important and strategic role in the organisation. It is responsible, among others, for human resources policies, including staff performance; for material resources management; for the procurement, distribution and supply of medicines, medical supplies and equipment, and conservation and maintenance...
services as well as public works; and for the development of the annual procurement plan. It was recently mandated to propose actions to the Director General for improvement and administrative simplification in order to enhance the efficient use of human, material and financial resources.

- The Programming and Budget area of the Finance Directorate (Dirección de Finanzas) was transferred to the Administration Directorate to regroup some essential elements of the management such as budget, planning and procurement, and for the Administration Directorate to have a strategic view of the whole organisation.

- The Medical Directorate (Dirección Médica) acts as a user area, having solely a planning role, defining and identifying the organisation’s needs in terms of medicines, medical supplies and equipment (including maintenance), as well as public works (e.g. hospitals).

- The Delegations Directorate (Dirección de Delegaciones) is the link between the central level and the delegations. It plays a facilitation and co-ordination role.
A strategic procurement function to support the Mexican health system

Good governance in Mexico’s public procurement increases efficiency and savings

As in many other countries, Mexico’s public health care service providers are under intense pressure to deliver more and improved services with limited resources. Procurement is a key element in improving the effectiveness and viability of this sector, as it accounts for considerable administrative and financial resources and is an essential element for service delivery. Public procurement is also one of the largest government spending activities in countries, representing on average almost 13% of GDP in OECD member countries (OECD, 2011b). Public procurement is also considered the government activity most vulnerable to waste, fraud and corruption due to its complexity, the size of the financial flows it generates and the close interaction between the public and private sectors (OECD, 2009a). 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.

The Mexican federal public administration has made considerable progress in improving its public procurement function in recent years. Procurement reforms have included revising the legal framework to increase flexibility, support efficiency and provide more tools; revamping the Mexican federal e-procurement platform (Compranet); and clarifying the roles and responsibilities of stakeholders. This has provided the health care sector with needed tools for improving its procurement outcomes. However, the remaining challenge resides in implementing these reforms. In addition, Mexico implemented in 2012 the Federal Anti-Corruption Bill on Public Procurement (Ley Federal Anticorrupción en Contrataciones Públicas) which directly addresses issues of corruption and fraud in the procurement process.

While good governance and practices in procurement alone will not resolve all of the financial constraints facing the Mexican health care sector, it is an essential component for improving value for money and strengthening trust and credibility in order to embark on more structural reforms.

Efficiency in public procurement is essential for improving health outcomes

Although 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 (OECD, 2011c). The OECD 2010 report, Health Care Systems: Efficiency and Policy Settings, provides statistical evidence showing a strong correlation between the level of health spending and health indicators, such as life expectancy. In fact, health spending is the variable that contributes most to health status (Figure 2).

As such, Mexico’s poor health status may be related to its relatively low health spending. In 2009, Mexico had one of the lowest total health expenditures per capita among OECD member countries (USD 918 compared to the OECD average of USD 3 223). It also had one of the lowest levels of total health expenditure as a share of GDP at 6.4% versus the OECD average of 9.6% (Figure 3).
A strategic procurement function to support the Mexican health system

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Figure 2. Contributions of health care spending to changes in health status

| Contributions of main explanatory variables to changes in health status, 1991-2003 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Explained by:                  | Gains in life expectancy at birth | Decline in infant mortality rate |
|                                 | Women | Man | Years | Deaths per 1 000 live births |
| Health care spending            | 1.14  | 1.34 |       | -2.53                       |
| Smoking                         | 0.00  | 0.12 |       | -0.21                       |
| Alcohol                         | 0.06  | 0.07 |       | -0.24                       |
| Diet                            | 0.02  | 0.02 |       | 0.03                        |
| Pollution                       | 0.15  | 0.29 |       | -0.75                       |
| Education                       | 0.50  | 0.49 |       | -0.89                       |
| GDP                             | 0.11  | 0.63 |       | -1.01                       |
| Observed changes                | 2.49  | 3.45 |       | -4.67                       |

Notes: Contributions of health status determinants are calculated using panel data regressions on a sample of countries for which data were available. 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.


Figure 3. Total health expenditure per capita and as percentage of GDP, (2009 or nearest year)

Notes: 1. In the Netherlands, it is not possible to clearly distinguish the public and private share related to investments. 2. Total expenditure excluding investments. 3. Health expenditure is for the insured population rather than the resident population. 4 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.

Similarly, even though Mexico spent a similar share of its GDP on pharmaceuticals (1.7%) compared to the OECD average (1.5%), it had the lowest expenditure per capita for such products (USD 249) among OECD member countries in 2009 (OECD, 2011c). This situation is aggravated – and potentially partly explained – by the high charge health expenditure represents to Mexican households. In 2009, Mexico was ranked as the third highest among OECD countries for out-of-pocket health expenditure as a share of final household consumption (Figure 4). As the financing of health care becomes more dependent on out-of-pocket payments, its burden is, in theory, shifting towards those who use the services more, and possibly from high to low income earners, whose health care needs are higher (OECD, 2011c).

**Figure 4. Out-of-pocket expenditures as a share of final household consumption and expenditure on pharmaceuticals per capita, 2009 (or nearest year)**

Notes: Out-of-pocket expenditure as a share of final household consumption: (a) Private sector total. Expenditure on pharmaceuticals per capita: 1. Includes medical non-durables. 2. Prescribed medicines only. 3. Total medical goods. Complete data not available for Chile and Turkey. 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.

These issues could be mitigated by increasing public health care spending. However, opportunities to do so may be limited in Mexico’s financially constrained health care sector. In this context, the procurement function is a key lever for improving the quantity and quality of products and services delivered in a timely manner, contributing to improved Mexican health indicators.
Strengthening the management of ISSSTE’s procurement activities

The ISSSTE procurement units benefit from a strong centre, but fails to work as a comprehensive function

An effective procurement function plays a strategic role in preventing mismanagement and waste of public funds. In order to fulfil that role, the procurement cycle needs to be governed by a co-ordinated procurement organisation with a coherent and well-recognised strategic mandate. The procurement cycle should also be mainstreamed and well integrated into the governance system of the organisation as a whole (OECD, 2009b).

The OECD review found the structure of ISSSTE’s procurement function to be well defined and integrated with its governance system. Notably, the strategic importance of the procurement function has been recognised by ISSSTE’s senior management as a key element for supporting the institutional priorities, namely: i) ensuring that beneficiaries are the primary focus of all of the organisation’s activities; ii) transparency and accountability; and iii) efficient use of resources (ISSSTE, 2012a).

ISSSTE’s procurement function is highly geographically decentralised in order to be in close proximity to the user areas, i.e. the internal units identifying the goods and services to be procured (clinics, family medical units, etc.). Approximately 100 procurement units are located in 4 sub-directorates at the central level, 48 local units throughout the country (delegations, regional hospitals and one national medical centre) and in entities providing non-medical services (SuperISSSTE, FOVISSSTE, TURISSSTE and PENSIONISSSTE).

The management of and the strategic planning for the procurement function are nonetheless highly centralised. The Administration Directorate (Figure 5) manages information and provides strategic direction and rules to the decentralised units. It also issues organisation-wide contracts for various requirements (particularly medicines and medical products) following identification of the needs by all medical units and their validation at the central level (e.g. on factors such as historical data and seasonality of illness). A number of well-defined committees and working groups (both at the senior management and working levels) also help managing ISSSTE’s procurement function.

However, the OECD review found that ISSSTE’s procurement function does not operate as a unified whole and is still largely perceived as an administrative service in support of technical units rather than as a strategic function directly affecting ISSSTE’s outcomes. This lack of recognition of its critical role is not limited to the user areas (which lack interest and understanding of the associated process); procurement units themselves, senior management and as well as auditors often focus more on compliance with regulations than on performance related to efficiency and outcomes.
Figure 5. Structure of the procurement function at the central level


This situation is particularly true for the local units, where procurement is reported as the activity given the least attention. Following central consolidation efforts, 90% of procurement spending is now made at the central level, but a large portion of procurement activities (i.e. 75% of procedures and 64% of contracts) remain at the decentralised level, consisting in a large volume of low-value contracts (Figure 6).

Figure 6. Level of decentralisation of ISSSTE’s procurement activities (2008-2011)

Note: Excludes FOVISSSTE, SuperISSSTE, TURISSSTE and PENSIONISSSTE.
Source: Based on Compranet, data provided by SFP, with corrections by ISSSTE

ISSSTE has greatly strengthened the coordination of its medicine supply through these consolidation efforts and the use of coordination mechanisms and tools, such as the Supply Control Board (discussed below) and a strengthened relationship with the National Chamber of the Pharmaceutical Industry (Canifarma). Nonetheless, the overall co-ordination of its procurement units could be improved, particularly at the local level. The Delegations Directorate, for example, has a significant impact on the co-ordination of the medical activities of the delegations, but has little, if any, on their procurement activities. Similarly, only limited co-ordination is provided by the central procurement areas and local units report having trouble receiving answers to their questions on procurement processes or policies. Although
national meetings are held with all delegations to exchange information, local procurement units work in relative isolation and often view the central areas (and the Delegation Directorate) as being a step behind what is happening in the delegations. As a result, the local units use different processes even though higher clarity on the procurement regulations was achieved by the Ministry of Public Administration (Secretaría de la Función Pública) in 2009 and 2010. In particular, efforts were invested in eliminating excessive or unjustified procurement procedures and developing an administrative manual describing the various actions to be taken throughout the procurement process (with reference to applicable regulations).

The current lack of coherence among the numerous procurement units can partly be explained by the absence of an explicit and comprehensive organisation-wide procurement plan defining the main priorities and targets of its procurement function, as well as the main strategies for achieving them. This leads to conflicting priorities within the organisation and reduces the efficiency of the existing processes. It also means that various stakeholders – such as medical units, auditors, and many procurement units – may not understand the details and intent of strategies put in place by the central level, resulting in criticism and doubts about their adequacy and results.

**Transfer of existing knowledge and best practices is compromised by the current lack of communication among the procurement units**

ISSSTE could increase its use of existing ICTs to promote a more regular and efficient dialogue among the various stakeholders involved in the procurement process, facilitating the transfer of information and expertise. While ISSSTE’s board of directors has made efforts to increase collaboration between the procurement units and the user areas, important communication problems remain:

- On a **vertical basis**, decentralised units indicate they do not receive sufficient communication from the centre areas on central strategies, which are reporting to be developed with limited or no input from the decentralised procurement units and without follow-up to assess their impacts. Moreover, decentralised procurement units that experience difficulties in applying policies do not receive adequate information from the centre. Identifying “central specialists” as official points of contact to assist decentralised units would help alleviate these communication issues.

- There is little **horizontal communication** among ISSSTE’s regional procurement areas, limiting the sharing of experiences, knowledge and expertise. This strongly contrasts with the medical side, where significant improvements would have been made in sharing best practices among delegations.

The regular exchange of experiences and knowledge among the procurement units and the transfer of best practices could result in significant efficiency gains. To this end, ISSSTE could strengthen and extend existing communication channels, such as expert teams, central information centre, regular meetings and events, and online group discussions or forums for procurement officers. ISSSTE could also create a central database of lessons learnt and best practices from all procurement units, subject to appropriate validation, and make it available to all procurement officials through the intranet. The Dutch Public Procurement Expertise Centre (PIANOo) is a prominent example of such information and knowledge transfer practices (Box 1). Knowledge transfer from other Mexican public organisations could allow be promoted, such as result of market research undertaken by other Mexican health providers.
Box 1. PIANOo: A community of practice in the Netherlands

The Public Procurement Expertise Centre (PIANOo) was created in 2005 by the Dutch Ministry of Economic Affairs as a knowledge network to increase the professionalism of public procurement in the Netherlands. It helps facilitate the management and dissemination of knowledge, crossing the boundaries between practices, science, law and policy, between governments and markets, as well as among countries. Its expertise is built up through a large network of around 3,500 public procurement professionals and contracting authorities.

The first step taken was the introduction of the PIANOo-desk (www.pianoo-desk.nl), a discussion platform where public sector procurement professionals and contracting authorities can exchange experiences, ask questions, take part in discussions, share files, collaborate on documents and plan projects. In view of the informal nature of that community and the high volume and diversity of the information exchanged, members asked PIANOo to summarise discussions, to draw conclusions and to intervene when answers are not in line with the law.

The role of PIANOo was expanded in 2008 into a centre of expertise. Two expert groups headed by University professors were founded: one covering the legal matters surrounding public procurement and the other covering the economic aspects. Issues that are not resolved on PIANOo-desk are transferred to one of the expert groups. Key themes discussed by PIANOo in 2013 include market knowledge, the position of procurement in the organisation, innovation-focused procurement, innovative procurement and sustainable procurement.

PIANOo reaches out beyond public procurement professionals to policy-makers and businesses. Regular meetings are held to discuss policy-related topics and interaction with the market place promotes supply chain integration and market knowledge. Business companies are invited to comment on model requests for proposals and other contractual documents through a digital interactive library. PIANOo also organises joint meetings with the industry at which economic operators and public sector contracting authorities meet to discuss tendering and ways to improve tendering strategies.

In addition to the PIANOo-desk, a large range of products and services are now available from PIANOo, including:

- A main website (www.pianoo.nl), intended for both public and private sector organisations provides available public procurement-related information, advice, useful tools and model documents, including weekly publication of summaries and explanations of related jurisprudence and the latest judicial verdicts.
- A Q&A section where public procurement and tendering professionals can find answers to more complex questions.
- Publications (e.g. practical guides and brochures) on various topics, providing a mixture of practical knowledge and scientific insights. Position papers are also developed by the PIANOo Tendering Law expert group to tackle complex legal issues in procurement practice and provide advice and recommendations.
- Various events, including an annual conference, regional meetings held in different locations across the Netherlands, monthly PIANOo lunch meetings and joint meetings with the industry.

With the success of PIANOs in the Netherlands, it was decided to create a similar platform on a European scale. Together with Consip, the Italian central purchasing body, PIANOo is responsible for the resulting EU Public Procurement Learning Lab.

ISSSTE needs a preventive approach in monitoring and risk-management

Public procurement is amongst the government functions most vulnerable to corruption, fraud and waste. This is particularly true in the health sector, given the significant financial flows it generates and the close interaction between the public and private sectors. Applying a risk-based approach to the control of public procurement promotes efficiency, transparency and accountability. By identifying measures and mitigation strategies to limit the risks related to procurement activities, such an approach allows public entities to foster a more agile and proactive control.

Various senior control committees in ISSSTE oversee its operations and support senior management in taking strategic decisions on control and risk management. However, the role of these committees with regard to the procurement function is narrow, essentially limited to general guidance and oversight. Moreover, discussions on procurement at these committees are held only at senior level and fail to ensure regular co-ordination with the operational level.

In fact, two central procurement committees are responsible for overseeing procurement operations at the central level, namely the Goods, Leasing and Services Committee (Comité de Adquisiciones, Arrendamientos y Servicios) and the Public Works Committee (Comité de Obras Públicas). These committees review programmes and budgets for procurement, authorise the use of the established exceptions to public tendering and make proposals for changes to the internal procurement guidelines (POBALINES). Similar sub-committees are in place at the local unit level, but are mostly responsible for approving the use of established exceptions to carrying out a public tendering. While these committees are more closely linked to daily procurement operations, the scope of their authority remains limited to very specific areas and does not allow comprehensive control and monitoring of the procurement function.

In ISSSTE, as in many other Mexican federal agencies, control is primarily carried out through ex post audits by the Internal Control Offices (Órganos Interno de Control, ICOs), operational extensions of the Ministry of Public Administration located at various levels of the organisation (including in delegations). However, the ICOs’ audits are mainly aimed at ensuring compliance with the regulations and lack ex ante risk mapping and mitigation components.

The results of ICO audits of the procurement function and opportunities for improvement are discussed at the Internal Control and Performance Evaluation Committee (COCODI) and have produced positive organisational changes, such as the creation of a Tactical Procurement Team to better manage medicine supply risks. However, these recommendations are not disseminated or discussed with the operational units to ensure they will help improve their daily activities and processes, and the overall value for money. ISSSTE also does not take advantage of its ability to ask for specific audits from the ICOs, increasing the risk that the ICOs’ operations are disconnected from ISSSTE’s priorities and needs.

Basically no relationship exists between procurement officers and ICO officials outside of formal committees, audits and task force meetings. Furthermore, no mechanism exists for the procurement units to interact informally basis with the ICO to discuss how to correct past mistakes and ensure their actions are adequate. As a result, the ICOs are generally perceived as having a policing and punitive role, rather than a role to support ISSSTE’s procurement units in improving their effectiveness and efficiency. A notable exception can be found in the “zero recurrence – zero observations” working groups that exist at some delegations, in which members of the operational units and the delegation’s ICO meet monthly to identify risks associated with each unit and to assess their evolution over time.
Public organisations in OECD member countries are increasingly developing risk-based approaches to ensure that internal control measures are cost-effective and proportionate to the vulnerabilities faced. In this line, ISSSTE’s risk management system was significantly redesigned in 2012. Risks are no longer managed on the basis of specific activities related to particular directorates or entities, but rather through cross-directorate processes. The underlying goal is to increase integration and collaboration among units and better reflect how their respective processes and mitigation techniques affect each other. However, the system only addresses a very limited number of general procurement “process risks” with a high impact and high probability of occurrence.

Various opportunities are available to ISSSTE to strengthen the monitoring and risk management of procurement based on prevention and continuous improvement. Building on existing mechanisms (including the “zero recurrence-zero observations working groups), ISSSTE can improve communication and coordination with the ICOs by creating stronger formal and informal mechanisms at various levels of management and operation. As promoted by organisations such as the Institute of Internal Auditors, broader internal audit activities can also be undertaken while maintaining the internal audit activity’s independence and objectivity (Figure 7). As is done in other OECD countries, high-level strategic and transactional reviews of ISSSTE’s procurement system can also be undertaken to complement regular project management reporting, internal audit and external oversight (audits, inspections and reviews). Introducing of ex post assessments of risk-mitigating actions would greatly improve the risk management system.

Figure 7. Internal auditing role in Enterprise-wide Risk Management (ERM)

Source: Institute of Internal Auditor (2009), “The Role of Internal Auditing in Enterprise-Wide Risk Management”, IIA Position Paper, https://global.theiia.org/certification/Public%20Documents/IIA%20Position%20Paper%20The%20Role%20of%20Internal%20Auditing%20in%20Enterprise-wide%20Risk%20Management.pdf. Copyright © 2009 by The Institute of Internal Auditors and Chartered Institute of Internal Auditors strictly reserved. No parts of this material may be reproduced in any form without the written permission of IIARF.
The current performance management system of ISSSTE is inadequate to support continuous improvements in procurement

A significant weakness identified by the OECD review relates to the assessment and management of ISSSTE's procurement function. Its Institutional Performance Evaluation Internal System (Internal Sistema Interno de Evaluación del Desempeño Institucional) does not include any specific module for the procurement function and its workforce. The limited indicators associated with procurement focus on administrative results and most do not provide any insight into the efficiency of the procurement function. Furthermore, the use of the system is restricted to a few high-level performance management activities and procurement units are not sufficiently aware of its existence and of the indicators associated with their activities. Recognising the inadequacy of the current procurement performance indicators, ISSSTE has identified new ones. While these indicators are better suited to assessing the efficiency of procurement, they still lack clear targets against which progress can be measured and therefore can only indicate trends.

These shortcomings in performance management prevent the organisation from having a clear picture of the outcomes of its procurement activities or its efficiency in achieving them. It also makes it harder to identify eventual improvements, thereby creating the incentive to avoid errors in the process rather than to improve outcomes. This situation is not, however, unique to ISSSTE: a recent OECD report indicates that “performance-based monitoring of procurement systems is the exception to the rule” and that very few countries report monitoring the performance of their procurement systems and processes based on data and benchmarks” (OECD, 2012a).

ISSSTE could nonetheless benefit from the experience of some OECD countries in improving the performance management, including in the health sector. For example, 48 metrics and 21 supporting standards developed by Canadian health care supply specialists focus specifically on the hospital supply chain (Government of Ontario – BPS Supply Chain Secretariat 2006, 2009a and 2009b). Similarly, in May 2012, the United Kingdom Department of Health released the National Health Service (NHS) Standards of Procurement co-developed with the procurement profession, the Health Care Supply Association (HCSA) and the independent healthcare sector. That document sets out 19 standards under four domains (leadership, process, partnership and people) with the expected activities and outputs required under three levels of maturity (UK Department of Health, 2012a). In line with the procurement dashboard model also being developed in the UK National Health Service (Box 2), basic metrics could be implemented in ISSSTE to facilitate performance reporting and benchmarking among procurement entities.

It is crucial that ISSSTE communicates the results achieved against the selected indicators and targets not only to senior management, but also the procurement units, other internal departments and external stakeholders (such as suppliers and citizens) so to improve general awareness of the strategic role of procurement and promote continuous improvements. For maximum impact, such communication should be tailored to the particular interests of its intended audience. For example, highly visual communication tools using a colour status (e.g. green, yellow and red) can be highly effective in reaching some stakeholders; this is the approach selected by the NHS for the eight core metrics of its procurement dashboard model (Annex A).
**Box 2. Procurement Dashboard Model: United Kingdom National Health Service (NHS)**

The NHS is developing a standard dashboard of metrics to improve visibility and accountability for procurement in each organisation, to allow for benchmarking against other entities, and to identify good and best practice. Following consultations with a range of senior NHS procurement and finance officials, a second version of the dashboard was released at the end of October 2012. It suggests the adoption of metrics at three levels (core, strategic and tactical) and against three levels of performance (“doing it well”, “doing it efficiently” and “doing it right”).

In the revised model, a small set of **core metrics** would remain relevant over time regardless of the maturity of an organisation’s procurement practices. These metrics would be measured by all organisations and reported on to its management board and through its annual report. The second version of the dashboard model considers eight core metrics:

<table>
<thead>
<tr>
<th>NHS Procurement Dashboard Model Core Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Doing it Well</strong></td>
</tr>
<tr>
<td>C1 Number of instances where patient outcome, experience or safety has been adversely affected by a lack of product or service availability.</td>
</tr>
<tr>
<td>C2 Percentage of non-pay expenditure (i.e. other than for staff benefits) captured electronically through systems managing processes from purchase to payment.</td>
</tr>
<tr>
<td><strong>Doing it Efficiently</strong></td>
</tr>
<tr>
<td>C3 Value of contribution to cost improvement as a percentage of non-pay expenditure.</td>
</tr>
<tr>
<td>C4 Cost to procure as a percentage of non-pay expenditure.</td>
</tr>
<tr>
<td>C5 Percentage of non-pay expenditure through national and/or collaborative contracted arrangements.</td>
</tr>
<tr>
<td><strong>Doing it Right</strong></td>
</tr>
<tr>
<td>C6 Progress against the NHS Standards of Procurement.</td>
</tr>
<tr>
<td>C7 Cost of addressing challenges to procurement decisions and processes.</td>
</tr>
<tr>
<td>C8 Percentage of recognised procurement staff with a formal procurement qualification(s).</td>
</tr>
</tbody>
</table>

**Strategic metrics** would supplement the core metrics and their use and specific nature would be determined by the organisation. They might be used to balance or qualify core metrics or to focus on shorter term objectives or issues, which can be removed or replaced as the organisation’s priorities change and practice matures.

Finally, **tactical metrics** would be set and used by procurement management to measure performance against more detailed operational parameters underlying the core and strategic metrics and related objectives.


**Key recommendations**

In order to strengthen the management of its procurement function, ISSSTE could:

1. Develop and widely communicate an organisation-wide procurement plan setting priorities and targets, and assess progress on a regular basis.
2. Improve the co-ordination of procurement-related activities, particularly with the local procurement units and the various control committees and units, either by reinforcing existing mechanisms or by creating new ones.

3. Strengthen existing communication mechanisms to enhance dialogue and transfer of expertise and best practices between the procurement units. This can be supported, for example, by appointing official central contact points to assist decentralised procurement units on specific topics and creating a central database of lessons learnt and best practices from all procurement units.

4. Foster a risk-based and preventive approach to the control of procurement. For example, the internal auditing role could be broadened and the Internal Control Office could collaborate more with the procurement units to foster continuous improvement of procurement activities. Similarly, the new Institutional Risk Management programme could be revised to include a larger range of process risks as well as ex post assessments of risk-mitigation actions.

5. Implement formal performance management of the procurement function to assess its results and communicate them to internal and external stakeholders through tailor and high-impact communication tools.

6. Pursue further opportunities for synergy within the organisation (e.g. additional consolidations) and with other entities of the Mexican government (e.g. on market research).
Annex A - Examples of the performance dashboard in the UK Department of Health

Source: Adapted from UK Department of Health (2012b), “NHS Procurement Dashboard Model: Summary of feedback on NHS Procurement Dashboard”, Version 1 dated 28 October 2012, Department of Health of the United Kingdom. © United Kingdom, Department of Health, 2012. All rights reserved.
Enabling the resources required by ISSSTE’s procurement function

ISSSTE should step up efforts to collect and use data for evidence-based decision making and better management of its procurement function

The lack of available information and data in ISSSTE hinders its ability to manage the procurement function effectively. Apart from some information captured in the Mexican federal e-procurement system (Compranet, www.compranet.gob.mx), information and data are collected and managed differently by individual procurement units (generally through spreadsheets). While some data are provided quarterly to central areas and published in the Federal Institute of Access to Information and Data Protection (Instituto Federal de Acceso a la Información y Protección de Datos) to meet legal obligations, no effective automated mechanism is in place to collect, consolidate and share them for internal use. As a result, decision makers do not have easy access even to basic procurement information such as the total number and value of contracts awarded by type of procedure. Further aggravating the limited availability of data is the resistance to sharing data within the organisation, as each unit feels a sense of ownership and is averse to disseminating its information.

Data consolidation in ISSSTE is made even more difficult because procurement units use different codifications and formats, sometimes even within the same unit. Table 5 shows the significant divergences in the way data is collected the Aguascalientes delegation. Similar discrepancies were found in data provided by almost all other procurement units.

Table 5. Divergences in the codes and formats used by the Aguascalientes delegation to record contract values and the use of exceptions to public tendering

<table>
<thead>
<tr>
<th>Value of the contract ¹</th>
<th>Exceptions to public tendering ²</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000,000.00</td>
<td>Direct award indicated, but no exception provided</td>
</tr>
<tr>
<td>$1,000,000.00</td>
<td>Article 41 indicated (direct award for exception other than low-value of the requirement), but no specific exception indicated</td>
</tr>
<tr>
<td>$1,000,000.00</td>
<td>Exception 41 - III indicated, but with different formats</td>
</tr>
<tr>
<td>$1,000,000.00</td>
<td>Exception 41 indicated in conjunction with another exception</td>
</tr>
</tbody>
</table>

Notes: 1. To facilitate comparison, all numbers are reported as a multiple of million. However, the format and spacing of the original data provided by the delegation were preserved. 2. Only exceptions actually or potentially related to exception 41-III are reported in this table.

Source: Based on data provided by ISSSTE.

The lack of standard, automated mechanisms for collecting, consolidating and analysing procurement data can lead to errors and inefficiencies. Procurement units have to spend a great deal of time providing information and data requested by central areas or the ICOs, time that could be spent on other procurement activities.
This current inability to collect and consolidate data rapidly and accurately into organisation-wide statistics and reports affects the decision-making process throughout the procurement cycle. It prevents ISSSTE from adequately assessing and managing the procurement system as a whole and addressing various strategic management issues (e.g. organisation-wide procurement plan, effective internal control and risk-management, performance management). It also hinders the assessment of procurement strategies and the communication of results (positive or negative) to stakeholders, undermining the strategic potential of the procurement function.

ISSSTE has recently moved to correct critical information gaps associated with medicines and medical products through initiatives such as the creation of the Supply Control Board and improvements in the stock management system used in the delegations (further discussed in the section on “Deficiencies in ISSSTE’s procurement process”). Such initiatives have already had a positive impact on ensuring more stable and efficient provision of medicines and services to beneficiaries, increasing transparency and accountability while better managing the resources available and reducing waste. They do not, however, address the major data gap in other phases of the procurement cycle or in relation to other products and services.

For its procurement function to realise its strategic role within the organisation, it is essential that ISSSTE implements a strategy to ensure the efficient collection, aggregation and assessment of key procurement data. Using standard tools common to all procurement units would reduce the effort required to collect and consolidate data while increasing their accuracy and timeliness. At a minimum, these tools should consist of spreadsheets with limited, harmonised codifications and formats, and basic functionalities that prevent or highlight deviations from the established standards. Even these simple tools would be a significant improvement on the current system and greatly improve its efficiency and effectiveness. ISSSTE could achieve significantly better results with a more sophisticated information management system, preferably a procurement management system.

**ISSSTE lacks a IT management system covering the entire procurement cycle**

The goals of fairness, competition and economic value are paramount in public procurement and require effective and efficient procurement processes. ICTs can be instrumental in fostering efficiency and transparency in procurement.

Since early 2012, a number of new systems have been or are being developed by ISSSTE as part of overall efforts to promote more strategic sharing and use of information and to use ICTs to foster better coordination and collaboration across the organisation. However, these efforts have not extended to IT systems directly related to the procurement process. Since the reform of the procurement laws in 2009, ISSSTE is required to use Compranet, the e-procurement system of the Mexican federal government. However, that system currently addresses only some stages of the procurement process, mostly tendering procedures and contract awards. Furthermore, more than 40 systems and databases are in place in ISSSTE and are not well integrated, either internal or with external systems.

Drawing on the experience of OECD countries such as Korea (Box 3), ISSSTE could consider deploying an e-procurement management system common to all procurement units that covers the entire procurement cycle and is fully integrated with relevant IT systems and databases, including Compranet and the website of the Federal Institute of Access to Information and Data Protection.
Box 3. KONEPS: Korea’s Integrated electronic procurement system.

In 2002, the Korean central procurement agency, Public Procurement Service (PPS), introduced a fully integrated, end-to-end electronic procurement system called KONEPS. This web-based system handles the entire procurement process electronically (including a one-time registration, tendering, contracts, inspection and payment) and related documents are exchanged online. KONEPS links with about 140 external systems to share any necessary information, and provides a one-stop service, including Internet banking. Furthermore, it provides information on a real-time basis.

All public organisations are mandated to publish procurement tenders through KONEPS. In 2011, over 64% of Korea’s total public procurement (USD 100 billion) was conducted through KONEPS, under which 44 000 public entities interact with 228 000 registered suppliers. According to KONEPS, the electronic procurement system has increased participation in public tenders and has significantly improved the transparency in procurement administration, drastically reducing corruption. In addition, the system has boosted efficiency in procurement, increasing the number of transactions and significantly reducing transaction costs.


The deployment of such an e-procurement system could provide various advantages, such as:

- increasing the consistency and adequacy of procurement activities through a common process, the use of templates (e.g. model solicitation documents) and the automation of various steps in the process (bid evaluation and selection of the best offer, automatic calculation and application of penalties for late delivery, etc.);
- reducing the effort and time required to complete the procurement cycle, thus freeing up resources for higher value-added activities such as market research and the development of optimal strategies;
collecting, with limited or no effort from the procurement units, a large amount of high-quality procurement data for decision making, performance management (of both the procurement function and suppliers) and auditing purposes;

making the management of the procurement process more transparent, helping improve overall accountability; and

strengthening communication, collaboration, co-ordination and planning, thereby improving the overall quality of procurement.

**ISSSTE’s workforce needs the right competencies to undertake the procurement activities**

The OECD review found that the ISSSTE procurement function has a dedicated workforce. However, there are significant competency gaps that prevent the organisation from optimising its procurement process. Such gaps relate both to core procurement activities (e.g. market research, knowledge of the procurement legal framework and use of diversified evaluation and selection methods in competitive tendering) and to the general management of the function and its risks (e.g. identification and management of potential risks, conflict of interest and wrongdoing, as well as management skills in middle managers).

ISSSTE lacks a structured strategy for the training and development of procurement officials. No standard training or certification is provided to all procurement officers, and determining competency gaps and training requirements is left to each procurement unit. Similarly, the lack of entry training prevents new staff members from gaining a consistent understanding of the Institute’s mission, vision, organisation and what is expected of them. Attending a training course is not compulsory and there are no incentives to do so other than personal motivation. The high workload of many units may also inhibit staff from pursuing training.

Most procurement officials therefore develop knowledge and capability mostly through experience, resulting in an unevenly qualified workforce. While most procurement professionals and middle managers possess a long experience in the area of procurement, junior staff and technical support staff often have insufficient knowledge and training. Similarly, local procurement units appear to have greater capability gap than the central areas. This problem is exacerbated by rapid staff turn-over in some units.

Capacity deficiencies are also found in other stakeholders involved in the procurement process. The staff of user areas, for example, often lacks necessary skills and knowledge in areas such as the legal framework for procurement, market research, how to draft technical requirements and specifications, and how to adequately evaluate technical proposals received. Building the capacity of suppliers (particularly small and medium enterprises) on Compranet is also needed to increase the uptake of e-procurement.

While significant, this challenge is not limited to ISSSTE; lack of adequate capacity - not only in terms of numbers of the procurement officials but also of specialised knowledge and skills - is the most significant weakness identified in reviews of procurement systems undertaken by OECD countries since 2008 (OECD, 2012a). Many countries are tackling this challenge by introducing competency management frameworks that identify the capabilities needed in the workforce and bring together a number of human resource management activities (recruitment, staff development, career path, performance management) to enhance the capacity of the workforce (Box 4). The experience of OECD countries indicates that this would not be an easy task for ISSSTE as it requires a change in the organisation management culture and a
focus on employee performance management, another aspect that is not well developed in Mexico’s public administration.

**Box 4. Procurement competency framework: Elements considered in Scotland**

The procurement competency framework of the Scottish government identifies the skills and competency levels required by all staff involved in the procurement process. It has been developed by the Cross-sectoral people and skills working group to support the delivery of the recommendations in the *Review of Public Procurement in Scotland* (2006) which related specifically to people and skills. The framework is intended to complement, not replace, existing personal development tools in organisations.

The framework identifies thirteen key competencies:

- **Procurement process**: has the sufficient knowledge and understanding in sourcing and tendering methods to carry out duties associated with role.
- **Negotiation**: has the ability to negotiate within the scope of the role.
- **Strategy development and market analysis**: has the strategy development and market analysis skills necessary to carry out duties associated with role.
- **Financial**: has the financial knowledge and understanding needed to carry out duties associated with role – elements include appraisal of suppliers’ financial positions, total costing and the compliance frameworks that exist for public sector finance and procurement.
- **Legal**: has sufficient understanding of legislative frameworks relating specifically to procurement to carry out duties associated with role.
- **Results focus**: is aware of how personal and team objectives contribute to the success of the organisation, and continually demonstrates commitment to achieving these.
- **Systems capability**: has the knowledge and understanding of systems and processes utilised in the procurement of goods and services. Specific system competencies may be localised to specific systems.
- **Inventory, logistics and supply chain**: has the knowledge and understanding of materials management solutions to carry out duties associated with role – elements include inventory, logistics, warehouse management, etc., specifically organisations which hold stock. Knowledge and understanding of supply chain management techniques – not restricted to organisations holding stock.
- **Organisational awareness**: clearly understands roles and responsibilities, how procurement should be organised and where it should sit within the organisation.
- **Self-management**: responds quickly and flexibly where required, supporting others whilst striving to improve skill application in line with organisational requirements.
- **Leadership**: contributes to the achievement of team goals by providing support, encouragement and clear direction when appropriate.
- **Communication**: openly shares relevant information and communicates in an effective and timely manner using a variety of means.
- **Relationship management**: identifies different types of customers and stakeholders and formulates strategy for managing relationships.


ISSSTE would benefit from implementing a strategy to develop the necessary competencies in its procurement workforce as well as in the internal and external stakeholders affecting the procurement process. Regular and standard training on core knowledge and competencies for all ISSSTE procurement
officers could be supplemented by specific training reflecting the responsibilities of each individual. Procurement training is a priority for the Ministry of Public Administration, and it has recently set up procurement certifications with Mexican universities. ISSSTE could thus collaborate with the Ministry to develop its strategy and fully benefit from these training and certification programmes. E-learning, for example through the @Campus Mexico portal, could be used to train distant employees and reduce costs.

Classroom courses and e-learning could be complemented by a variety of other learning methods, such as knowledge sharing and team-based learning, coaching and mentoring, topic-focused workshops and temporary secondments within ISSSTE, in another Mexican public organisation or in the private sector. Various tools and guidelines could also be developed on specific topics to allow the transfer of knowledge and adoption of best practices.

**ISSSTE’s management of its procurement workforce must be strategic and rely on equal opportunity, merit and performance**

The main weakness of ISSSTE’s human resource management system is its lack of professionalization. Currently, less than half of procurement staff may be considered as procurement specialists while the rest perform non-specialist technical and administrative support functions. Moreover, procurement officials may be required to perform additional duties, which prevents specialisation. ISSSTE needs a merit-based system for workforce management and should give procurement professionals the opportunity to develop a career both inside and outside of the Institute.

ISSSTE needs more strategic human resource management in general, and for its procurement workforce in particular, to position the procurement function to fulfil its mission and fully support the strategic objectives of the organisation. Workforce planning is required to ensure ISSSTE has the right human capital - in terms of size, deployment and competencies - to undertake its procurement activities on a strategic basis. At present, there is no evidence that ISSSTE has a workforce planning strategy, and a number of procurement units report that they have insufficient human resources to address the entire procurement process efficiently and effectively.

Recruitment, promotion and career development arrangements could be revised to shift the emphasis to equity and merit, taking into account skills, aptitudes and previous experience. Currently, procurement vacancies are filled without open competition, with the candidate selected by heads of department, heads of service or even directors. Academic credentials and job experience are normally used to justify an appointment, but technical knowledge is not systematically tested and there is no instrument to assess whether the candidate possesses the competencies and skills required for the position.

While current practice allows vacancies to be filled relatively quickly, it does not guarantee that the best possible candidates are appointed. It can also give rise to patronage and clientelism, where promotions depend largely on personal relations, which are at odds with the modern, merit-based human resource management system that Mexico’s federal public administration is striving for (OECD, 2011d). Finally, it hinders career development, preventing professionals with a long experience in the organisation from accessing management positions. As such, ISSSTE would benefit from moving to a more objective, transparent and merit-based selection of its procurement workforce based on open competition, including to external candidates. This would best be done through a position-based recruitment system focused on selecting the best-suited candidate (whether internal or external to the organisation) for each position.
To professionalise its procurement workforce, ISSSTE has to shift from a focus on compliance to a focus on performance. Such a shift would be supported by a workforce performance management system aligned with priorities and performance targets identified in an organisation-wide procurement plan. Currently, individual performance is neither monitored nor periodically assessed in ISSSTE; no effective appraisal process is in place for employees to receive feedback from their superiors, and the latter are not prepared to conduct such assessments. As a consequence, there is limited, if any, formal incentive to innovate or try to improve the efficiency and outcomes of the procurement process. On the contrary, the strong legalistic tradition of the Mexican public service stresses adherences to rules and regulations, and creates a disincentive to such innovation efforts, as the employee is subject to sanctions if an error is made in the process.

In this context, instilling a culture of performance assessment in ISSSTE, as in the Mexican federal public administration is general, is a complex, long-term cultural and behavioural change process that involves altering formal structures and arrangements as well as informal habits ingrained in the system (OECD, 2011d). Political and senior management support is therefore critical for this change to occur. While there is no “best case” country or model of employee performance management across OECD countries, some important lessons can be drawn from their overall experience (Box 5). Most importantly, any performance management scheme must enable operational managers to work with their staff to align their individual needs, interests and career aspirations with the organisation’s business needs. The focus should be on the future, on what the employee needs to be able to do and how he or she can do things better, and on identifying and addressing barriers to good work performance.

**Box 5. Employee performance management: Key lessons of OECD countries**

- The cornerstones of performance management are the organisation’s strategic goals and business plans (planning work and setting expectations).
- Performance management should be based on a systematic monitoring and assessment of employees’ performance.
- Performance orientation should be based on a performance dialogue between the employee and his/her closest supervisor.
- Performance should be periodically rated in an adapted fashion. Good performance should be rewarded and poor performance addressed.
- The team is sometimes more important than its individual members.
- Promotion processes should make use of the information generated by the performance management and assessment systems.
- Public sector managers should be trained on managing staff performance.
- Performance management should not undermine the core values and ethos of the public service.
- Performance management does not improve in itself performance, but provides information to improve decision making.


In working towards a performance management culture, ISSSTE needs to make middle managers accountable for performance but must also empower them to manage performance. This means finding a
healthy balance between management accountability and the flexibility to manage teams in a responsive way that allows them to achieve their objectives. Canada’s Management Accountability Framework experience (Box 6) provides a prominent example for ISSSTE on how to emphasise results and performance and increase the delegation of management functions to departments.

**Box 6. Fostering accountability: The Canadian Management Accountability Framework**

In the context of a greater emphasis on results and performance management and increased delegation of management functions to departments, the Canadian government has developed a Management Accountability Framework (MAF, www.tbs-sct.gc.ca/maf-crg/index-eng.asp) to ensure departmental accountability for management results, including human resources. The MAF is structured around ten key elements that collectively define ‘management’ and establish the expectations for good management of a department or agency. It sets clear indicators and measures that can be used to gauge performance over time to help managers, deputy ministers and central agencies assess progress and strengthen accountability for management results.

The MAF is part of the government’s efforts to move away from prescriptive rules and heavy central regulation to focus on risk-based monitoring and accountability for results. The government uses annual MAF assessments to identify management strengths and weaknesses in individual departments and agencies and ultimately government-wide. The assessment process leads to a joint agreement on specific management improvement action plans and ultimately public reporting on the state of management. MAF assessment now also factors into deputy ministers’ performance appraisals.

The people component of the MAF provides a common structure for assessing human resource management in departments and agencies. It sets out vision, expectations, key performance indicators and associated measures for sound human resource management. It centres on key workforce, workplace, leadership and HR infrastructure outcomes, and associated measures. The outcomes are:

- a workforce that is talented, professional, representative, engaged and productive, with the required competencies and values to meet current and future needs;
- a workplace that is healthy, safe and fair and enables employees to work effectively in a supportive environment and a culture of excellence;
- strong leadership and management capacity to effectively lead organisations and people in a complex and dynamic environment;
- effective infrastructure, which facilitates effective organisational planning supported by strategic and enabling human resource management and achieves high levels of client satisfaction.

The key “people management” performance indicators provide a solid foundation on which managers at all levels, including deputy ministers and human resource professionals, can build their accountability regimes for quality human resource management and assess their organisation's business and human resource outcomes.

Key recommendations

To ensure the availability of resources necessary for a strong procurement function, ISSSTE could:

1. Design and implement a strategy for the efficient and effective collection of key procurement data, including the development and dissemination of associated standard IT tools common to all procurement units and based on harmonised and limited codifications and formats.

2. Increase the use of existing and new IT systems and ICTs for strategic planning and management of procurement, ensuring that they are integrated with each other and with external systems. This would best be achieved through an electronic procurement management system covering the entire procurement cycle, available to all procurement units and fully integrated with other systems in place.

3. Professionalise the procurement function and develop a workforce with the right competencies through workforce planning, recruitment and promotions based on merit and open competition.

4. Balance HR management based on strict compliance with the rules with an approach based on competency and performance. This would be supported by a competency management framework and regular, structured performance appraisals of employee performance.

5. Provide more consistent and regular training not only to procurement experts, but also to user areas as well as suppliers (particularly small and medium-sized enterprises), considering courses and certifications provided by external entities such as the Ministry of Public Administration and universities.

6. Use other development methods to improve the skills of the procurement workforce, including knowledge sharing and team-based learning, coaching and mentoring, topic-focused workshops, temporary secondments as well as tools and guidelines on specific topics.
Achieving better procurement results through sound sourcing strategies

Establishing the optimal sourcing strategy for a requirement is a complex activity, as it requires careful identification and assessment of the prevailing specificities and risks associated with the product or service, its potential suppliers and particular market sector, and with the units to be serviced. Nonetheless, it may be the step of the procurement process that most contributes to optimising the benefits to the organisation while minimising and mitigating the risks inherent to each procurement process, thereby balancing all factors to achieve best value.

Recent strategies have increased competition and value for money

The large number of decentralised procurement units in ISSSTE results in a fragmentation that can potentially limit economies of scale and the possibility of achieving the best value for goods or services that are common throughout the organisation. To avoid this shortcoming, ISSSTE has implemented consolidation initiatives for the procurement of various requirements through large contracts awarded at the central level. Requirements are identified by all decentralised units and aggregated at an organisational level, prior to being validated at the central level. As a result of such initiatives, more than a third of the contracts are awarded at the central level, representing 90% of the procurement spending (Figure 6).

However, decentralised units report that such initiatives are established with little or no involvement and feedback from them and their user areas. This results in various lessons learned and knowledge not being considered when developing procurement strategies. Furthermore, the current lack of assessment and visibility of the impacts of these initiatives results in the positive outcomes often being ignored, with most units focusing their attention on the negative impacts (real or perceived). Reported negative impacts include insufficient supply in some regions, reduced coverage in services, inadequate supplier performance and longer delivery lead times. The lack of communication and impact assessment therefore hinder the outcomes and buy-in of consolidation efforts undertaken at the central level of ISSSTE.

Similarly, consolidation opportunities are lost due to contract splitting, i.e. dividing requirements into smaller ones, due to various factors such as uncertainty on the budget level and timing, lack of proper planning and an intent to circumvent the established procurement policies to speed up the process or favour a particular product or supplier. Such practice is not limited to ISSSTE, but is widely recognised as a risk to the integrity of any procurement process (OECD, 2009a, 2007).

ISSSTE has also collaborated with other Mexican public health care providers so as to further benefit from economies of scale for medicines and medical products, which represent the majority of its procurement spending. Since 2008, it has participated in the Coordinating Commission for Negotiating the Price of Medicines and other Health Inputs (Comisión Coordinadora para la Negociación de Precios de Medicamentos y otros Insumos para la Salud) that negotiates annual nationwide fixed prices for patented medicines. Patented medicines represent 56% of the total public expenditure on pharmaceuticals in Mexico and the World Health Organisation has estimated at more than USD 350 million the savings in public expenditure resulting from these joint negotiations (Gómez-Dantés et al., 2012).

Furthermore, ISSSTE launched an initiative in 2012 for the joint procurement of medical products (including unpatented medicine, narcotics and psychotropics) and medical equipment (e.g. for radiology
and laboratory use) with other Mexican public health care providers (Box 7). In December 2012, the International Social Security Association recognised ISSSTE’s effort in such consolidation initiatives by awarding it a Certificate of Merit under its ISSA Good Practice Award for the Americas.¹

**Box 7. Increased consolidation through collaboration: Joint procurement of medical products and equipment in the Mexican health sector in 2012**

In March 2012, ISSSTE approached the Mexican Institute of Social Security (Instituto Mexicano del Seguro Social, IMSS), Mexico’s largest public health and social service provider, to consider the interest in jointly procuring selected products. Following a positive response from IMSS, subsequent discussions took place to implement this project, including with the Ministry of Public Administration (Secretaría de la Función Pública, SFP).

Other entities of the Mexican health sector also selected to participate in the consolidation, resulting in the publication, on 11 September 2012, of nine public tendering solicitations (seven for medical products and two for medical equipment), ultimately covering almost 700 medical products and 600 medical equipments. ISSSTE, IMSS and the National Defence Ministry (Secretaría de la Defensa Nacional, SEDENA) participated in all of them, while the Institute of Public Health Service of Baja California (Instituto De Servicios de Salud Pública del Estado de Baja California, ISELAUD) chose to consolidate its requirement for medical products only.

The selection method used for all solicitations is based on the lowest price, five being subject to reverse auction while four are based on the level of discount offered by the suppliers to reference prices established by the participating entities and identified in the solicitation. Furthermore, the resulting contracts provide some flexibility on the quantity acquired, identifying a minimum and maximum level for each product and each purchasing entity. Furthermore, the solicitations provided flexibility for each entity to determine the range of the resulting supply base. Under each solicitation, ISSSTE therefore included the possibility of issuing two contracts for each product (representing respectively 60% and 40% of the maximum quantity), should two valid offers be received with prices within 5% of each other.

These joint solicitations have proven quite successful for ISSSTE as contracts were awarded for 90% of the items required by the organisation. Furthermore, ISSSTE estimates that it has achieved savings of 14%, or MXN 675 million (approximately USD 52 million), on the last prices paid for these products.

Source: Information provided by ISSSTE.

**ISSSTE has not achieved an optimal level of competition yet**

Notwithstanding a significant decrease in 2011, ISSSTE has achieved a relatively high level of competition over the last few years, with almost 80% of its procurement spending (including public works) carried out through public tendering over the period 2008 to 2011 (Figure 8).

However, ISSSTE did not achieve the full benefit of these public tendering procedures as they were generally usually limited to national suppliers, only 22% in number and 44% in value being open to foreign suppliers. This situation can partly be explained by Mexican procurement legislation giving a preference to national tendering procedures or, when applicable, to international tendering procedures covered by international trade agreements.
Figure 8. Breakdown of ISSSTE's contracts recorded in Compranet by type of procedure (2008-2011)

<table>
<thead>
<tr>
<th>Value of contracts</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct award</td>
<td>51%</td>
<td>44%</td>
<td>34%</td>
<td>34%</td>
</tr>
<tr>
<td>Restricted Invitation</td>
<td>10%</td>
<td>10%</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Public Bidding</td>
<td>39%</td>
<td>50%</td>
<td>60%</td>
<td>50%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of procedures</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
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<tbody>
<tr>
<td>Direct award</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Restricted Invitation</td>
<td>0%</td>
<td>50%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Public Bidding</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Note: Excludes FOVISSSTE, SuperISSSTE, TURISSSTE and PENSIONISSSTE.

Source: Based on Compranet data provided by the Ministry of Public Administration, with corrections by ISSSTE.

While the law allows international public tendering in the absence of sufficient national capability to meet the requirements, procurement officials indicate difficulties in substantiating a decision to go directly to international public tendering, partly due to the limited market research currently being undertaken. National public tendering procedures are therefore generally undertaken, in many instances resulting in no valid offer being received. While the law then allows ISSSTE to issue a public tendering procedure open to all national and international suppliers, the organisation usually selects another option allowed, i.e. to acquire that exact good or service on a direct award basis. Such instances are very frequent and significant, representing the most important exception to public tendering used at the central level other than for the low value of the requirements (Figure 9).

In addition to opening a higher number of initial solicitations to international competition, another option available to ISSSTE to reduce the use of that exception would be to subject it to the approval of a review committee (as most other exceptions). It could also require that unsuccessful national level tendering procedures be issued at the international level unless it is demonstrated that this would result in clear and unavoidable damages to the organisation or prevent it from meeting its obligations.

Similarly, ISSSTE could reduce the number of contracts awarded without competition. While some of the other uses of exceptions to public tendering by ISSSTE can be explained by the nature of the products acquired by ISSSTE (e.g. patent medicines) and of the services it provides (e.g. medical emergencies or epidemics), some of them can result from inadequate planning (e.g. requirement forecasting and procurement process management) and lack of market intelligence (e.g. availability of alternative products and services).
ISSSTE could improve this situation by reducing its reliance on products subject to intellectual property rights, for example by reducing its use of equipment available only from one supplier or ensuring that associated parts and maintenance services can be obtained from multiple sources. Regular assessments of the use of the exception for urgency and force majeure, as recommended in the OECD Principles for Enhancing Integrity in Public Procurement (OECD, 2009b), would also help identifying opportunities to improve the planning and management of its procurement function and reduce such occurrences.

ISSSTE could also consider initiating the use of reverse auctions for appropriate goods. Other Mexican federal entities report having reduced their prices by almost 10% through reverse auctions: the Mexican Federal Electricity Commission (Comisión Federal de Electricidad, CFE) has saved more than USD 252 million in the acquisition of coal since 2009 (OECD, 2012b) and IMSS reduced the costs of some medicines, health material, mammography equipment and vehicles by USD 70 million between 2009 and 2011 (OECD, 2012c). IMSS even officially announced, in early 2011, its intention to increase the use of reverse auctions to all applicable purchases for which the laws and market allow. ISSSTE has indicated a desire to introduce the use of reverse auctions in its procurement process, making it part of a work plan established with the Ministry of Public Administration in June 2012.

Finally, it has been reported that some suppliers may manipulate ISSSTE’s procurement system in order to increase prices, for example by limiting the level of competition and using unsuccessful public tendering procedures as a mechanism to be awarded the contracts on a direct award basis. The Medical Supplies Sub-directorate (Subdirección de Abasto de Insumos Médicos) has implemented the two-fold strategy described in Box 8 to mitigate such risks and improve the conditions obtained under its contracts for medicines and medical equipment.
**Box 8. Addressing low level of competition for medicines and medical products: ISSSTE’s recent strategies**

Recognising that various factors may limit competition in the acquisition of some medicines and medical products, ISSSTE implemented the following strategies in 2012:

- The “discount from reference prices” approach for public tendering procedures: only accepting offers lower than the maximum price identified in the solicitation documents and determined by ISSSTE through market research. Between January and June 2012, this approach was used for 38 products and an average discount of 19% was achieved (i.e. almost MXN 80 million or USD 6.3 million).

- When public tendering for a specific product fails, benefiting from existing contracts of IMSS: in the first half of 2012, 48 products that were unsuccessful under public tendering procedures were procured directly from IMSS. For 28 other products, ISSSTE negotiated contracts with IMSS’ suppliers to obtain the same price as IMSS, achieving savings of 46% (i.e. more than MXN 17 million or USD 1.3 million) of the reference prices it had initially established. This practice was recognised by the International Social Security Association who awarded to ISSSTE, in December 2012, a Certificate of Merit under its ISSA Good Practice Award for the Americas.\(^1\)

As a result of this strategy, ISSSTE reports having achieved savings of almost MXN 100 million (USD 8 million) from its reference prices, i.e. the price that it was willing to pay under the unsuccessful public tendering procedures.

However, the results of that second strategy clearly illustrate the deficiency in ISSSTE’s market research capability. While a portion of the savings resulting from “tapping” on IMSS’ contracts (46%) may be associated with economies of scale, it is obvious that the reference price established by ISSSTE, i.e. the maximum price it was willing to pay for the products, was significantly higher than the price at which the suppliers were willing to sell.

Note: Details on the ISSA Good Practice Award for the Americas are available at www.issa.int/News-Events/News2/The-ISSA-Good-Practice-Award-for-the-Americas. Competition results for 2012 can be found at www.issa.int/content/download/173040/3434431/file/2-GPA-Americas2012.pdf.

Source: Information provided by ISSSTE.

**A larger range of procurement vehicles could increase flexibility, efficiency and value for money in ISSSTE’s procurement process**

As indicated in Figure 8, a significant number of ISSSTE’s procurement procedures are undertaken without any competition, raising concerns about: i) sub optimal prices being obtained for these contracts; and ii) the allocation of significant human resources to issue and manage a large number of low-value contracts instead of concentrating them on higher value activities.

A number of procurement instruments could ensure adequate supply, standardisation and fair prices while reducing the level of effort required. These instruments include the framework agreements,\(^3\) open contracts (under which additional quantities of the specific product or service can be obtained up to a pre-determined limit), multi-year contracts and contract with options (allowing to extend the period of the contract or to obtain the same or different products or services).
Notwithstanding the benefits of these vehicles, ISSSTE procurement practice is generally limited to standard contracts or open contracts. Framework agreements only represented 3.5% of the total number (and less than 1% in value) of contracts awarded on a direct award basis at the central level by ISSSTE in 2011. This contrasts significantly with the practice of other OECD countries, almost all of them reporting that framework agreement are routinely used in some or all procuring entities at their central government level (OECD, 2012d). Framework agreements even represented 42% of the value of all central purchasing in the European Union over 2008 and 2009 (EC, 2011). Similarly, there is no evidence of ISSSTE using contracts with options.

In addition to promoting standardisation and achieving savings, these instruments could mitigate some constraints and risks experienced by ISSSTE. Box 9 provides the example of budget uncertainty which is identified by many procurement units as one of – if not the – biggest challenges they face in managing their activities.

Box 9. Mitigating uncertainty in budget allocation through appropriate procurement instruments

Uncertainty over the budget availability (both in terms of timing and level) is a factor commonly reported as having a profound negative impact on the efficiency and management of ISSSTE’s procurement function. Budget available at the beginning of the year is often deemed insufficient to cover all of the annual requirements, although additional funds may become available later in the year. This situation impacts the procurement process mainly at two levels:

- Difficulty in planning the procurement activities: as budgets become available, users often ask the procurement units to obtain the required goods or services upon short notice. The resulting high level of “urgent requests” and pressure to reduce timeframes significantly impact the procurement planning and processes and can result in contract splitting, the use of restrictive requirements, improper use of exceptions to public tendering, reduced time for suppliers to submit their offers, unrealistic delivery schedules, etc.

- Repetitive identical procurement processes being undertaken for the same good or services, as funds become available. Not only are resources then wasted, but the organisation is unable to achieve the best conditions through economies of scale.

ISSSTE could mitigate the negative impacts of such budget uncertainty through judicious use of the following procurement instruments which limit the financial commitment to the budget initially available while allowing to subsequently acquire (rapidly and with limited efforts) additional goods and services as and when additional financial resources become available:

- Increasing the use of open contracts, establishing the minimum quantity at the level of the budget initially available.

- Establishing, in collaboration with the Ministry of Public Administration (Secretaría de la Función Pública, SFP), additional framework agreements for requirements common to several of ISSSTE’s procurement units. Contractual conditions are established through these instruments, benefiting from economies of scale in the agreed upon prices, but the financial commitment only occurs when ISSSTE awards a contract under them.

- Introducing, in appropriate contracts, options for additional goods or services or a time extension. No financial commitment is made for the options, but ISSSTE can obtain additional goods or services at a later date through a simple contract amendment if the requirement remains valid and funds are available.

Source: Interviews with ISSSTE’s public servants.
The experience of other OECD countries, such as New Zealand, indicates that strong communication is required to increase the level of buy-in and penetration of these instruments, both internally (e.g. user areas and procurement units) and externally (e.g. suppliers of the relevant industry sectors). As such, it is important that ISSSTE proactively involves applicable stakeholders in their development and that it makes guidance documents and training available to clarify how and when they are to be used. Regular assessment and communication of the benefits and outcomes (such as savings) achieved under them would also be a strong asset. However, that particularly important activity represents a challenge in many OECD countries. For example approximately half of them reporting that the savings generated from their framework agreements are not calculated at the central government level, primarily due to a lack of data and resources (either financial or workforce) and to insufficient incentive/obligation (OECD, 2012d). Taking this into account, ISSSTE should ensure to have in place the necessary data collection, resources and mechanisms to undertake such assessments.

**ISSSTE focuses its evaluation and selection solely on mandatory criteria and the lowest price approach**

The Mexican procurement regulations associated with goods and services indicate a clear preference for evaluation and selection based on the points and percentages (puntos y porcentajes) approach or the cost-benefit approach, requiring a written justification whenever the mandatory criteria and lowest cost approach is used. However, the OECD review found that ISSSTE had nonetheless based its procurement strategies almost exclusively on that latter approach until recently.

This approach may be legitimate for the acquisition of standard goods, as it facilitates the evaluation and selection process while ensuring that minimum requirements are met. However, a selection method based only on price may result in various negative impacts for the organisation, such as lower quality, unsecure supply and unsatisfactory supplier performance. It also does not consider the overall costs of use and disposal of the equipment (unless a life-cycle approach is used) and other benefits to the organisation, such as more effective medical equipment reducing the time required for a specific treatment or test (thereby increasing the number of patient treated).

ISSSTE procurement units report having gradually introduced flexible evaluation and selection methods since 2011 and most procurement officials interviewed showed a willingness to increase the use of these methods. However, procurement units experience difficulties in doing so due to a lack of experience, some referring to it as a “trial and error approach” and indicating that more training and tools (including specialised teams) are required.

**Key recommendations**

In order to diversify and improve its sourcing strategies as to maximize their results, ISSSTE could:

1. Increase competition by
   - i) reducing the occurrences of contract splitting and the use of exceptions to public tendering,
   - ii) increasing whenever possible the participation of foreign suppliers,
   - iii) increasing consolidation efforts,
   - iv) using reversed auctions and
   - v) improving market research to be aware of all available solutions to the requirements.

2. Undertake sufficient discussions with the various procurement units to ensure that all information and lessons-learned developed internally is considered in the development of specific
organisation-wide procurement strategies (e.g. central consolidated contracts) and assess ex post their impacts.

3. Increase the use of flexible contractual vehicles providing efficiencies and higher savings such as framework agreements, multi-year contracts and contracts with options. This should include the regular assessment and communication of the benefits and outcomes (e.g. saving) achieved under them.

4. Promote the use of a larger range of evaluation and selection criteria (including life-cycle cost assessments) and provide the associated necessary training and guidance to the procurement units.
Addressing deficiencies in ISSSTE’s procurement process

Deficiencies in market research compromise the efficiency and outcomes of ISSSTE’s procurement system

The OECD Principles for Enhancing Integrity in Public Procurement (OECD, 2009b) emphasise the need to reduce information asymmetry with the private sector. Keeping up to date with changes in the marketplace is essential for ISSSTE to maximise the use of available resources and provide high-quality services to its beneficiaries. Market research is therefore a critical activity in the procurement cycle, as the information collected has a strong impact on the identification of suitable solutions to meet procurement needs and to ensure the success of the procurement process.

Under Mexican federal public procurement regulations, market research must be conducted prior to the issuance of any solicitation or contract associated with goods, services or leases, unless specific conditions apply. However, the OECD review found that ISSSTE currently does not take advantage of all of the potential benefits of its market research and that the research is generally treated as an administrative measure fulfilled solely to comply with the law rather than as a strategic activity. It is also often limited to comparing prices to determine a reference price against which financial proposals will be assessed. Furthermore, market research is often not carried out by user areas, is undertaken late in the process (sometimes while the solicitation process is already underway) or is done poorly.

The current lack of importance given to market research can be explained by i) a limited awareness of its value in some parts of the organisation, ii) a lack of time and resources and iii) the allocation of the limited available resources to other activities perceived as more urgent or of higher value. Furthermore, the organisation generally lacks the necessary internal capability and expertise in the areas responsible for carrying out market research, including knowledge of the associated legal provisions and of the methodology and process to be used. This situation is worsened by a lack of concise and easily accessible information.

ISSSTE is fully aware of this challenge and has taken actions to address it. For example, the Infrastructure Sub-directorate (Subdirección de Infraestructura) of the Medical Directorate (Dirección Médica) has implemented multi-disciplinary teams to improve the quality of market research and to consider a broader range of elements. In mid-2012, ISSSTE also developed a regulatory guide to support market research activities (ISSSTE, 2012b). Through detailed references to the associated federal and internal regulations, this guide provides a better understanding of the market research process and requirements. However, it does not improve competencies associated with the “know how” (i.e. the practical knowledge of how to undertake these steps and use the information collected) nor does it provide easy reference to simple and consolidated information and data to facilitate market research.

It is therefore crucial that ISSSTE increases awareness of the strong contribution of the market research activity, addresses the current capacity gap and makes clear and up-to-date guidance, information and data available. This effort could be strongly facilitated by building a specialised market unit, potentially complemented by the outsourcing to specialised firms of market research activities associated with highly specialised procurement. While developing these initiatives, ISSSTE should carefully consider opportunities to join efforts with other entities of the Mexican health sector undertaking market research.
Doing so would make more efficient use of their respective limited resources, allowing a higher number of more detailed market research to be performed. By facilitating information and data sharing, it would also increase the associated expertise and the quality of the market research outcomes, while further reducing the risks of undue influence on the buying organisations.

**Identification of needs remains a significant challenge**

The importance and difficulty in adequately translating an organisation’s needs into specific and clearly defined functional or performance characteristics is often underestimated, not only by user areas but by procurement units as well. Nonetheless, that activity is crucial for the organisation to achieve best value for money. While ISSSTE’s recent consolidation and centralisation efforts are reported to have resulted in improvements in the identification and definition of various requirements, particularly concerning medicines and medical equipment procurement, a deficiency in requirement definitions remains a significant constraint to ISSSTE’s procurement function.

On the one hand, ISSSTE sometimes uses overly-restrictive specifications, limiting the possibility for potential suppliers to provide valid alternatives. This reduces the level of competition, stifles innovation and prevents the organisation from obtaining the best contractual conditions (including price). Similarly, this can bias the procurement results if the intent is to favour a particular supplier. Due care must therefore be taken to restrict specifications only to the extent necessary to fulfil the need. To encourage effective competition as well as innovation, specifications should be as open as possible and based on functional and performance terms rather than solely on material and technical specifications (OECD, 2008b). Currently, the use of performance-based tender specifications in order to allow suppliers to offer alternative solutions is the practice most commonly used in OECD countries to promote innovation (OECD, 2012a).

On the other hand, some requirement definitions issued by ISSSTE are unclear, underspecified or outdated. The resulting confusion creates inefficiencies and delays in the procurement process due to the need to clarify or change requirements and hinders the participation of some suppliers, which can also reduce the level of competition. In a worst case scenario, inadequate requirement definitions can result in the receipt of and payment for goods or services that do not meet the needs of the organisation (e.g. the acquisition of incompatible equipment). Technical inconsistencies may also occur and cause interpretation disagreements during the performance of the contract, damaging the relationship with suppliers.

Decentralised procurement units reported that requirements and their specifications are identified late in the procurement process by requesting areas, and that the specifications are unclear or too limited to fulfil the requirement. Part of the difficulty requesting areas have for providing adequate specifications can be explained by a lack of market intelligence (i.e. the knowledge of the nature and characteristics of the various solutions available on the market) and by a lack of capability and guidance in drafting requirement specifications.

The current difficulties encountered by ISSSTE could be mitigated by providing training and developing tools (such as checklists, best practices and templates) to facilitate the preparation of the requirement definition documents. Ensuring a systematic review of the requirement specifications could also increase their clarity and balance. As a first step, such a review could be undertaken by procurement units, giving them the right to reject requirement specifications that are unclear or unduly restrict competition. For complex, sensitive or large contracts, a formal technical review by an independent expert or committee could also be considered.
The suppliers’ performance and relationship with ISSSTE could be significantly improved throughout the procurement cycle

Improving certain steps of the procurement process would provide opportunities to improve the relationship with ISSSTE’s suppliers as well as enhance their performance, ultimately increasing the positive outcomes of the procurement function.

The bid evaluation procedure, a step of the procurement process identified as particularly vulnerable to integrity risks (OECD, 2007), is a prime example of such an opportunity. In order to preserve the integrity of the process and to maintain suppliers’ trust, it is essential that offers received under a competitive process be evaluated in full adherence to the evaluation and selection criteria established in the solicitation documentation. Unfortunately, the OECD review found that this crucial principle is not always respected by ISSSTE.

From 2007 to 2010, almost 10% of ISSSTE’s competitive procedures were subject to formal complaints from suppliers. That percentage is almost twice as high as that of the rest of the Mexican federal government (Figure 10). In spite of these high numbers, ISSSTE achieved significant progress during this period by decreasing the number of complaints by two-thirds. Between 70% and 75% of all complaints received each year were associated with the decision stage, thereby relating to the evaluation process and selection of the winning bidder (SFP, 2012). Similarly, data provided by ISSSTE indicates that more than 80% of the complaints found valid against its procedures from 2009 to 2011 were associated with that stage of the process. Such occurrences of bid evaluations not adhering to the solicitation documents compromise the integrity of ISSSTE’s procurement system, prevent the organisation from getting the best conditions (including prices) and cause suppliers to refrain from submitting a proposal under a system they perceive as “fixed” or “tainted”.

Figure 10. Complaints against ISSSTE’s procurement procedures and other federal government entities (2007-10)

<table>
<thead>
<tr>
<th>Entity</th>
<th>Bid complaints</th>
<th>Number of competitive procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMSS</td>
<td>1 732</td>
<td>12 116</td>
</tr>
<tr>
<td>PEMEX</td>
<td>1 293</td>
<td>17 357</td>
</tr>
<tr>
<td>CFE</td>
<td>430</td>
<td>17 928</td>
</tr>
<tr>
<td>ISSSTE</td>
<td>509</td>
<td>5 428</td>
</tr>
<tr>
<td>Federal government, excluding ISSSTE</td>
<td>7 568</td>
<td>156 117</td>
</tr>
</tbody>
</table>

Note: Information on the number of procedures for SFP is unavailable.


Central and decentralised procurement units could also regularly provide individual verbal debriefings to bidders following a solicitation process in order to complement the written information disclosed by the organisation as required by regulations. Verbal debriefing is used in some OECD countries, such as the United Kingdom, to promote a constructive and transparent dialogue between the buying organisation and the marketplace, allowing the organisation to expand its supply base and acquire valuable market intelligence. It also reassures bidders of the adequacy of the procedure that was undertaken and helps them to better understand the public procurement process and to learn how to improve their offers.
Inversely, inadequate verbal debriefings can damage the integrity of the procurement system. This can occur if confidential information is disclosed or if an unfair advantage is provided to a supplier by providing him information not available to all other suppliers. Similarly, debriefings can require significant time and effort, so undertaking them on a systematic basis may not be advisable for ISSSTE. Limiting debriefings to pre-established circumstances or specific types of requirements as well as ensuring that a pre-established and structured approach is taken would maximise their benefits while limiting costs and risks.

The OECD review also found that invoicing and payment procedures are a common source of frustration for both ISSSTE and its suppliers. While the standard payment terms are 20 days, important delays are encountered and payments can often take 2 or 3 months. This situation creates significant uncertainty, cash flow issues and unnecessary costs to the suppliers. It also has negative impacts on ISSSTE. For example, suppliers who come to expect such payment delays may transfer some or all of the associated costs to ISSSTE by increasing their price. It also reduces its supply base if some enterprises - particularly small and medium enterprises - are financially unable to deal with these delays and/or choose not to do business with the organisation as a result.

Part of this situation results from payments being managed at a central level through numerous complex and inefficient steps, resulting in significant transaction costs and delays. To improve the situation, discussions are currently underway on the potential transfer of some of the payment management activities to the decentralised areas for certain contracts, with appropriate reporting to the central level. Simplification and standardisation of the invoicing process is also necessary. On the one hand, suppliers indicate that an unnecessary number of documents and details must accompany each invoice (even if they have already been submitted in previous invoices). On the other hand, ISSSTE’s procurement units report that invoices and supporting documentation are provided late and have numerous mistakes. As a result, significant time and effort is spent on their review and correction, thus creating delays.

Although efforts have been undertaken to improve contract management, especially for medicines and medical products, sufficient attention is not given to this phase of the procurement cycle. This impacts negatively the effectiveness and efficiency not only of the procurement function, but of the whole organisation. Monitoring and management of suppliers’ performance is an activity currently undervalued in ISSSTE, even though poor performance can, in itself, negate all positive impacts of the previous phases (e.g. market research, strategy development and solicitation process). This current situation can convey a message to suppliers that ISSSTE does not recognise or consider high-quality service, giving suppliers a sense of impunity in the face of inadequate services.

This sense of impunity among suppliers is illustrated by ISSSTE not maximising the use of legally available recourses in occurrences of contractual non-compliance by a supplier. The penalties for late delivery (referred to as “conventional penalties” in Mexico) are not considered sufficient to create a real disincentive for suppliers: they are established at 2.5% of the value of goods not delivered per day of delays, but only up to a maximum of 10% of that value. Furthermore, penalties are applied on a sporadic and inconsistent basis.

ISSSTE could strengthen the monitoring and management of the performance of its suppliers and increase the general awareness of the importance of that activity. Among others, it could create mandatory follow-up mechanisms (such as regular meetings and progress reports) for the contracts. The type and frequency of these mechanisms could then be adapted to the nature, value and complexity of the
requirement in order for them to be more cost-effective. Also, functions automatically imposing applicable penalties for late deliveries could be introduced in any IT procurement management system implemented. Finally, ISSSTE could introduce formal supplier performance management programmes targeted at a few key suppliers and products. Supplier performance would be regularly assessed under these performance management programmes through key performance indicators (Box 10), potentially resulting in pre-established penalties and bonuses. A strategy could also be developed to use the programme results as part of the formal evaluation criteria used in subsequent solicitation procedures, in line with the recent effort of the Ministry of Public Administration.

Box 10. Fundamental qualities of key performance indicators

Good key performance indicators must possess certain fundamental qualities to fully benefit an organisation and its suppliers. They should be:

- **Relevant**, i.e. linked to key objectives of the organisation (critical outcomes or risks to be avoided), rather than on processes.
- **Clear**, i.e. spelled-out in the contractual document and as simple as possible to ensure common understanding by the buying organisation and the supplier.
- **Measurable and objective**, i.e. expressed on pre-determined measures and formulas, and based on simple data that can be gathered objectively and in a cost-effective manner.
- **Achievable**, i.e. realistic and within the control of the supplier.
- **Limited**, i.e. as few as required to achieve the objectives while minimising their disadvantages (costs, efforts and risk of dispute) to both entities. To the extent possible, the use of information and documentation already available under the contract management process should be promoted rather than requiring the collection of additional data or documentation.
- **Timed**, i.e. include specific timeframes for completion.

Procurement key performance indicators can be established for any important objective of the organisation. While a wide variety of subjects can be considered, the following ones may be appropriate in the context of ISSSTE:

- **Delivery**: i.e. whether the supplier delivers on time, delivers the right items and quantities, provides accurate documentation and information, responds to emergency delivery requirements, etc.
- **Pricing**: competitiveness, price stability, volume or other discounts, etc.
- **Customer service**: number of product shortages due to the supplier, training provided on equipment and products, warranty services, administrative efficiency (including order acknowledgement and accurate invoice), accuracy of performance data and reports provided by the suppliers, etc.
- **Product**: meets specifications (including percentage of rejects/defects), reliability/durability under usage, packaging, quality and availability of documentation and technical manuals, etc.

Finally, not all key performance indicators have to be monitored at the same frequency, the majority potentially being assessed on a monthly basis, with some others only quarterly or even annually.

While ISSSTE has significantly strengthened its stock management, shortcomings remain in the receipt and inspection of products and services

The stock management and distribution systems are particularly important elements of ISSSTE’s supply cycle for the significant impact they can have on the organisation’s capacity to provide sufficient high-quality services to its beneficiaries and for the significant integrity risks (e.g. theft) that can occur. As it relates to medicines and medical products, this issue has partially been alleviated by the award of a single contract to a firm (Servicio Integral de Logística y Distribución Sapi de C.V, Silodisa) for the management of the central warehouse and distribution to medical units. While some distribution challenges were initially encountered, contractual changes were implemented to resolve them.

Nonetheless, important shortcomings in stock management contributed to a medicine supply crisis in ISSSTE in 2011 and first months of 2012, where several of delegations (e.g. Durango, Tamaulipas, Nuevo Laredo) experienced a historically low level of medicine availability of less than 75% of the demand, creating significant discomfort among their beneficiaries. Significant initiatives have since been undertaken by ISSSTE to strengthen that activity. The Supply Control Board (Tablero de Control de Abasto) described in Box 11 was implemented in 2012 to provide timely visibility of the stock of medicines and medical products, significantly increasing the agility and effectiveness of ISSSTE’s decision-making and demand planning process.

Part of the stock management difficulties experienced by ISSSTE were also associated with the low level of deployment (less than 52% of the medical units) of its stock management system, the Comprehensive Medicines Supply System (Sistema Integral de Abasto de Medicamentos, SIAM) and the significant delays in data collection (information being outdated for 70% of the units). In 2012, ISSSTE initiated an important initiative to improve that system, including the implementation of barcodes for medicines as well as control of the medicines provided to beneficiaries through an interface with ISSSTE’s electronic medical record system (ISSSTEMED) or with a database of beneficiaries. New reports were also introduced, as well as a bidirectional interface with the Enterprise Resource Planning (ERP) system of Silodisa. Implementation of the resulting version SIAMv2 started in September 2012 with 65 medical units representing 80% of the associated budget, the system subsequently being deployed to the other several hundred medical units. The existence of two systems associated with the distribution and stock management of its medicines and medical products (SIAMv2 of ISSSTE and the ERP system of Silodisa) offers the opportunity for ISSSTE to implement automated mechanisms to identify and investigate stock discrepancies. This activity would supplement physical stock audits (complete or on random basis) conducted in all medical units to detect and investigate divergences between the physical stock and the SIAMv2 data.

However, the OECD review found discrepancies between ISSSTE’s inspection requirements and actual practices, compromising the results and integrity of the procurement function and the use of public funds. Although procurement units are fully aware of current receipt and inspection guidelines, including that only products and services fully complying with the contractual requirements can be accepted, these guidelines are not always respected. Furthermore, audits have reported cases where products or services not actually received are paid for.
Box 11. Improving stock management: ISSSTE’s Supply Control Board

The Supply Control Board was developed by ISSSTE in February 2012 and covers more than 900 codes of medicines and medical products in the National Distribution Centre (Centro Nacional de Distribución). For each product, the Supply Control Board provides crucial information, such as:

- stock available in each medical unit and in the central warehouse;
- supplier name, unit cost, expected coverage with existing stock in central warehouse (based on calculated average consumption), contractual quantity already delivered and remaining;
- the status of products for which stock is insufficient in a medical unit, such as their availability from the central warehouse, status of delivery from suppliers, status of contracting procedures, etc.

The information is also consolidated at medical unit and organisational levels to provide rapid visibility (both through a table and a pie chart) on the percentage of products under each stock and delivery status, for example:

- with sufficient stock;
- to be provided by the central warehouse;
- with imminent delivery by the supplier to the central warehouse;
- under late delivery by the supplier;
- without contractual agreement, but with a procurement process underway;
- without contractual agreement and without any process underway.

The availability of accurate and up-to-date data from the Supply Control Board has significantly increased the agility and effectiveness of ISSSTE’s decision-making and demand planning process for these products. For example, it supports the assessment of annual requirements and periodic adjustments based on actual consumption. Furthermore, a Tactical Procurement Team was put in place following the creation of this tool. Its members meet weekly to identify and address products for which supply may be at risk (e.g. due to low or inexistent stock, late delivery, etc.), as well as to decide on procurement actions and monitor any difficulties in their implementation.

Access to the Supply Control Board was provided to pertinent internal stakeholders of ISSSTE in March 2012. Information is now made public on a product basis – such as unit prices, planned national demand and availability by medical units - through the website http://isssteapache.issste.gob.mx/transparenciaproactiva.

Source: Information provided by ISSSTE.

While the award of the warehousing and distribution contract to Silodisa and the stock management initiatives discussed above partially alleviate this non-compliance issue as it relates to medicines and medical products, they do not address a large range of goods and services provided through more traditional delivery channels. It is therefore essential that ISSSTE strengthen its inspection activities, for example by increasing awareness of the importance of undertaking them correctly and by ensuring capacity in all areas where receipt of goods and services take place (not only the warehouses). This could be done through an awareness-raising campaign, improving internal communication and, if necessary, delivering training activities as well as revising associated documentation. Compliance with the inspection requirements could also be assessed as part of the performance evaluation of the receiving units and individuals.
Key recommendations

In order to improve the results of its procurement process, ISSSTE could:

1. Increase market intelligence through enhanced market research capacity (including building a specialised market research unit) and structured dialogue with potential suppliers (such as request for information as well as verbal debriefing following a solicitation process).

2. Enhance the clarity, balance and quality of the solicitation documents and requirement specifications, preferably based on functional and performance terms, through increased drafting capabilities, development of template documents and strengthening their review.

3. Enhance the performance of suppliers under contracts through on-going monitoring, tailored performance management programmes for key suppliers and consistent application of penalties and other recourses in case of late deliveries or improper performance.

4. Ensure that proposals received are evaluated in strict compliance with the criteria established in the solicitation documents, for example by developing an “evaluation code of conduct” that could guide the evaluators, implementing formal review mechanisms, and introducing functionalities in any e-procurement system put in place to identify and correct potential deviations from the solicitation documents.

5. Improve its actual inspection and receipt practices, for example by ensuring full awareness and capacity of all areas receiving goods and services and by making compliance with inspection and receipt requirements a formal element in the performance evaluation of the applicable units and individuals.

6. In complement to the recent implementation of the Supply Control Board, take actions to improve the stock management of medicines and medical equipments. This includes the deployment of the upgraded Comprehensive Medicines Supply System (SIAMv2) in all medical units, its full integration with other internal and external systems as well as the implementation of formal stock control mechanisms (e.g. automated comparisons of the data available from SIAM and Silodisa’s ERP system, as well as regular physical stock audits to detect and investigate discrepancies).
Safeguarding integrity and enhancing transparency throughout ISSSTE’s procurement cycle

Transparency is a priority for the Mexican federal Government and ISSSTE

Promoting an open and inclusive government is a prerequisite for building trust between citizens and governments, promoting a transparent and accountable government and fostering a level playing field for businesses (thus contributing to economic development). As part of these efforts, OECD countries adopted Guiding Principles on Open and Inclusive Policy Making in 2008. These Principles promote citizens’ engagement and enhanced transparency and accountability in order to foster trust between citizens and governments.

Mexico has taken strong actions to enhance access to information (making it a fundamental right through constitutional amendments in 2011) and to promote an open government. It has been one of the founders of the Open Government Partnership and has implemented an Open Government Partnership Action Plan. Following the adoption of the Federal Transparency and Access to Government Public Information Act in 2002, a number of online portals have been developed to facilitate the dissemination of information.

The Open Contracting initiative launched in 2012 is an example of similar efforts to increase transparency and monitoring in public procurement through improved norms, practices and methodologies. Similarly, recent procurement reforms in most OECD countries had for primary objective to enhance transparency through access to consistent information and record as well as clear public procurement rules (OECD, 2011e).

The Mexican federal government has also put particular emphasis on enhancing transparency in public procurement to promote a level playing field for suppliers and achieving value for money in government operations. It is now mandatory for federal institutions to publish information related to procurement on Compranet, the Mexican federal e-procurement system, and the Transparency Obligation Portal. Information disclosed includes annual procurement programmes, tender procedures (solicitation documents, minutes of the clarification meetings and of the opening of tenders), statistics on past procurement (including contract awards) and formal complaints submitted by suppliers (inconformidades).

ISSSTE has identified the promotion of transparency and accountability as a guiding principle of its ongoing reform agenda. From this perspective, it has implemented a number of measures to promote proactive disclosure of information, some of which relates to its supply chain. For example, it now makes public various data from its Supply Control Board (Box 11) on a product basis –such as unit prices, planned national demand and availability by medical units– in a website. The portal Control and Supervision of Works at a Distance (CoSoDi Net) has also been developed to allow public monitoring of progress made in its public works. For each public work contract awarded, the website provides real-time, accurate information such as a description of the project, the period during which it should be implemented, its geographic location, as well as a comparison of the actual work progress and financial payments against the forecasts. The portal also provides comparative data on the total value of works contracted by the state.
Public access to timely and user-friendly data on ISSSTE’s procurement activities remains limited

Notwithstanding these effective initiatives, it remains generally difficult for the civil society to access streamlined, user-friendly, up-to-date and complete information on ISSSTE’s public procurement. For example, ISSSTE’s main website (www.issste.gob.mx) contains little information on its procurement activities, with the exception of pre-solicitation documents open to comments from potential suppliers. Information on procurement undertaken by ISSSTE is also scattered between various portals.

To further promote transparency in procurement, ISSSTE could consider the example of the procurement platform developed by the Mexican Institute of Social Security (http://compras.imss.gob.mx) which provides an easily accessible one-stop shop for citizens and suppliers to access information (OECD, 2012c). Interesting insights can also be found in the United States’ Recovery.gov portal which, for instance, provides information on the progress made in implementing projects and promotes interactive and live discussions with citizens on these projects (Box 12).

### Box 12. Public disclosure of information: The United States’ Recovery.gov portal

The United States has a state-of-the-art model for public transparency: the portal for the Recovery Board (recovery.gov). The Recovery Board oversees the stimulus funds created by the Recovery Act of 2009 following the current economic crisis. The portal provides a detailed overview of all expenditure under the act: grants, loans and contracts. It also has an interactive map that allows the user to look at contracts by state and zip code or to actually zoom down to the street level. The user controls the amount of information available. Each project is marked with a pin that tells users who benefited from the grant, how much was allocated, what the project is and its scheduled completion date.

Furthermore, it facilitates participation through two-way communication; for example, citizens can report waste, fraud or abuse on the website. All of the data is easily accessible, presented in a clear and compact form that is attractive and easy to process for the average citizen. It offers ways to drill deeper in the data and provides “live” responses to queries. At the same time, the very sophisticated analytical tools available to the Recovery Board allow it to quickly obtain indicators of potential fraud or corruption.


However, and as stressed in the OECD Guidelines for Fighting Bid Rigging in Public Procurement (OECD, 2009c) and an associated OECD report on ISSSTE (OECD, 2013), some information may facilitate bid-rigging, if made public, as it can be used by dishonest bidders to reach a collusive agreement. As such, ISSSTE should disseminate information to bidders and the public in a balanced and timely manner, carefully assessing the necessity, benefits and risks.

As indicated before, Mexico entrenched access to information as a fundamental right through constitutional amendments. Various channels are now available in Mexico to file a request for information (in writing, online and in person) and the associated fees are limited to reproducing and sending the information (OECD, 2011b). Although ISSSTE has dedicated a department to respond to requests for information, the procedure for requesting information is not sufficiently clear and easily accessible by the public.

From 2008 to July 2012, ISSSTE was the federal entity with the third highest number of requests for information. However, it only provided a response to 79% of all requests for information between 2008
and 2011. This is the lowest response rate amongst the ten federal entities with the highest number of requests for information, the response rate of the others ranging from 81% to 92%. According to ISSSTE, the main reasons behind this low response rate are the unavailability of the information and the need to gather complementary information in order to process the request (Figure 11).

Figure 11. ISSSTE’s responses to requests for information, by type of response (2008-2011)

To promote transparency and foster scrutiny by civil society, ISSSTE should provide streamlined, user-friendly and up-to-date information to the public, either proactively or by responding positively to a larger number of requests for information. To do so, ISSSTE will have to overcome a very important shortcoming discussed earlier in the report, i.e. its incapacity to collect and aggregate accurate and timely procurement information.

Mexico has shown innovation as one of the first OECD countries to have introduced “direct social control” through the mandatory involvement of social witnesses in high-value procurement procedures. These social witnesses scrutinise the solicitation process and provide comments and recommendations. Following the procedure, they issue a final report to be published on Compranet that includes their observations, comments and recommendations.

However, ISSSTE does not seem to be sufficiently responsive to these recommendations. ISSSTE could make the social witness role more influential and reinforce social oversight of the procurement process by carefully considering and responding in writing to every suggestion or comment received from social witnesses and by authorising the disclosure of such responses in the final reports made public. Similarly, it could consider involving social witnesses in procurement below the mandatory thresholds, when economically sound, and enlarging the procurement activities scrutinised (e.g. requirement planning, specification development and market research).
It is essential for ISSSTE to develop a culture of integrity with special focus on preventing, mapping and mitigating corruption risks

Corruption in the pharmaceutical and health sector has strong negative impacts on the finance and operation of public health agencies and on the health of their beneficiaries, affecting the public’s perception of and trust in government (WHO, 2006). As noted by the World Health Organization, corruption can occur in all stages of the medicines chain (Figure 12) and 10% to 25% of health public procurement spending (including pharmaceuticals) is lost to corrupt practices and fraud (WHO, 2009). As such, it is essential that ISSSTE take concrete and strong actions to identify and prevent unethical conduct in its procurement process if it is to maximise the use of available resources and provide the volume of high quality services required by its beneficiaries.

Figure 12. Unethical practices in the medicines chain


Until recently, integrity and corruption risks in Mexico’s public procurement were mostly addressed through the Federal Penal Code and the Federal Law on Administrative Responsibilities of Public Servants (LFRASP). The latter prohibits various actions from procurement officials and establishes the administrative faults, the procedure for taking legal action as well as the modality and degree of sanctioning to be applied to public servants. However, that framework provided limited assistance to ISSSTE in tackling corrupt acts as it offered limited whistleblowers’ mechanisms and protection and did not support public officials who became aware of corruption.

In 2012, these shortcomings were alleviated by the adoption of the Federal Anti-Corruption Law on Public Procurement (LFACP) which reinforces the position of Mexican entities to combat corruption and fraud in public procurement. Among others, it establishes penalties and liabilities on individuals and...
entities (both national and foreign) that infringe the law in any federal procurement process, including fines and disqualification from future federal procurement procedures. Covered infringements include a large range of acts: influence, bribery, collusion, omissions, evasion, filing false information, and forgery. Furthermore, it specifies that the identity of whistleblowers is to remain confidential. Amendments to the Federal Penal Code have also been suggested to further enhance the protection of whistleblowers and their families.

The OECD review found that ISSSTE currently lacks specific anti-corruption and integrity measures in general, as well as in its procurement function. The limited integrity mechanisms currently in place rely primarily on a corrective approach based on strict compliance with procurement laws and sanctions for identified deviations (e.g. through audits). As emphasised in the OECD Principles for Enhancing Integrity in Public Procurement (OECD, 2009b), effective prevention of corruption is not only influenced by the controls and policies implemented in an organisation, but also by its culture and prevention efforts. Active involvement and commitment from public servants is imperative in order to maintain an environment that stimulates integrity and rejects wrongdoing. As such, the current discipline-based strategy in Mexico and ISSSTE needs to be complemented with a values-based strategy that promotes moral values and ethical principles and is composed of a series of specific anti-corruption and integrity actions.

The experience of other OECD countries illustrates how ISSSTE could develop a culture of integrity as an intrinsic element of its procurement function. This could first be achieved by expanding its current code of conduct to include specific provisions regarding the procurement activities, or develop a new code of ethics specific to public procurement. That document could describe the ethics and behaviour expected throughout the procurement cycle, particularly when interacting with suppliers. Building on case-scenarios and real-life examples, specific guidelines could also be developed to assist public servants in identifying and managing conflict of interest, and fighting bribery or influence peddling. Communication and training focused on integrity are also necessary to increase awareness and capability within the organisation. Self-assessment tools could also be considered, such as the one implemented by the Netherlands to address integrity risks (Box 13).

As demonstrated by the Mexican Federal Electricity Commission (Comisión Federal de Electricidad, CFE), a variety of other actions can be taken by ISSSTE to create a culture of integrity intrinsic to the organisation (Box 14). Among others, it has developed a programme with 60 instructors certified by the National Strategy Information Centre to promote integrity and corruption prevention values, setting the objective for CFE’s workers to recognise their rights and obligations as citizens and as public servants to reject and report corruption (OECD, 2012b).

ISSSTE could also encourage suppliers to develop their own integrity standards and programmes. An interesting example is the Construction Industry Ethics and Compliance Initiative (CIECI) involving more than 50 companies in the United States’ construction industry that committed, among others, to adhere to six core ethical principles in their activities (CIECI, n.d.).

Additionally, the experience in other countries has shown that increasing transparency of the price of medicines can be an effective measure to prevent corruption as it provides a standard against which to benchmark procurement. For example, the United States’ Supply Chain Management System (SCMS) has established an online catalogue of prices for items procured under long-term supply contracts negotiated for antiretrovirals and other commonly needed products, directly promoting price transparency and deterring corruption (Vian et al., 2010).
**Box 13. Public sector integrity assessment: The Netherlands’ Self-Assessment INTEGRity (SAINT) tool**

The Netherlands Court of Audit, in co-operation with the Ministry of the Interior and the Bureau of Integrity of the City of Amsterdam, has developed the Self-Assessment INTEGRity (SAINT) tool. SAINT is a self-diagnosis tool that is presented and discussed in a one-day workshop. By using the SAINT tool, public sector organisations can assess their vulnerability to integrity violations and resilience in response to those violations. SAINT also yields recommendations on how to improve integrity management. Key features of the SAINT tool include:

- **Self-assessment**: SAINT is a self-assessment tool. The organisation itself must take the initiative to test its integrity. Thus, the assessment draws on the knowledge and opinions of the staff. The organisation reveals its own weaknesses and the staff make recommendations on how to strengthen resilience.

- **Targeted at prevention**: the self-assessment tool is targeted at prevention. It is not designed to detect integrity violations or to punish (repress) unacceptable conduct, but to identify the main integrity weaknesses and risks and to strengthen the organisation’s resilience in the face of those weaknesses and risks.

- **Raising general integrity awareness**: the SAINT workshop significantly increases awareness of integrity. The participants’ collective discussions about the importance of integrity are of great value.

- **Learning to think in terms of vulnerability and risk**: the SAINT workshop teaches the organisation how to think in terms of vulnerability and risk. During the workshop, the participants identify the main vulnerabilities and risks and then make recommendations on how to minimise them.

- **Concrete management report/action plan**: the end product of the SAINT workshop is a concrete management report/action plan. Under the expert leadership of a trained moderator, the participants formulate recommendations for their own organisation. The report explains to management where urgent measures must be taken to strengthen the organisation’s resilience in response to integrity violations.


**Box 14. Developing a culture of integrity: Measures undertaken by the Mexican Federal Electricity Commission (CFE) in 2009-2010**

- Review of its code of conduct.
- Distribution of nearly 100 000 copies of the code of conduct to CFE employees.
- Distribution of more than 84 000 copies of the Values Calendar to CFE employees.
- Monthly publication of the magazine Transparency.
- Award of the eighth edition of “Integrity Recognition” to employees and outstanding CFE divisions.
- Forum on values, equality and culture of legality.
- Workshops on values and applied ethics for almost 500 instructors on transparency from 2007 to 2010.
- Interactive training of more than 3 000 employees on values and the code of conduct.
- Surveys on the perception of transparency and anti-corruption efforts.
- Children’s drawing competition on ethical values.
- Sensitisation campaign to promote institutional values, by dedicating a different value to each month and distributing graphic material physically and through electronic media.

In addition to facilitating the identification and investigation of suspected corruption, transparency initiatives can also act as a prevention mechanism. Under the Argentinean experience of disclosing hospital procurement prices, for example, it was found that prices fell in anticipation of the disclosure and not as a consequence of procurement officers learning from the new information. That case also indicated that the impact of information itself is insufficient to deter corruption if there are no investigations, reprimands or additional scrutiny when a hospital is overpaying for certain supplies (Vian et al, 2010). Building on these experiences, ISSSTE could explore benchmarking the prices of generic and patented medicines with other health agencies in Mexico and abroad. Public disclosure could also be considered to the extent that it does not facilitate collusion between suppliers (OECD, 2013; 2009c).

**ISSSTE lacks effective mechanisms to identify and monitor irregularities and potential corruption in its procurement function**

Building a culture of integrity requires a range of actions and tools, including ongoing monitoring of risks of irregularities and corruption. However, doing so is a challenge not only for ISSSTE, but for the Mexican federal government in general. The need for stronger prevention of misconduct was recognised by a third of the OECD countries having formally reviewed their central government public procurement rules, policies or practice since 2008 (OECD, 2012d). Mexico is one of those countries, having specifically identified “a lack of effective mechanisms to monitor procurement and identify irregularities and potential corruption”.

At this time, none of the risks monitored under ISSSTE’s current risk management system address corruption and no mechanism is in place to rapidly detect and react to improper practice or corruption. It is therefore essential for ISSSTE to implement an integrity risks management strategy, first undertaking a mapping exercise to identify risks of corrupt or unethical activity in every stage of the procurement process. That exercise will allow ISSSTE to subsequently develop appropriate red flags and alert mechanisms to assist in the detection of wrongdoing in a timely manner, avoiding significant delays between the time an inappropriate act occurs and when it is noticed, thus facilitating investigations and corrective actions. In doing so, ISSSTE may benefit from various red flags for procurement corruption already identified internationally, such as those of the Chartered Institute of Public Finance & Accountancy (Box 15).

In line with the experience of Brazil (Box 16), formal tools and mechanisms can also be placed at the organisational level to ensure the regular assessment of data and information available in order to monitor established red flags and identify additional potential integrity risks. This activity would be facilitated through the implementation of a procurement management system covering the entire process, as it could provide easy and real-time access to clear and aggregated data and include functionalities reporting specific red flag events to the appropriate stakeholders.
Box 15. Monitoring potential corruption in procurement: Red flags of the Chartered Institute of Public Finance & Accountancy

Recognising the risk of procurement corruption through “red flags” helps to prevent and detect it. Examples of “red flags” are:

- physical losses;
- manipulation of data;
- incomplete management/audit trail;
- budget overspends;
- unusual invoices (e.g. format, numbers, address, phone, VAT number);
- duplicate/photocopy invoice;
- round sum amounts invoiced;
- sequential invoice numbers over an extended period of time;
- lack of supporting records;
- unusual increases/decreases.
- unusual relationship with suppliers;
- photocopied documents;
- IT-controls of audit logs disabled;
- IT-login outside working hours;
- vague description of goods/services to be supplied;
- high number of failed IT logins;
- favoured customer treatment;
- interest/ownership in external organisation;
- non-declaration of interest/gifts/hospitality;
- lack of supporting records;
- no process identifying risks (e.g. risk register);
- unusual increases/decreases.


Box 16. Detecting misconduct and corruption: Use of data mining in Brazil

The Brazilian Office of the Comptroller General launched the Public Spending Observatory (Observatório da Despesa Pública) in 2008 as the basis for continuous detection and sanctioning of misconduct and corruption. Through the Public Spending Observatory, procurement expenditure data are crossed with other government databases as a means of identifying atypical situations that, while not a priori evidence of irregularities, warrant further examination.

Based on the experience over the past several years, a number of daily actions are undertaken to cross-examine procurement and other government data. This exercise generates “orange” or “red” flags that can be followed up and investigated by officials within the Office of the Comptroller General of the Union. In many cases, follow-up activities are conducted together with special advisors on internal control and internal audit units within public organisations.

Examples of these flags related to procurement and administrative contracts include possible conflict of interest, inappropriate use of exemptions and waivers and substantial contract amendments. A number of tracks also relate to suspicious patterns of bid-rotation and market division among competitors by sector, geographic area or time, which might indicate that bidders are acting in a collusive scheme. Finally, tracks also exist regarding the use of Federal Government Payment Cards and administrative agreements.


Whistleblowing is an essential mechanism to monitor wrongdoing and corruption, and public servants should be encouraged to help detect potential breaches of integrity in the procurement function. ISSSTE currently has in place reporting systems in the form of mailboxes for suggestions and an electronic reporting system (www.issste.gob.mx/contacto/quejas.html). However, legal protection for whistleblowers remains limited in Mexico, deterring many public servants from reporting unethical or fraudulent acts as
they are afraid this may negatively impact their reputation and career. ISSSTE must therefore create an
environment that facilitates reporting and where staffs feel safe to do so. The Guiding Principles approved
by the G20 leaders (Box 17) would support the implementation of strong whistleblower protection
mechanisms in ISSSTE. Similarly, it is equally essential to protect public officials from misuse of
whistleblowing – such as false reporting or reporting as a result of spite or competitiveness between
colleagues – as it can damage the reputation and career of public servants as well as lower the perceived
credibility of the whistleblowing process.

Box 17. Whistleblowing protection: G20 Guiding Principles for Efficiently Protection Whistleblowers

The G20 leaders approved the Guiding Principles at the Cannes Summit in November 2011 for efficiently
protecting whistleblowers:

- A clear policy and an effective institutional framework are in place to protect from discriminatory or
disciplinary action employees who disclose in good faith and on reasonable grounds certain suspected acts
of wrongdoing or corruption to the competent authorities.
- The policy provides a clear definition of the scope of protected disclosures and of the persons afforded
protection.
- The policy ensures that the protection afforded to whistleblowers is robust and comprehensive.
- The policy clearly defines the procedures and prescribed channels for facilitating the reporting of suspected
acts of corruption, and encourages the use of protective and easily accessible whistleblowing channels.
- The policy guarantees that effective protection mechanisms are in place, including by entrusting a specific
body that is accountable and empowered with the responsibility of receiving and investigating complaints
of retaliation and/or improper investigation, and by providing for a full range of remedies.
- Implementation of whistleblower protection is supported by awareness-raising, communication, training
and periodic evaluation of the effectiveness of the framework of protection.


In addition to corruption monitoring mechanisms, it is crucial that strong anti-corruption measures be
put in place to:

- promptly investigate potential occurrences of wrongdoing;
- immediately enforce appropriate sanctions against the individual or individuals involved in
corruption;
- take actions to mitigate the reoccurrence of corruption risks.

Failure to consistently do the above will reduce public servants’ confidence in the integrity system
and may prove to be a strong disincentive to whistleblowing. It may, on the contrary, create a sense of
impunity among officials and increase the temptation to commit corrupt acts by showing that investigation
of potential corrupt acts is not a priority and that such act could potentially remain unpunished.

Key recommendations

In order to increase the transparency and the integrity of its procurement function, ISSSTE could:
1. Provide public access to more accurate, timely and user-friendly procurement-related data, preferably through a single interface streamlining the information, while ensuring this disclosure does not increase risks to integrity (such as supplier collusion).

2. Implement a clear and user-friendly process for submitting requests for information and to fully address such requests.

3. Strengthening the impact of social scrutiny by enlarging the range of procurement activities subject to it and by providing formal and written responses to comments and recommendations received from social witnesses.

4. Create a culture of integrity prevention throughout the procurement cycle through awareness-raising campaigns as well as mechanisms, risk mapping, guidelines and red-flags assisting employees to effectively identify, report, monitor and address integrity risks (including misappropriation of medical products).

5. Promote the reporting of wrongdoing and enhance the protection of whistle-blowers against retaliation and victimisation. This would be supported by the implementation of alternative reporting vehicles as well as the provision of education on the purpose of reporting (among other to prevent the misuse of the mechanisms put in place).
Notes

1. Details on the ISSA Good Practice Award for the Americas are available at [www.issa.int/News-Events/News2/The-ISSA-Good-Practice-Award-for-the-Americas](http://www.issa.int/News-Events/News2/The-ISSA-Good-Practice-Award-for-the-Americas). Competition results for 2012 can be found at [www.issa.int/content/download/173040/3434431/file/2-GPA-Americas2012.pdf](http://www.issa.int/content/download/173040/3434431/file/2-GPA-Americas2012.pdf).

2. Incomplete data from ISSSTE did not allow a clear assessment to be made of the use of such exceptions at the decentralised unit level.

3. Framework agreements are based on a two-step process. In the first stage, pertinent contract provisions (including prices) are agreed upon with one or many suppliers of a particular good or service under the framework agreements in order to secure the best conditions and benefit from volume savings. Buying entities are subsequently allowed to issue contracts under them for a specific level of that good or service without having to undertake a competitive process. As such, this instrument allows an expeditious, simplified order process once an actual requirement is identified.

4. [www.opengovpartnership.org/countries/mexico](http://www.opengovpartnership.org/countries/mexico)

5. [www.open-contracting.org](http://www.open-contracting.org)

6. [https://compranet.funcionpublica.gob.mx](https://compranet.funcionpublica.gob.mx)

7. [http://portaltransparencia.gob.mx/pot](http://portaltransparencia.gob.mx/pot)

8. [http://isssteapache.issste.gob.mx/transparenciaproactiva/](http://isssteapache.issste.gob.mx/transparenciaproactiva/)


10. [www.recovery.gov](http://www.recovery.gov)
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